

Committee Studies Cutting Business Equipment Taxes

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A state government committee discussed Thursday how to cut property taxes on manufacturing inventory and equipment, which is a major source of funding for counties and public schools.

By Walt Williams

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CHARLESTON -- State officials say it's the tax most likely to scare away business investment, but they can't figure out a way to get rid of it.

Gov. Joe Manchin asked lawmakers earlier this year to put a constitutional amendment before voters to zero out of property taxes on manufacturing inventory and equipment. Lawmakers rejected the idea after counties and local school districts pointed out they would lose millions in revenue if the taxes were eliminated.

A special commission appointed by Manchin is once again looking at eliminating the business equipment tax in its study about how to modernize the state's tax structure. The largest hurdle is they don't have a way to replace the \$172 million or more local governments would lose if the tax goes away.

"We all know what we need to do," Marshall University economist Cal Kent said. "The problem is how do you do it because if you do it you are going to lose local revenue."

The West Virginia Tax Modernization Project met Thursday at the Summit Conference Center to continue their discussion on reforming the state's tax structure. It is composed of state officials and economic experts who gather every few months to report on the progress the project's subcommittees are making.

Business equipment tax reform was just a single item on the agenda, but one the committee spent a good deal of time on. Critics of the tax say it drives away economic growth given industries are reluctant to make equipment investments knowing it's in place.

Counties and schools rely heavily on the revenue the tax brings. Kent said schools would recoup some of the loss through increased state aid, but counties have no such cushion.

No one has yet proposed a way local governments could make up that revenue – at least not without a direct infusion of cash from the state.

While no one on the committee questioned the need to cut the tax, there was at least one skeptic in the audience.

Ted Boettner, executive director of the West Virginia Center on Budget and Policy, shared findings from a draft report his organization would soon release concluding that such a cut would end up shifting taxes to homeowners as counties and schools scrambled to make up the lost money.

He also cited studies questioning the effectiveness of tax cuts in attracting industry, pointing to research that concludes state and local taxes make up only 1 to 2 percent of the cost of doing businesses.









"That means variations in business taxes among states can easily be offset in changes in wages, benefits (and) labor productivity levels, and also other costs of doing business, such as energy prices, occupancy and transportation," he said. "That is what is missing from the picture: Businesses, when they're deciding to locate, don't just look at taxes. They look at the overall cost of doing business in a

state like West Virginia.”

He noted a Milken Institute index that concluded West Virginia’s cost of doing business was 13 percent below the national average in 2007.

No final decisions were made at the meeting. The committee also looked other proposed tax reforms, such as a suggestion to merge the state’s homestead and “circuit breaker” tax credits for seniors into a single credit and only allow people below a certain income level apply for it.

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