



W.Va. marks start of 2012 with \$56M in tax cuts

By: **LAWRENCE MESSINA** | 01/02/12 3:40 AM

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West Virginia consumers and businesses can expect to save a combined \$56 million in state general revenue taxes this year, thanks to several new rate cuts, Tomblin administration officials estimate.

The sales tax on groceries dropped from 3 cents per dollar spent to 2 cents on Jan. 1. State officials say that will benefit consumers while costing the state \$26 million over the course of the year.

News Years Day also triggered slight cuts to taxes on corporate net incomes and a business' net equity. That latter levy is known as the business franchise tax. Officials estimate those 2012 savings at \$15 million each.

"We are very, very pleased that West Virginia's economy is in a condition that allows us to be talking about reducing tax rates for West Virginia consumers and employers," said Steve Roberts, president of the state Chamber of Commerce.

All three taxes supply the state's main budget fund. Future cuts are scheduled for each, with the food and business equity taxes slated for eventual repeal. This reflects a gradual approach to reducing taxes that has hinged on the state's fiscal health.

Both Gov. Earl Ray Tomblin and his predecessor, now-U.S. Sen. Joe Manchin, have favored this course. Tomblin also did while in his previous post as state Senate President, and so has House Speaker Rick Thompson. Resisting calls for steeper or more immediate cuts, these Democratic leaders have linked a scheduled series of modest rate reductions to such benchmarks as the size of the state's emergency reserves.

While following these timetables, West Virginia has seen general tax revenues rebound. Its emergency reserves have grown to become among the most robust among the states when measured against general spending. It has also avoided the program cuts, employee layoffs, tax hikes and other steps taken by other states in the Great Recession's wake.

"I am thrilled that we continue to make progress to responsibly reduce our food tax, our business franchise tax, and our corporate net income tax," Tomblin said in a statement. "These tax adjustments are an important part of providing relief to our citizens and making West Virginia more competitive to attract investments and much needed jobs."

But Ted Boettner, executive director of the Center for Budget and Policy, said employers are more interested in an educated workforce and properly maintained roads and other infrastructure. Those require public funding, he said.

Boettner's group challenges the view that taxes strongly influence decisions by employers to expand or relocate, and questions whether cuts spur economic growth.

"We're all for creating jobs and building a strong economy. But these tax cuts can't get us there," Boettner said.

Roberts likened the gradual reductions to such other recent steps as privatizing the state's workers' compensation system, which he said has also eased business costs.

"These tax cuts are really beginning to add up," Roberts said. "I agree wholeheartedly with Sen. Manchin's comments to the rest of the nation, that the rest of the nation should look to us in terms of how to govern. We've been very responsible in not increasing taxes, and in finding ways to grow our economy so revenues increase."

Both of the business taxes will continue to decline annually through 2014, with the franchise tax expiring as of 2015. Every little bit helps, Roberts said.

"West Virginia has previously been among the states that had rather high corporate income taxes," Roberts said. "That the tax is coming down to ranges that are beginning to be like those of other states is really good news."

West Virginia began 2010 with the 11th highest corporate net rate, according to figures from the Federation of Tax Administrators. Barring changes by other states, its ranking dropped to 19th in 2011 and would sink further to 27th when its rate reaches 6.5 percent in 2014.

The 2012 rate is 7.75 percent, lower than that of neighboring Maryland and Pennsylvania. Five states either levy no tax on corporate net income or, like neighboring Ohio, tax businesses differently, according to the federation's statistics.

Boettner questioned whether the cuts have expanded the state's base enough to offset the revenue losses. He noted that other taxes, particularly those on extracted natural resources, have benefited from strong coal prices and play a key role in the state's current general revenue picture.

"While we respect the process that led to the reductions in businesses taxes, the legislature did not replace the lost revenue," he said. "This means it will become increasingly harder to fund important services and programs that businesses will need to thrive and that our children will need to be productive and healthy."

West Virginia's food tax will drop again in 2012, to a penny per dollar spent as of July 1. West Virginia is on track to exempt groceries completely from sales taxes by mid-2013, as long as emergency reserves remain sufficient.

"Those things that put more money in the pockets of consumers are good things all the way around," Roberts said.

But not all West Virginia taxes are dropping.

The tax on gasoline and diesel fuel increased by 1.2 cents per gallon Jan. 1. The state bases part of its fuel taxes on wholesale prices, and recent average prices prompted this component to rise to 12.9 cents per gallon.

Lawmakers recently capped these annual changes to the fuel tax at 10 percent. Separate from West Virginia's general revenue budget, fuel tax revenues are instead devoted to road-related needs.

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