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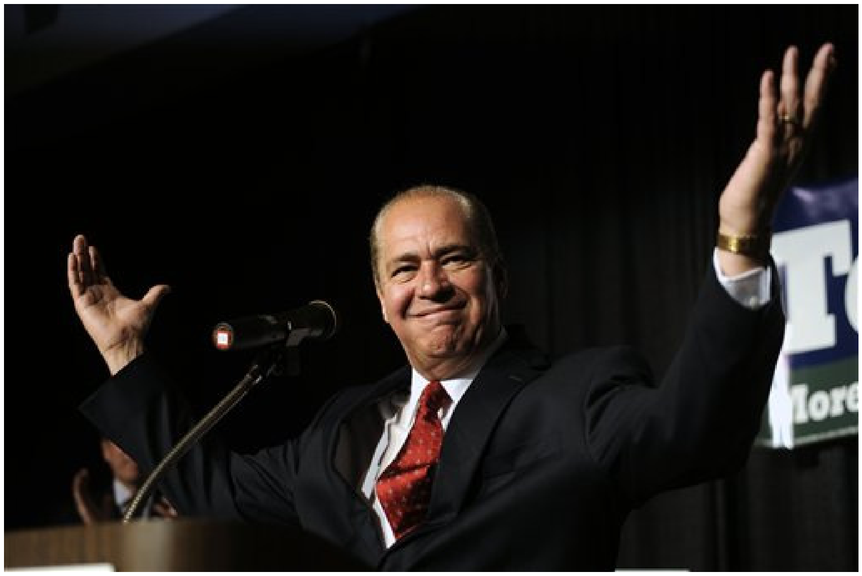
Center: W.Va. 'cracker' tax break worth $300 million

February 3, 2012 by Ken Ward Jr.



The good folks at the West Virginia Center for Budget and Policy have a fascinating report out this morning that examine costs – in revenues lost to local governments and school systems — because of the Legislature's big rush to pass Go Tomblin's tax break to try to lure a natural gas "cracker" plant to our state.

The bottom line?

Over the course of 25 years the facility will have paid $32.6 million with the tax incentive in place, compared to $ under a normal assessment. The amount of revenue forgone over 25 years totals $303.9 million, an average of a $12.1 million per year.

In an "Issue Brief", the center's Sean O'Leary dissects H.B. 4086, with a special emphasis on examining the Legislature' about potential costs of the governor's tax break legislation. Incredibly, the fiscal note projected the costs of the legislation right, nothing. But O'Leary explains:

… There are several problems with the reasoning behind the $0 fiscal impact, and it is likely that there will be a si impact if a facility is built, and takes advantage of the tax incentive.

He continues:

While legislators debated and ultimately passed H.B. 4086, the fiscal note, which informed them that there would impact, did not include:

– An estimate of the revenue forgone

– An estimate of the costs of increases in demand for government services

– A model to estimate the economic impact and corresponding increases in revenue

– An explanation for how state revenue increases offset forgone local revenue

The fiscal note also assumes that a cracker facility would not locate in West Virginia without the tax incentive, du uncompetitive property taxes. This assumption relies on misconception about the state's property tax system and factors more influential to business location decisions.

How does the tax break legislation work? O'Leary explains:

The tax incentive would allow the cracker facility to be assessed at 60 percent of its salvage value. Salvage value five percent of a property's original cost. The cracker facility would enjoy the special tax treatment for 25 years. assessment valuation for the cracker facility would dramatically lower its assessed value, greatly reducing its burden. Under a normal assessment and State Tax Department depreciation guidelines, the assessed value of cracker facility would fall from $1.14 billion to $362 million over the course of 25 years, as the value of the facility Under salvage value treatment, the facility would be assessed at $60 million for the entire 25 year period, betwee $300 million below a normal assessment.

O'Leary modeled three different counties that are potential locations for a "cracker" plant — Kanawha, Marshall and W found that each could miss out on $3 million to $4 million a year in county levies, while local school districts could forg million and $10 million per year due to the tax incentive.

But won't other tax revenues that a "cracker" helps create make up for this? O'Leary explains:

If revenue increases from new job creation occur, it would mainly increase for state revenues, like personal inco income, and sales tax revenue. he forgone revenue from the tax incentive is all property tax revenue, which is th of tax revenue for local governments. The amount of property tax revenue collected by the state is insignific assumption is true, increases in state revenue do not offset forgone local revenues, with the limited exception of formula. Reductions in revenues collected through school excess and bond levies have no state revenue replac assumption in the fiscal note did not account for these differing revenue streams.

Was the tax break needed to try to land the cracker?

… There is very little evidence to suggest that West Virginia's property taxes are a deterrent, or that the tax incen reason why West Virginia would be chosen. While West Virginia does have a higher tax rate on business persona rate on real property is far below both Pennsylvania and Ohio, according to the Council on State Taxation. Taken t Virginia's business property tax rates are close to the national average. On average over the past three years, bus taxes nationally have totaled 1.8 percent of private sector GDP. In West Virginia, businesses have paid 2.1 perc GDP, while in Ohio and Pennsylvania, businesses have paid 1.9 and 1.7 percent respectively. The difference betv states is not small enough to be offset by any number of other business taxes or costs.

O'Leary concludes:

While the location of a new cracker facility in West Virginia would be a great asset for the state, generating hundre boosting manufacturing, it is imperative that state and local officials understand the fiscal impact of tax incentive H.B. 4086.

In this regard, the fiscal note prepared for H.B. 4086 failed. The fiscal note provided no estimate of the tax revenu no analysis to justify the assumption that forgone revenue would be offset by economic activity, did not add infrastructure and other costs created by a cracker facility, did not account for the differences between state a revenue, did not account for existing tax incentives, and assumed that a cracker facility's location decision is driv taxes. The $0 price tag attached to H.B. 4086 was based on an incomplete analysis. As it stands, the fiscal impac is undetermined, but to say it is $0 is highly misleading.

This entry was posted on Friday, February 3, 2012 at 10:11 am and is filed under Legislature, Oil and gas. You can follow any response through the RSS 2.0 feed. You can leave a response, or trackback from your own site.

One Response to "Center: W.Va. 'cracker' tax break worth $300 million"

1. *OneSaneVoice* says:
February 3, 2012 at 2:38 pm

I think the state should offer up $300 million tax incentive to shut you down….

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