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Sean O'Leary: Working families should not pay for corporate tax cuts

A pair of corporate tax cuts touted as necessary to improve West Virginia's business climate have turned out to be little more than a drain on public investment and a threat to the state's economic future. But instead of ending the tax giveaway, policymakers are looking to the state's most vulnerable residents to cover its growing costs.

The state will lose nearly $200 million a year from the elimination of the business franchise tax and a cut in the corporate net income tax when both are fully implemented in 2015. The cuts arose from the Tax Modernization Project put together in 2006 by then-Gov. Manchin to examine state and local tax issues.

The two tax cuts already are taking a huge bite. In next year's budget, the taxes are projected to produce nearly 30 percent less revenue than they did before the cuts started. Over the same period, personal income tax revenue has grown by 30 percent and sales tax revenue by 6 percent, suggesting that it has been tax cuts, not the recession, which have led to falling business tax revenue.

Recent growth in severance tax revenue from the boom in natural gas and coal prices has masked the loss so far and minimized its impact on vital services like education, health care and public safety. But the severance tax is volatile and subject to market forces beyond our control, while the business tax reductions grow larger each year.

The cost will total $205 million from 2009 to 2013, and another $637 million between 2014 and 2017, according to the Department of Revenue. We should know by now that such tax cuts do not pay for themselves, and the Governor's Executive Budget report confirms it, stating, "...projected modest increases in corporate profits will be more than offset by the impact of reduced tax rates."

Moreover, there has been no evidence that business tax cuts are an effective strategy for improving West Virginia's business climate and promoting economic growth. In fact, there is evidence to the contrary.

Exhibit A is the recent decision by Shell to locate its natural gas "cracker" facility in Pennsylvania instead of West Virginia -- not because of tax climate, but because of access to land and infrastructure. Both our corporate taxes and property taxes have been rated much more "business friendly" than those in Pennsylvania. Declarations such as those by the Tax Foundation that the reforms of the Tax Modernization Project have made our state more attractive to businesses are clearly way off base.

While the tax cuts have not delivered as promised, they are beginning to put a strain on the state's limited resources. The Gazette recently reported that services like child care subsidies are under threat in order to close holes in the Medicaid budget. But these holes would be easily filled if the state were not giving away hundreds of millions of dollars each year in ineffective tax cuts. Moreover, a cut in child care is likely to be counterproductive, since it could force low-income workers from their jobs, adding to the state's already high unemployment, further eroding the tax base and creating even more demand for services for the poor. If anything, we should be increasing our state's investment in quality child care.

A more sound strategy also would recognize the importance of long-term investments in a skilled, educated and healthy workforce, a sound transportation system, modern communications technology and other resources that employers increasingly look for in our 21st century economy. West Virginia can't afford to make those investments if it squanders money on counter-productive corporate tax cuts.

Growing health-care costs and changing demographics have caused Medicaid to put a strain on

West Virginia's resources, but so have tax cuts. Unfortunately, only one has garnered the attention of policymakers. It's time to turn that around.

O'Leary is a policy analyst with the West Virginia Center on Budget and Policy.

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