

TAX REFORM THAT PROTECTS Roads, Children, & Seniors



American Federation of Teachers
- West Virginia

American Friends Service Committee

Believing All is Possible
Logan County High School

Catholic Conference of West Virginia

Communications Workers of America

Epic Youth Empowerment Group
Sherman High School, Boone County

Kanawha Institute for
Social Research & Action (KISRA)

National Association of
Social Workers, WV Chapter

Partnership of African
American Churches

Prevent Child Abuse West Virginia

Service Employees International
Union, District 1199

Southern Appalachian Labor School

West Virginia Center on
Budget and Policy

West Virginia Citizen Action Group

West Virginia Council of Churches

West Virginia Covenant House

West Virginia Education Association

West Virginia Focus:
Reproductive Education & Equality

West Virginia Food & Farm Coalition

West Virginia Healthy Kids
and Families Coalition

West Virginia League of
Conservation Voters

West Virginians for Affordable
Health Care



Executive Summary

Overhauling West Virginia's tax system is on the agenda of the leadership of the West Virginia legislature. As citizens and stakeholders of West Virginia, we appreciate this effort and the thoroughness with which the Joint Select Committee on Tax Reform has investigated the many issues involved.

A diverse coalition of organizations that cares about kids, families, seniors and working people has come together to support the following basic principles of fair taxation which we urge legislators to consider as they deliberate changes to the tax code:

- 1 Any new tax proposal should not jeopardize schools, roads, colleges, kids, or seniors. This includes protecting services for vulnerable West Virginians.
- 2 Any new tax proposal should include accountability measures for tax breaks or credits so we know they are working.
- 3 Any new tax proposal should not increase taxes on low- and middle-income families; in West Virginia we already have an upside-down tax structure where working families are forced to pay more than their fair share.
- 4 Any new tax proposal should consider new and alternative sources of revenue to pay for urgent needs such as infrastructure, education and human services.
- 5 Any new tax proposal should avoid changes to revenue generation that would short circuit the democratic process and weaken the state's ability to meet future needs.

Background

Less than ten years ago, West Virginia leaders embarked on a series of major reforms to the state's tax system. These included the phase-out of the business franchise tax, reductions in corporate net income taxes, the elimination of the food tax, and other changes.

Despite promises at the time that tax cuts would pay for themselves, the results of these changes have been less than inspiring in terms of promoting economic growth and shared prosperity.

Despite promises that lower taxes would lead to more jobs, the number of West Virginians employed has declined by over 45,000 since the last reforms were enacted in 2007.

Despite promises of greater prosperity, poverty has only increased. According to the U.S. Census Bureau, the child poverty rate increased by 18 percent since 2007.

One real consequence has been year after year of austerity, although the wounds to the state budget have been self-inflicted. Revenue forgone by the state has also meant missed opportunities to promote education, infrastructure and investments in workers, children and families.

Today, comprehensive tax reform is once again on the agenda. The new leadership in the state house and senate have made it a top priority. As is the case with any new legislative initiative, this could present challenges and pitfalls as well as opportunities. It is important for state leaders to learn from the past as they try to shape the state's future direction.

Targeting Higher Education

The last round of tax cuts especially hit higher education and those West Virginians who need it. According to the Center on Budget and Policy Priorities, in 2014, the state spent 21.6 percent less per student than in 2008, a difference of over \$1,800.

These reductions in support for higher education translate into higher tuition and fees—and often higher debt—for students attempting to improve their life chances.

Average annual tuition for public four-year colleges has increased by 26.3 percent in West Virginia since 2008 when adjusted for inflation, which far outpaces any increase in income. Such priorities are particularly short-sighted and self-defeating in a state with low levels of educational attainment.

Perhaps nothing better illustrates the contrast between tax cuts and rising college costs than the fact that West Virginia could provide free tuition and fees for all in-state undergraduate students for less than \$250 million, out of \$425 million in revenue lost due to previous tax reforms. If that had actually happened, this boost in support for higher education would truly have made West Virginia a national leader and arguably positioned the state for higher economic growth.

A Crumbling Infrastructure

The road to West Virginia's lasting fiscal health will depend on a stable and equitable tax system that balances preserving public investments and needed services with encouraging private investment and entrepreneurship. Numerous studies of business location show that basics such as access to inputs, suppliers and customers along with public investments, such as good schools and infrastructure, are top factors affecting business location decisions.

Unfortunately, West Virginia's metaphorical road to success could be as bumpy as its actual roads. According to the state's Blue Ribbon Commission on Highways, fully 36 percent of the state's roads are in poor or mediocre condition. Fully 35 percent of state bridges are in need of repair, improvement or replacement.

When families purchase a home, this huge investment can lose value unless it is maintained. Similarly, failure at the state level to invest in basic infrastructure costs West Virginians dearly. Driving on rough roads costs state motorists a total of \$400 million annually in extra vehicle operating costs, or over \$333 per year for the average state driver. Some pay with their lives: the state has one of the highest traffic fatality rates in the nation.

Reduced revenues from the last round of tax cuts have also made it more difficult to invest in early childhood education, good public schools, and workforce development, all of which are vital to helping individuals escape poverty. Early childhood programs alone are estimated to provide a return of over \$5 for each dollar invested.

Learning From The Past

Rather than repeating the mistakes of the past—or more recent mistakes from other tax-slashing states such as Kansas—West Virginia needs and deserves a responsible approach to taxes and revenues. Squandering needed revenues on still more unproductive tax cuts would only weaken the state's ability to work towards shared prosperity.

This report was prepared by Rick Wilson with the American Friends Service Committee and Ted Boettner with the West Virginia Center on Budget and Policy.

A responsible approach to taxes would include the following:

■ alternative sources of revenue, such as increasing the tobacco tax or excise taxes on soft drinks and e-cigarettes; closing unfair corporate loopholes; ensuring adequate taxation of natural resource extraction; and/or applying sales taxes to some services currently exempt from taxation.

■ targeted tax policies aimed at helping struggling families build assets and escape poverty, such as the refundable state Earned Income Tax Credit.

■ adequate funding of education programs and key family-support programs such as child-care assistance that enable people to work and improve their living conditions.

■ careful evaluation of tax credits and expenditures and greater transparency and accountability by regularly compiling and making public all economic development-related tax breaks, credits and incentives, including both the costs in lost revenues and an evaluation of how these programs have performed in creating good jobs.

■ avoid legislative or constitutional changes that would short circuit the democratic process, such as constitutional limits on the ability to levy taxes, laws requiring a supermajority to enhance revenues, or other measures that would bind the hands of West Virginians in years to come to deal with problems we can't fully anticipate.

Finally, rather than simply reducing state revenue, we should use it to make West Virginia an attractive place to live, work, raise a family, and start a business. Rather than competing on the basis of unproductive tax cuts, West Virginia should compete by building on our assets: a supply of skilled and motivated workers, a strong infrastructure, good schools, colleges, and universities, and an exceptional quality of life.