Taking Inventory: 
The Impact of Exempting Business Personal Property Taxes in West Virginia

Ted Boettner
Executive Director
West Virginia Center on Budget & Policy
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Distribution of Property Taxes
Fiscal Year 2019, $1.715 Billion

Two-thirds of property taxes fund schools

Source: West Virginia State Tax Department, FY 2019
Property Taxes by Source – FY 2016

“Tangible Personnel Property” (TPP) is physical property that can be touched/moved.

- **Public Utility:** $214.5 Million (13%)
- **Commercioal & Industrial Business Real Property:** $500.1 Million (30%)
- **Residential Real:** $407.4 Million (24%)
- **Industrial & Commercial Business Personal Property:** $388.4 Million (24%)
- **Other Personal Property (Vehicles):** $176.6 Million (11%)

**Total = $1.69 Billion**

_Source: West Virginia State Tax Department, FY 2016_  _Note: FY 2016 is the latest year in which data has been provided on property taxes by source._
**Business Personal Property Taxes by Type**

Machinery and Equipment is largest share of business personal property tax

$388 Million

- Working Interest of Oil & Gas: 27%
- Other (fixtures, tools, salvage, etc.): 19%
- Inventory: 19%
- Machinery & Equipment: 35%

$136

$105

$75

$73

$85 million is Manufacturing Inventory and Machinery/Equipment

Note: Based on FY16 share, for FY 2019 these figures would be $97 for Oil/Gas, $69 million for Other, $67 million for Inventory, and $125 million for Machinery & Equipment (total of $358 million).

Source: West Virginia State Tax Department (FY 2016) and fiscal note for HJR3 (2017)
Energy counties rely heavily on business personal property taxes

Source: West Virginia State Tax Department, FY 2016
35 states have inventory and/or machinery & equipment taxes

Business personal property tax considerations

• Many states that exempt business personal property have much higher rates on business real property (e.g. Illinois).

• Some states that exempt business personal property have other ways to tax this property. For example, New York taxes most business equipment as “real” property, and North Dakota taxes oil/gas machinery as real property, while Massachusetts businesses pay an annual corporate excise tax on personal property.

• In several states, they have businesses pay a sales tax on the purchase of manufacturing machinery and parts.

Source: Lincoln Institute of Land Policy and George Washington Institute of Public Policy, Tax Year 2017
Who Pays?: Industrial property taxes mostly exported out-of-state

Average tax incidence (distribution) of industrial property taxes in Minnesota:
$600 million

Consumers 6%
Labor 11%
Capital 7%
Exported 76%

Source: Minnesota Department of Revenue, 2017 Minnesota Tax Incidence Study (March 2017)
House Joint Resolution 17 (2019)

- A constitutional amendment to allow the legislature to exempt business (commercial/industrial) inventory, machinery, and equipment property taxes on the 2020 November ballot.

- Constitutional amendments require two-thirds vote of all members in each chamber (23 State Senators/67 House Members). There are 41 Democrats and 59 Republicans in the WV House of Delegates (100), while there are 14 Democrats and 20 Republicans in the WV State Senate (34).

- HJR 17 passed out of House Finance. Next stop, House Judiciary.

$209 Million in Business Personal Property Taxes

- Inventory: $73 Million (35%)
- Machinery & Equipment: $136 Million (65%)

Source: West Virginia State Tax Department (FY 2016)
Senate Joint Resolution 11 (2019): “Just Cut Taxes and Win Amendment”

- A constitutional amendment to exempt all “Industrial” inventory, machinery, and equipment property taxes on the 2020 May primary ballot (except public utilities and working interest of oil and natural gas). Industrial includes manufacturing, coal mining, natural gas extraction and processing, oil extraction, quarrying, and storage hubs with natural gas liquids.

- Exempts new industrial machinery, equipment, and inventory purchased after July 1, 2020 and freezes assessed value at FY 2017 value ($140 million).

- Beginning in FY 2022 (July 2021), it phases down over seven years (7 steps) the assessed value of industrial inventory/M&E property while providing annual replacement (7 steps) each year equal to $140 million by FY 2029.

- These “industrial” business personal property taxes yield anywhere from $130 million to $209 million. The proposed Appalachian Storage Hub is said to cost $10 billion to construct. This would be exempt.

Source: West Virginia State Tax Department (FY 2018)
SJR 11 would exempt the machinery, inventory, and equipment from taxes.

MarkWest Sherwood Complex (Natural Gas Processing Plant)

2018 Taxes On Machinery/Equipment in Doddridge County (West Union):

$2.6 million
Property taxes in West Virginia are comparatively low

<table>
<thead>
<tr>
<th>Measure</th>
<th>National Average</th>
<th>West Virginia</th>
<th>WV Rank 1 = Highest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per Capita (2016)</td>
<td>$1,556</td>
<td>$915</td>
<td>41st</td>
</tr>
<tr>
<td>Percent of Personal Income (2016)</td>
<td>3.12%</td>
<td>2.48%</td>
<td>33rd</td>
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<tr>
<td>Residential Urban Tax Rate</td>
<td>1.50%</td>
<td>0.77%</td>
<td>46th</td>
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<td>Median Home Value (2017)</td>
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<tr>
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<td>0.51%</td>
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<td>Median Home Value (2017)</td>
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<tr>
<td>Commercial Urban Tax Rate (2017)</td>
<td>2.06%</td>
<td>1.61%</td>
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Conservative Tax Foundation ranks West Virginia 18th best in business property tax climate.
West Virginia industrial property taxes are not the highest

$62.5 Million Property Value in Biggest City (Charleston):
Real Property (40%) and Personal Property (60%)
($25m Land/Building, $18.75m Machinery/Equipment, $15m Inventory, and $3.7m Fixtures)

Source: Lincoln Institute of Land Policy and George Washington Institute of Public Policy, Tax Year 2017
West Virginia industrial property taxes are below average (rural)

$62.5 Million Property Value in Rural (Elkins):
Real Property (40%) and Personal Property (60%)
($25m Land/Building, $18.75m Machinery/Equipment, $15m Inventory, and $3.7m Fixtures)

West Virginia Below National Average

Source: Lincoln Institute of Land Policy and George Washington Institute of Public Policy, Tax Year 2017
What we do know is that the **states with robust economies do not impose property taxes on business tangible personal property**… The Chamber believes that the evidence is clear and overwhelming that Tangible Personal Property taxes are a drag on the State’s economy and the competitiveness of its businesses.”
No obvious relationship between industrial property tax rates and manufacturing job growth

Source: WVCBP analysis of U.S. Bureau of Economic Analysis and Lincoln Land Institute data
Estimated impact on manufacturing jobs from elimination of Ohio’s business personal property tax from 2006 to 2015

<table>
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<th>Low</th>
<th>Preferred Model</th>
<th>High</th>
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<td>-13,400</td>
<td>-19,300</td>
<td>-28,400</td>
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Authors surmise that industry replaced labor with capital (e.g. robots)

“We estimate that from 2006 through 2015 between 13,400 and 28,400 manufacturing jobs were lost per year on average because of the tax’s elimination. From our preferred model, the estimated effect is 19,300 fewer jobs per year on average” (Mughan and Propheter, September 26, 2017)

West Virginia has a low cost of doing business

Let our low business costs and history of fiscal responsibility lead to your long-term success.

Low cost of doing business

West Virginia's cost of doing business is among the lowest in the country and ranks 11th best in CNBC's America's Top States for Business 2017 "cost of doing business" category.

Our electricity rates are 11 percent (Industrial) below the national average and are lower than all of (all but Ky) our neighboring states. Employee turnover in West Virginia is below the national average at 8.9 percent, compared to the national average of 9.4 percent. We have the lowest turnover rate in manufacturing at 4.8 percent, compared to the national average of 5.4 percent. And to top it off, our overall cost of living is 17 percent lower than the national average.
Illustrative example of manufacturing costs

Property taxes become less of a cost factor when other costs are included

- **United States**: $16.7M
- **Ohio**: $15.6M
- **Pennsylvania**: $16.8M
- **Virginia**: $18.0M
- **Kentucky**: $15.3M
- **West Virginia**: $13.9M

**Source**: WVCBP analysis of Energy Information Administration, Bureau of Labor Statistics (QECW), and Lincoln Institute of Land Policy data.

**Note**: Includes average kilowatt hour price from Q4-2016 to Q3-2017 (EIA) with average annual consumption of 7.5 million kWh, average annual plastics/rubber manufacturing wages for 2nd Quarter 2017 with 300 employees (QECW), and annual tax bill for industrial property in rural selected areas with $25 million in real property and $37.5 million in personal property (LILP).
States and local taxes are a small share of the cost of doing business

All state and local taxes on businesses as a share of total business costs, on average

1.8%  
State & local taxes on businesses combined  
(including corporate and individual income taxes, sales taxes, gross receipts, and local property taxes)

98.2%  
The real costs  
(occupancy costs, labor compensation, energy costs, machinery and equipment, transportation, and business support services)

Source: Peter Fisher, [www.gradingstates.org](http://www.gradingstates.org)
Reasons why business tax cuts don't work

• Economic growth is heavily influenced by factors largely outside of West Virginia’s control — such as climate, global energy prices, trade agreements, access to raw materials, economic recessions, federal fiscal and monetary policy and federal regulations — and other factors the states have more control over — including a skilled workforce, infrastructure, available sites and the overall quality of life.

• Product demand — not taxes — is the primary driver of hiring. Business production depends on the ability to sell products, and broad-based tax cuts that provide just a few thousand dollars (on average) will not incentivize hiring in most cases.

• Business taxes are highly exportable. Because multistate corporations likely received the bulk of the business tax cuts, it’s highly likely that a good portion of the business tax cuts flowed to other states. Another portion of these tax cuts also went to the federal government because businesses can deduct them from their federal income tax liability, which increases federal tax payments.

• It’s a zero-sum game. Because West Virginia must balance its budget, this means that we must pay for the tax cuts by reducing state services, raising other taxes or both. These actions can slow the economy, offsetting the economic benefit of the tax cuts. It is not a coincidence that West Virginia has had to make severe budget cuts at the same time that the state has lowered taxes.

• Most academic research shows state tax levels have little impact on economic growth. In a review of 38 peer-reviewed articles in academic journals and books since 2000, the analysis shows 20 of the studies find no significant link between state tax levels and economic growth, while only seven found a significant link, with 11 finding mixed or inconsistent results.
Taxes are low and investments down
At 6.8%, FY 2018 GRF collections would be additional $590 million

General Revenue fund collections as a share of state personal income

Source: WVCBP analysis of data from U.S. Bureau of Economic Analysis and WV State Budget Office
Business tax cuts are not the best investment to boost manufacturing

Cost-effectiveness of policies to increase local job growth

- Help the competitiveness of small and medium-sized manufacturers.
- Make land more developable through better amenities, infrastructure, and environmental cleanup.
- Enhance the skills of the workforce.

Source: Tim Bartik, “Helping Manufacturing-Intensive Communities: What Works?,” Center on Budget and Policy Priorities, May 9, 2018
Policies to Power Shared Prosperity in West Virginia

• Raise state minimum wage
• Enact paid sick leave
• Create refundable state EITC
• Enact paid family & medical leave
• Boost child care assistance
• Fund the WV Future Fund by raising severance tax
• Close corporate income tax loopholes, reenact estate tax
• Increase tobacco and soda tax
• Make college debt or tuition free
• Invest in public schools and expand affordable health care.
Conclusion

- Businesses rely on good schools, solid infrastructure, and public safety investments to thrive. Eliminating the business personal property tax could shift the tax responsibilities onto households or lead to further cuts to schools and other local investments. Businesses should pay their fair share.

- If the state’s “inventory tax” ($76 Million) is the real issue, lawmakers could replace the revenue with higher assessments and/levy rates on business real property (land, buildings, etc.) or other business personal property (machinery/equipment).

- Instead of eliminating business personal property taxes, lawmakers could implement a “de minimis” exemption that sets a minimum threshold of property that a business must have before tax is owed (e.g. $50,000). This would most likely reduce the number of tax payers by half while only having a small impact on tax collections. (See Texas/Florida).
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