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BUDGET & POLICY

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

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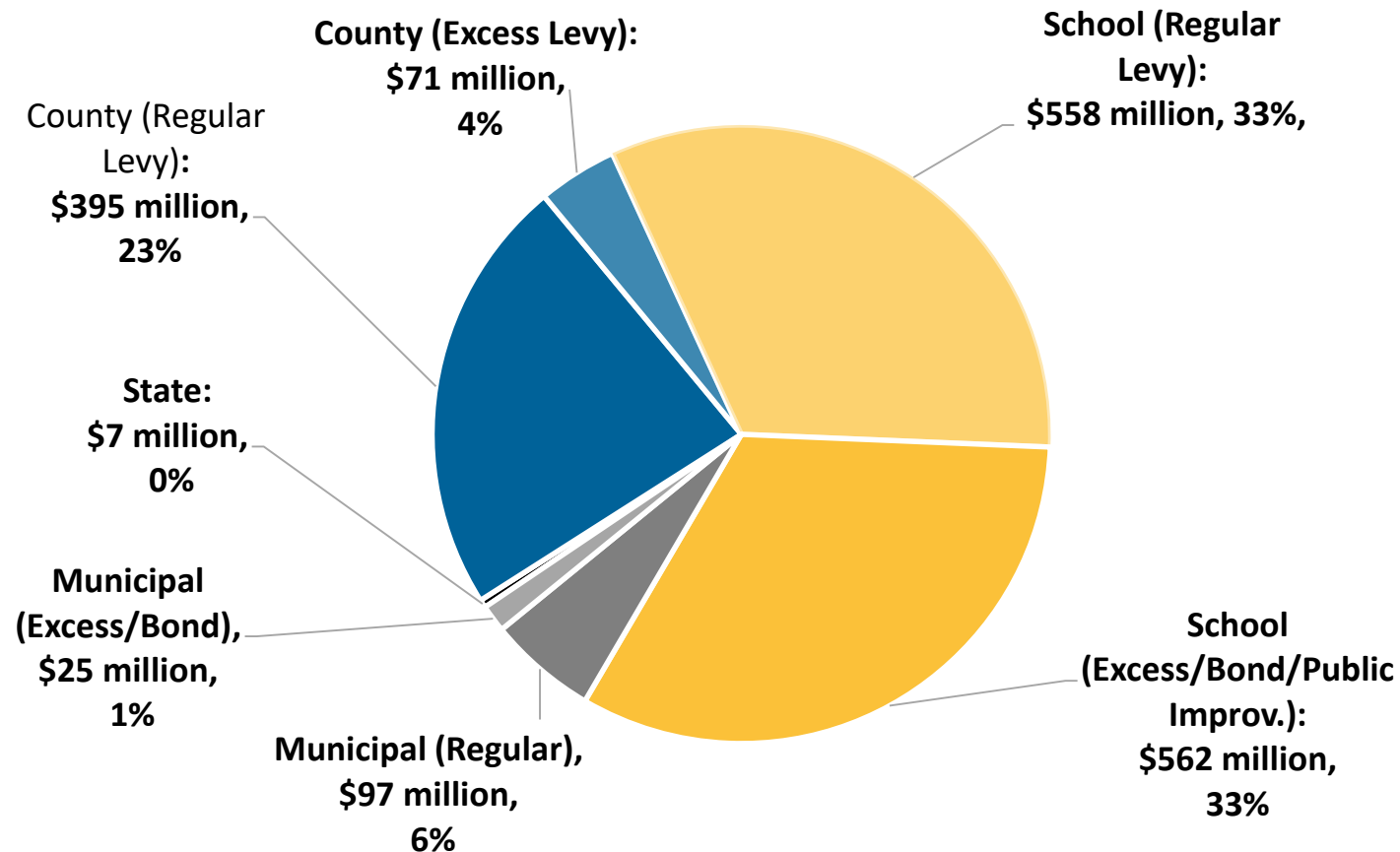
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Distribution of Property Taxes

Fiscal Year 2019, \$1.715 Billion

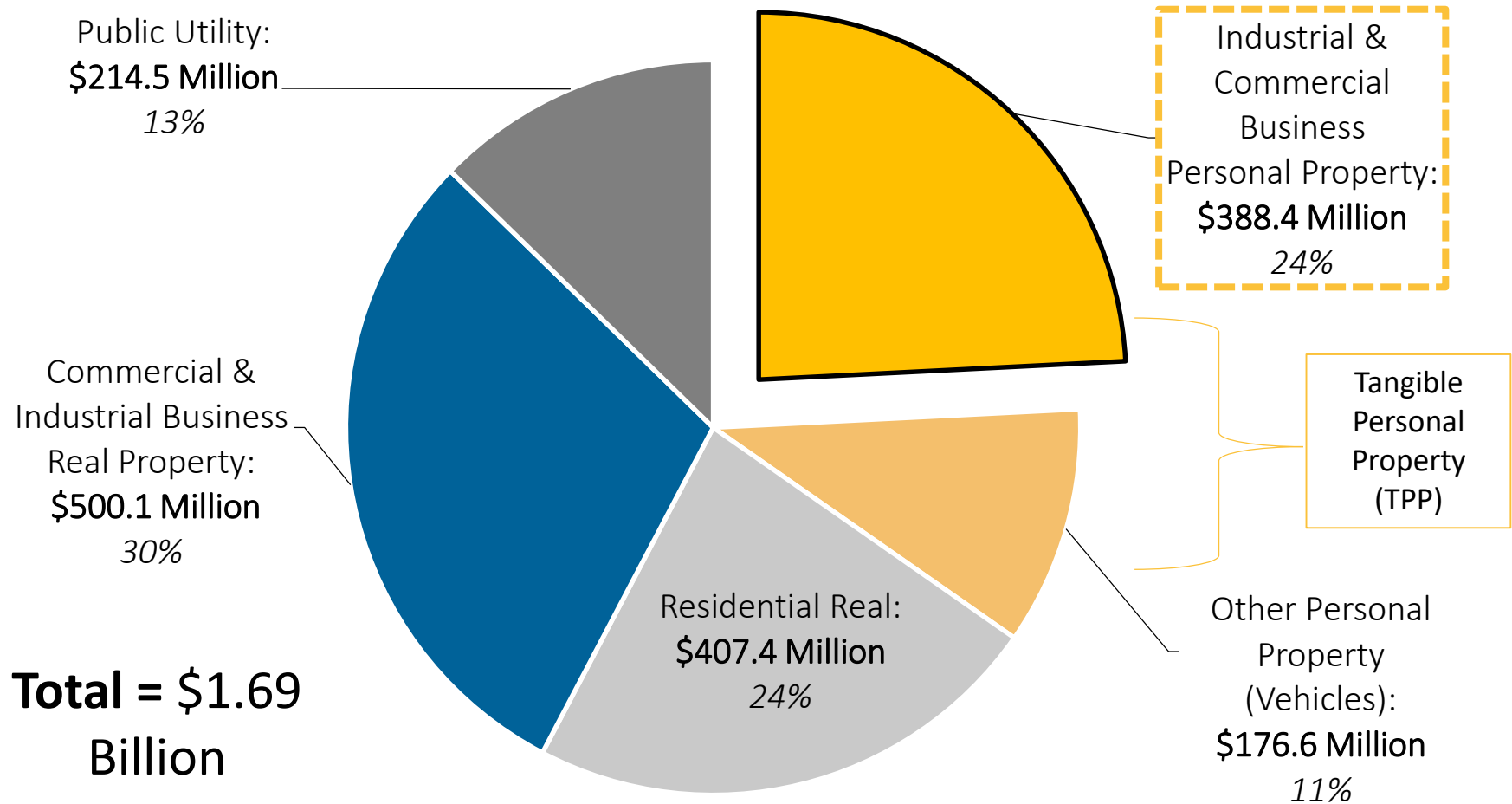
Two-thirds of property taxes fund schools



Source: West Virginia State Tax Department, FY 2019

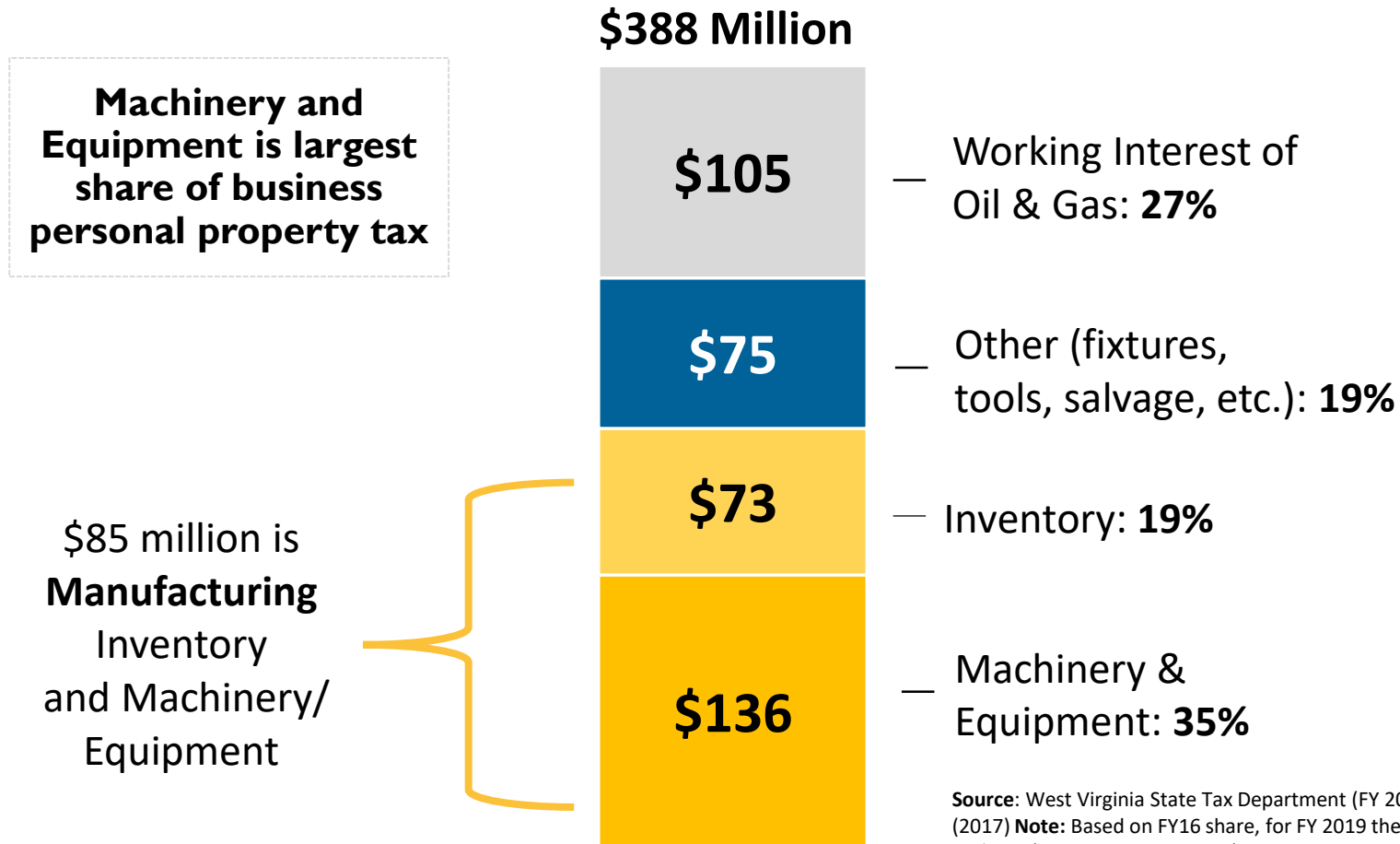
Property Taxes by Source – FY 2016

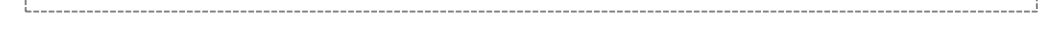
“Tangible Personal Property” (TPP) is physical property that can touched/moved



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

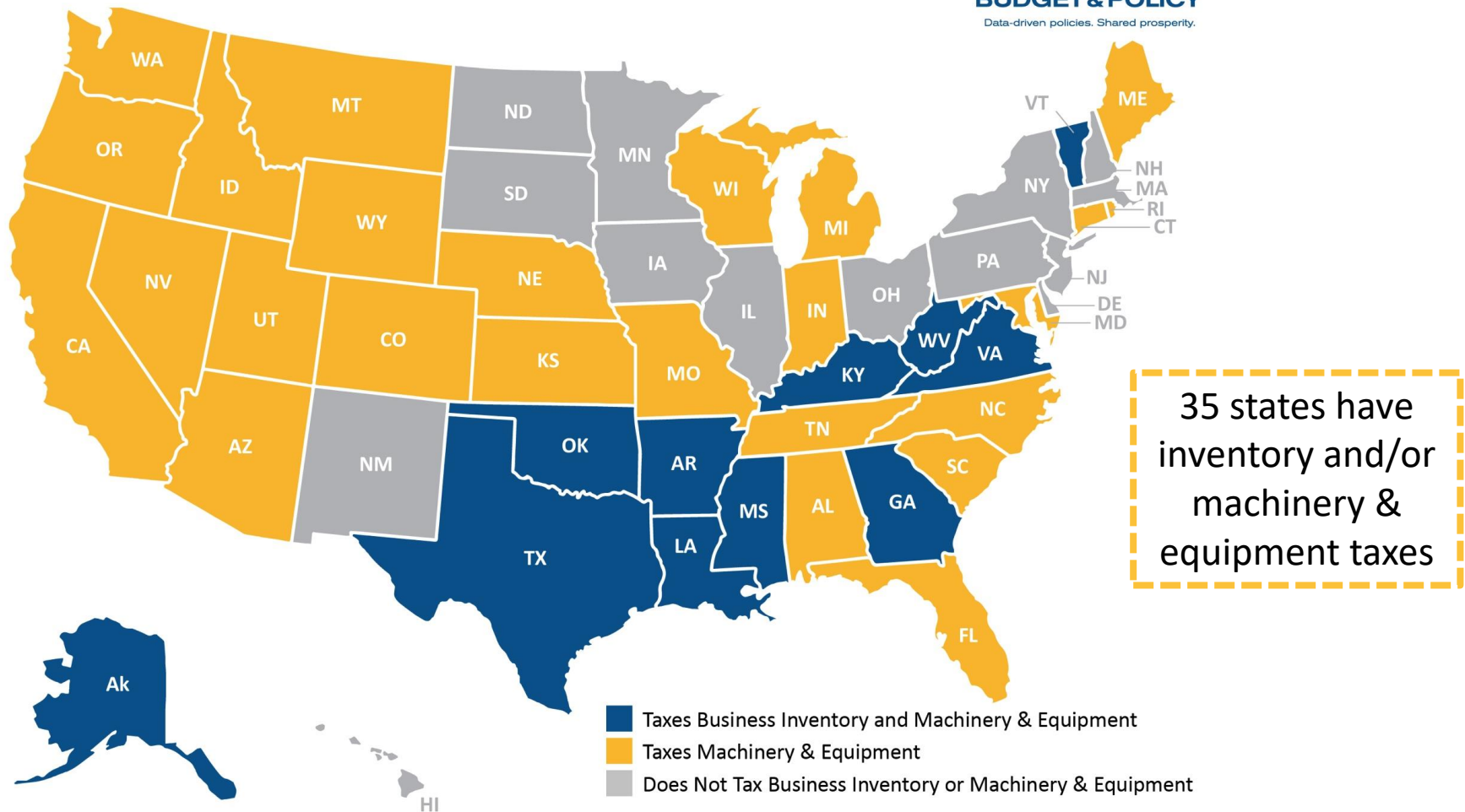
Business Personal Property Taxes by Type





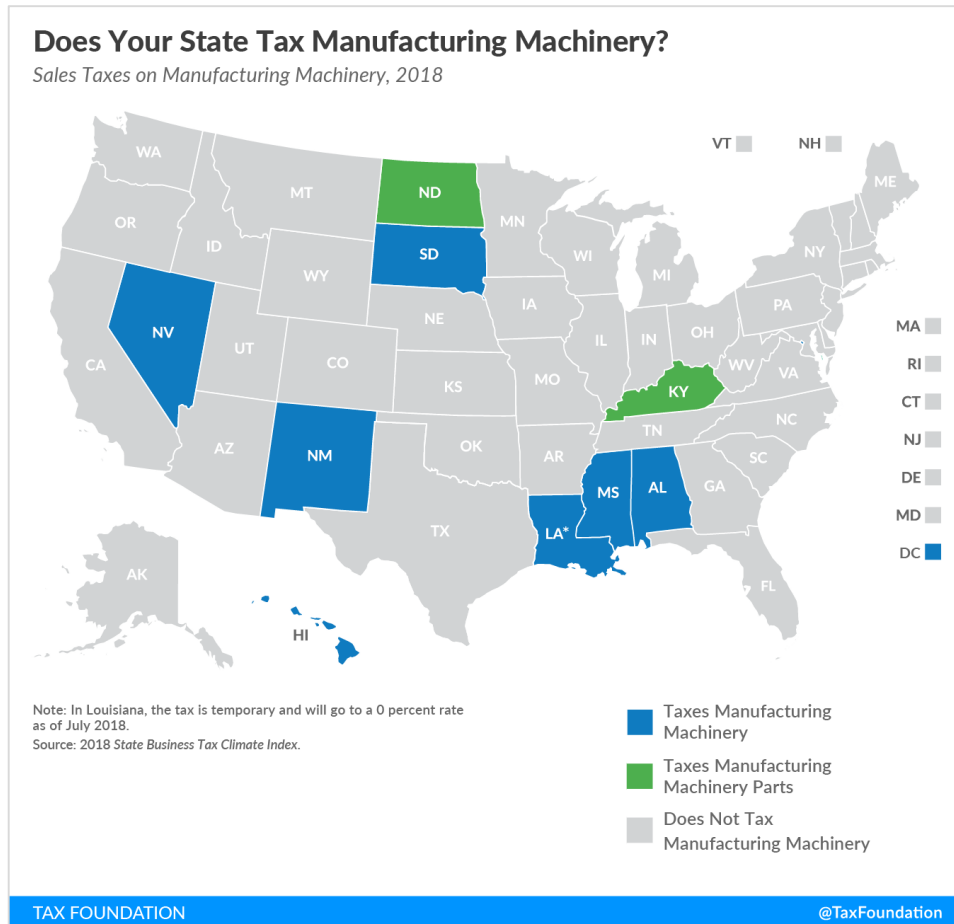
MOST STATES TAX BUSINESS PERSONAL PROPERTY

Property Taxes on Business Inventory and Machinery and Equipment, 2016



SOURCE: Lincoln Institute of Land Policy/George Washington Institute of Public Policy, Significant Features of the Property Tax (accessed 2/5/2018)

Business personal property tax considerations

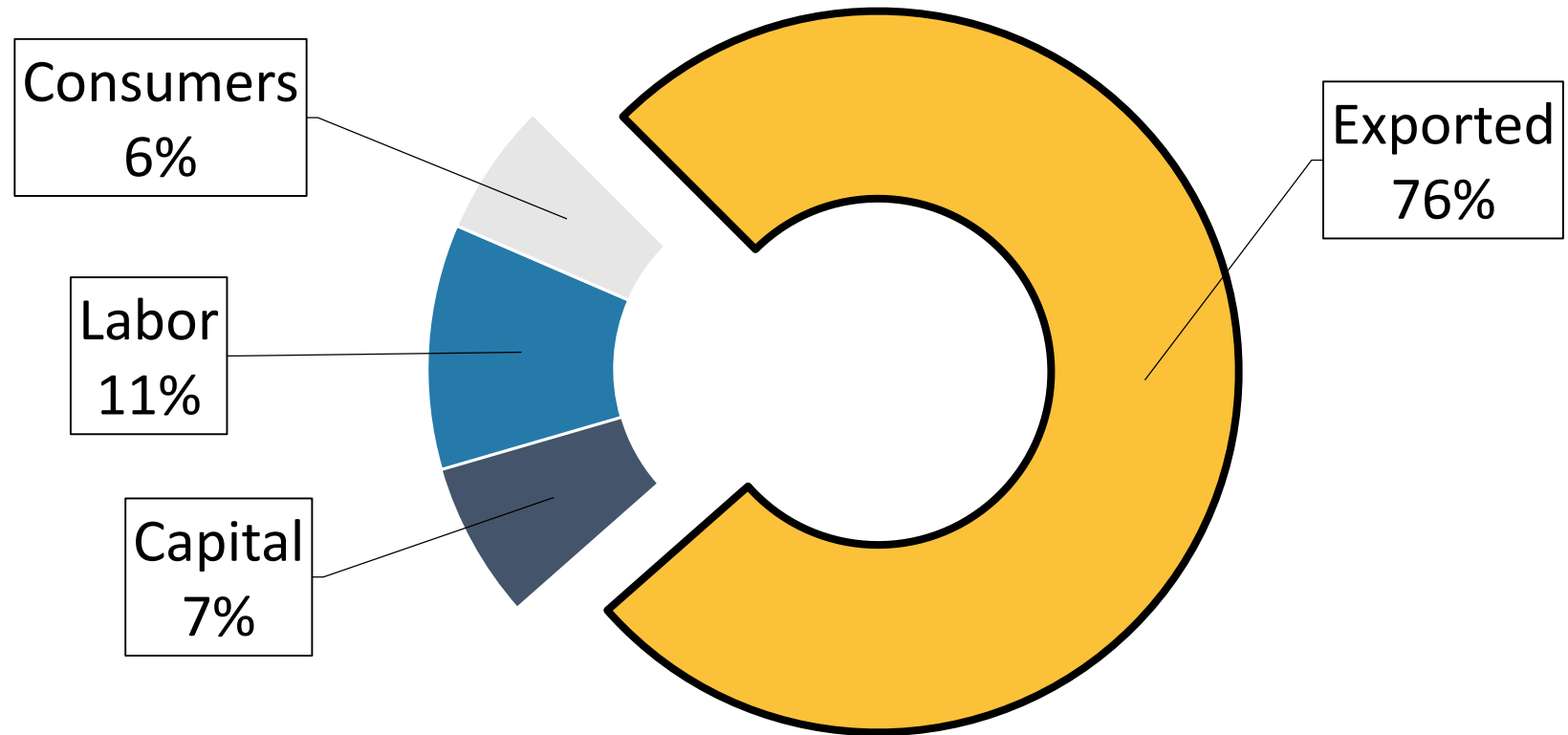


- Many states that exempt business *personal* property have much higher rates on business *real* property (e.g. Illinois).
- Some states that exempt business personal property have other ways to tax this property. For example, New York taxes most business equipment as “real” property, and North Dakota 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

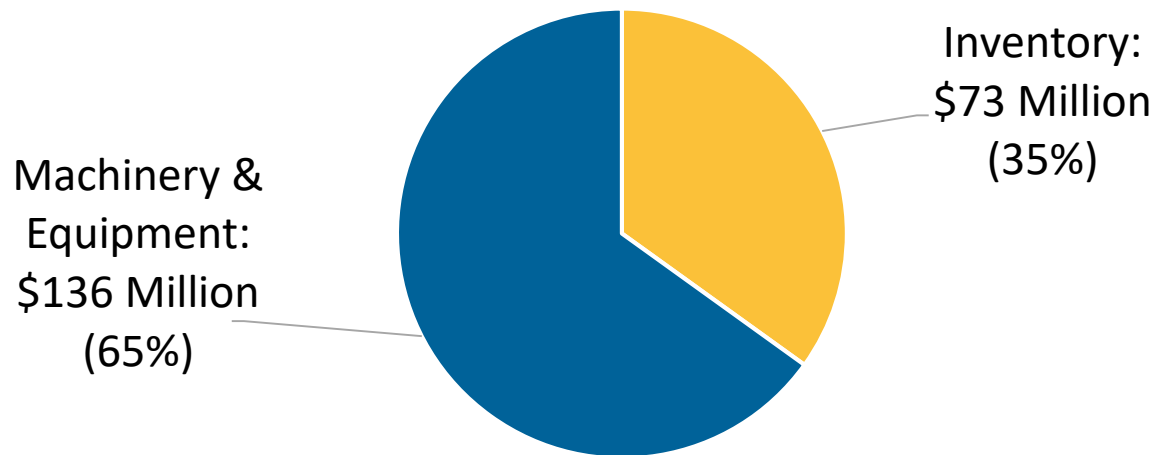


Source: Minnesota Department of Revenue, 2017 Minnesota Tax Incidence Study (March 2017)

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



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

1
2

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

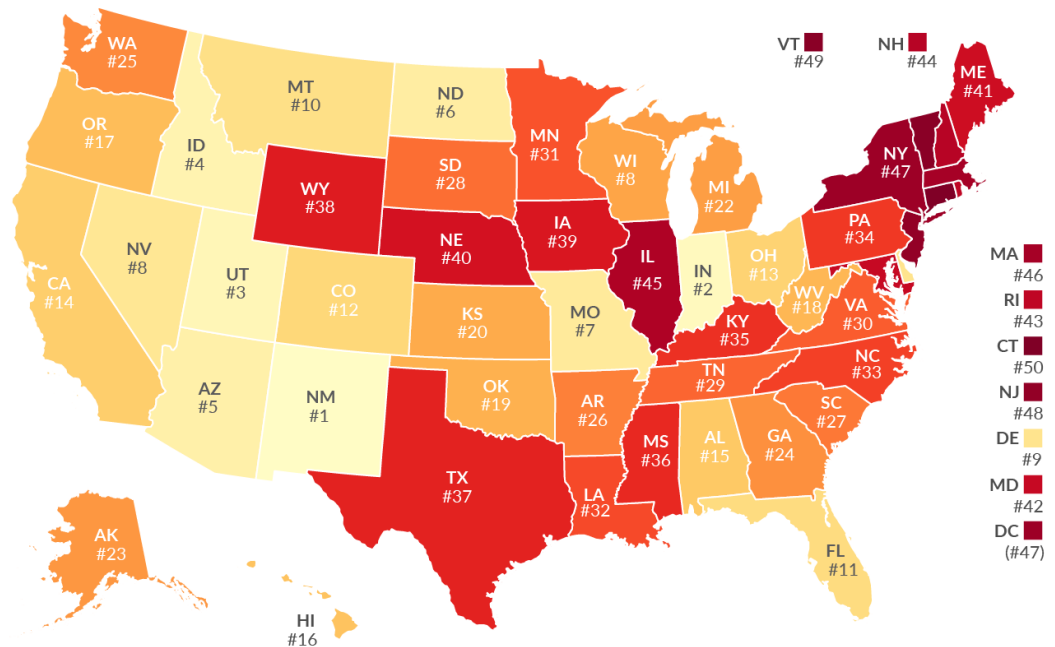
| Measure | National Average | West Virginia | WV Rank 1 = Highest |
|---|------------------|---------------|------------------------|
| Per Capita (2016) | \$1,556 | \$915 | 41st |
| Percent of Personal Income (2016) | 3.12% | 2.48% | 33rd |
| Residential Urban Tax Rate Median Home Value (2017) | 1.50% | 0.77% | 46th |
| Residential Rural Tax Rate Median Home Value (2017) | 1.34% | 0.51% | 46th |
| Commercial Urban Tax Rate (2017) \$1 million real and \$200k personal property | 2.06% | 1.61% | 32nd |
| Commercial Rural Tax Rate (2017) \$1 million real and \$200k personal property | 1.75% | 1.04% | 41st |
| Industrial Urban Tax Rate (2017) \$1 million real and \$1 million personal property | 1.50% | 1.63% | 20th |
| Industrial Rural Tax Rate (2017) \$1 million real and \$1 million personal property | 1.30% | 1.06% | 30th |

Source: U.S. Census Bureau Census of State and Local Government Finance, Bureau of Economic Analysis, and Lincoln Institute on Land Policy and Minnesota Center for Fiscal Excellence.

Conservative Tax Foundation ranks West Virginia 18th best in business property tax climate

How Does Your State Rank on Property Taxes?

Property Tax Component Rankings, 2019 State Business Tax Climate Index



Note: A rank of 1 is best, 50 is worst. DC's score and rank do not affect other states.

Source: Tax Foundation, 2019 State Business Tax Climate Index.

Property Tax Component Rank,
2019 State Business Tax Climate Index



TAX FOUNDATION

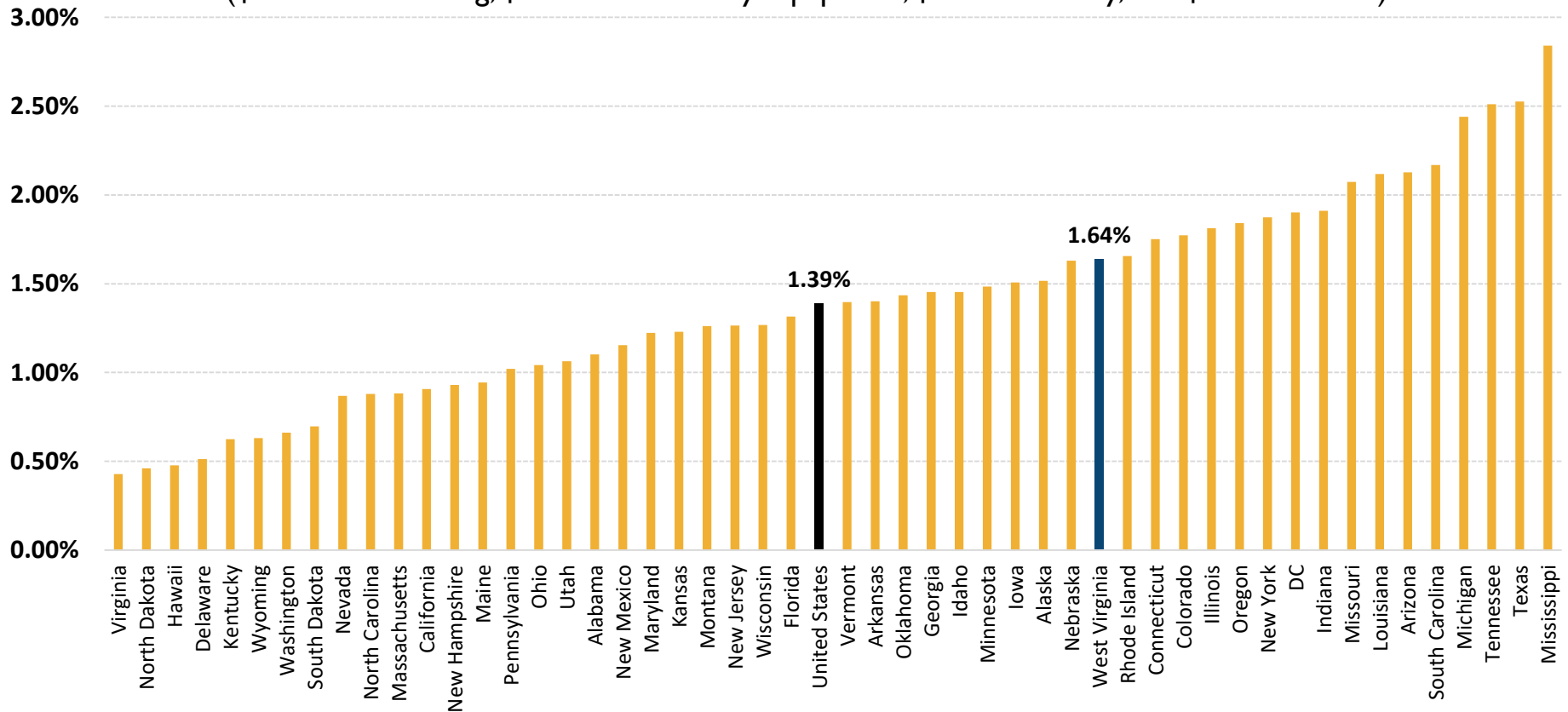
@TaxFoundation

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)

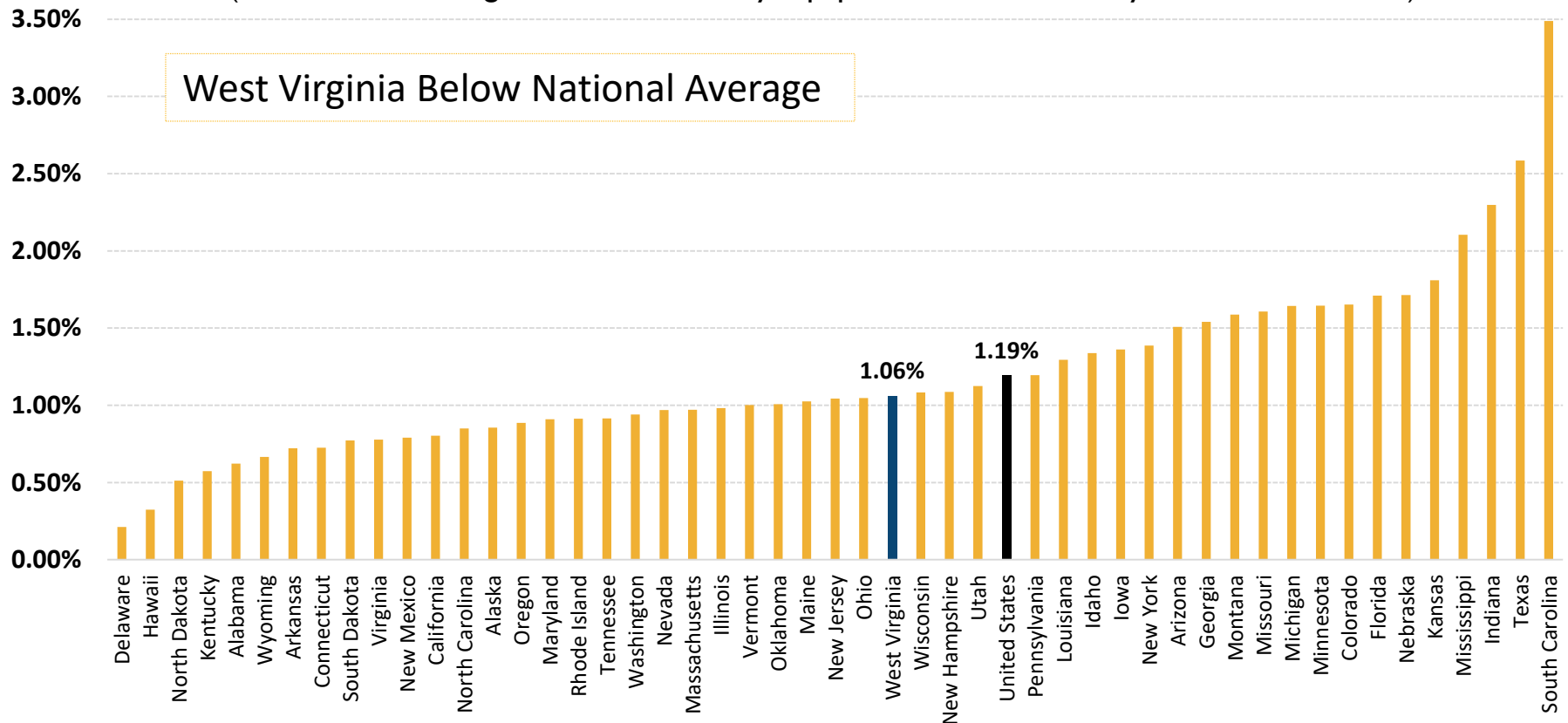


Source: Lincoln Institute of Land Policy and George Washington Institute of Public Policy, Tax Year 2017

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)



Source: Lincoln Institute of Land Policy and George Washington Institute of Public Policy, Tax Year 2017



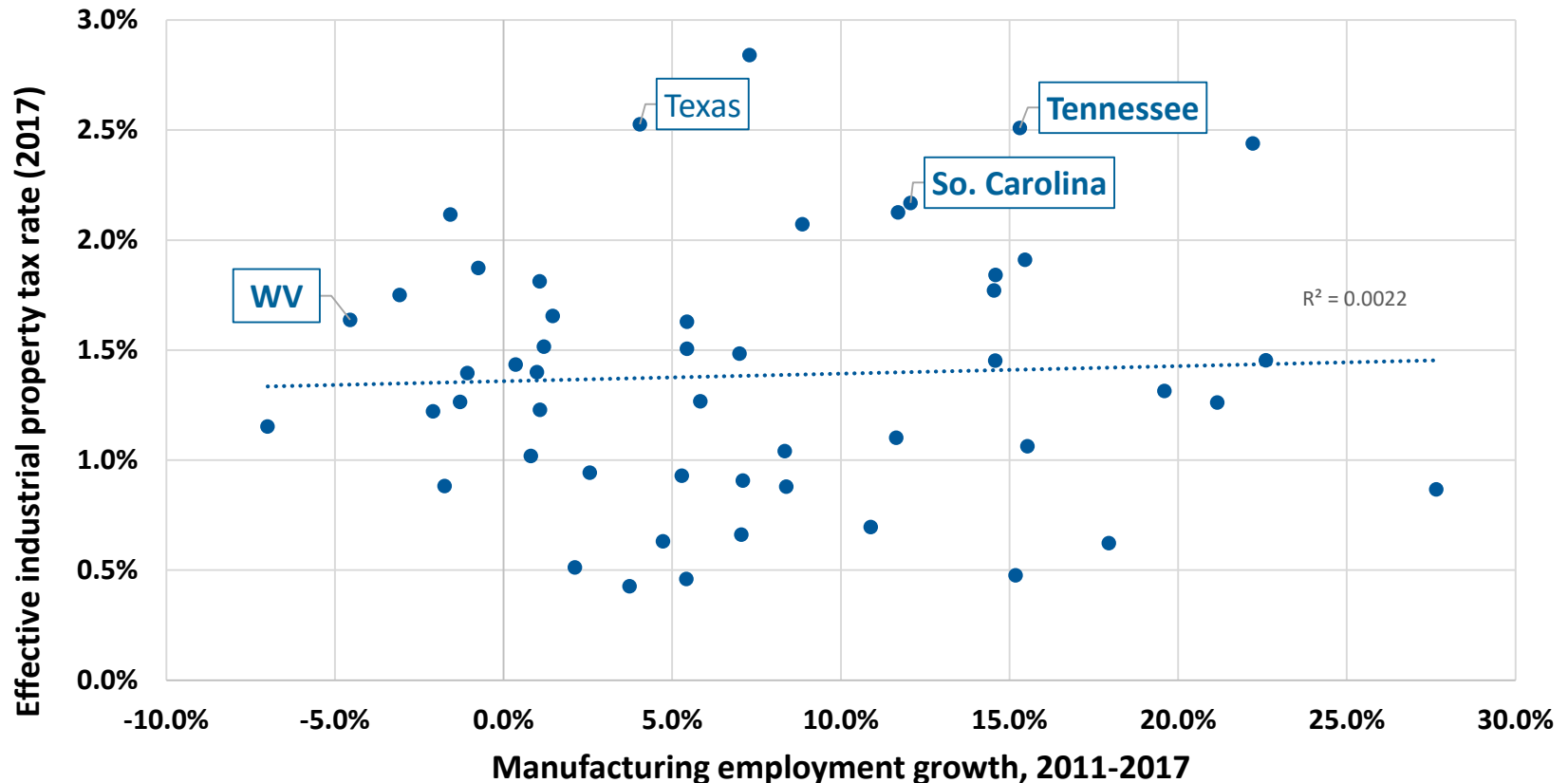
ELIMINATE TANGIBLE PERSONAL PROPERTY TAXES ON BUSINESS INVENTORIES AND MANUFACTURING EQUIPMENT



**West Virginia is one of only a few
states that taxes capital investments
through the Tangible Personal
Property Tax on Business Inventories
and Manufacturing Equipment**

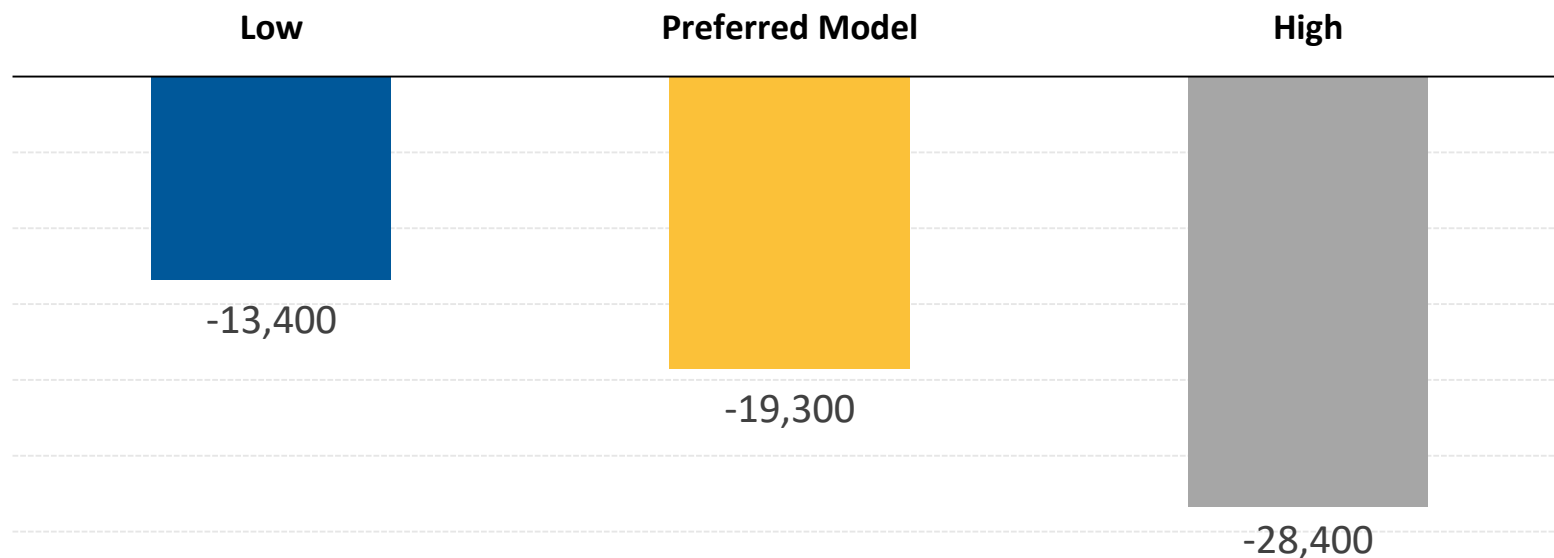
“ What we do know is that the **states with robust economies do not impose property taxes on business tangible personal property**...The Chamber believes that the evidence is clear and overwhelming that Tangible Personal Property taxes are a drag on the State’s economy and the competitiveness of its 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



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)

Source: Sian Mughan and Geoffrey Propheter, “Estimating the Manufacturing Employment Impact of Eliminating the Tangible Personal Property Tax: Evidence from Ohio,” *Economic Development Quarterly*, Volume 31, Issue 4, 2017





West Virginia has a low cost of doing business

Business Climate

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

Low cost of doing business

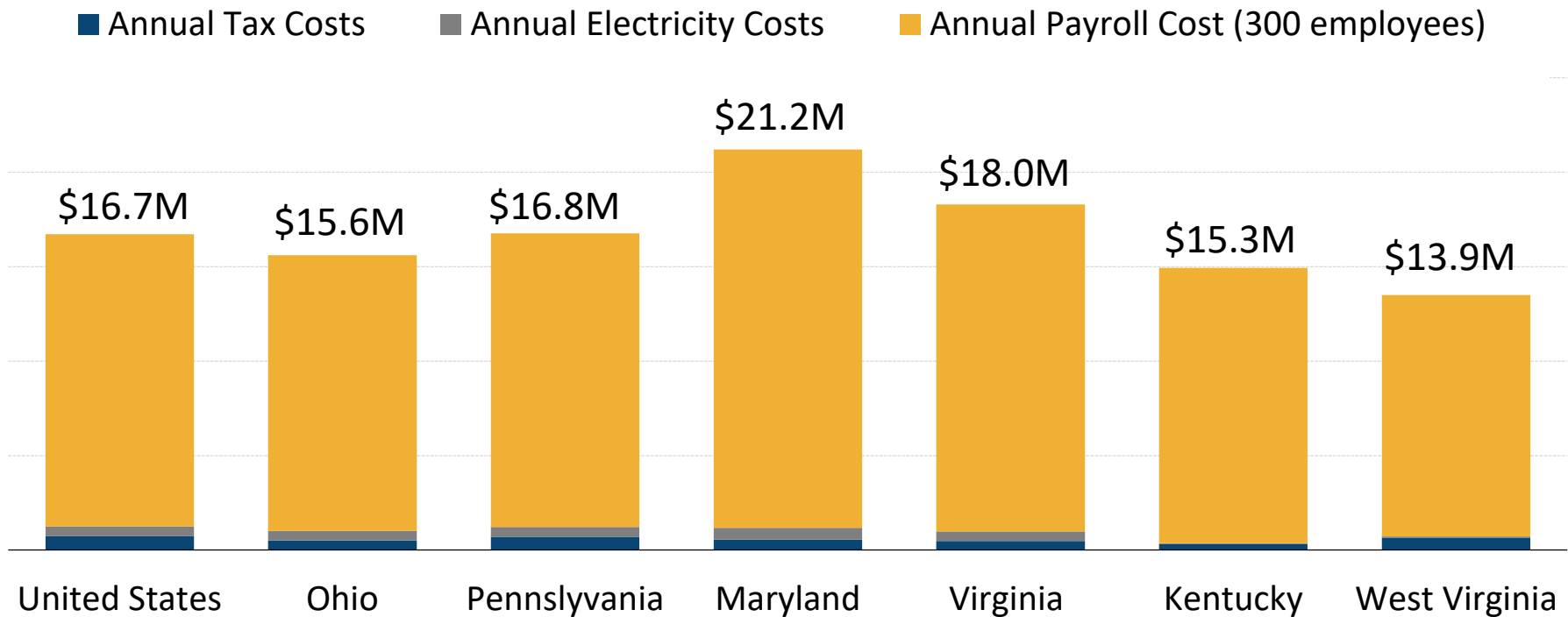
West Virginia's cost of doing business is among the lowest in the country and ranks 11th best in CNBC's America's Top States for Business 2017 "cost of doing business" category.

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

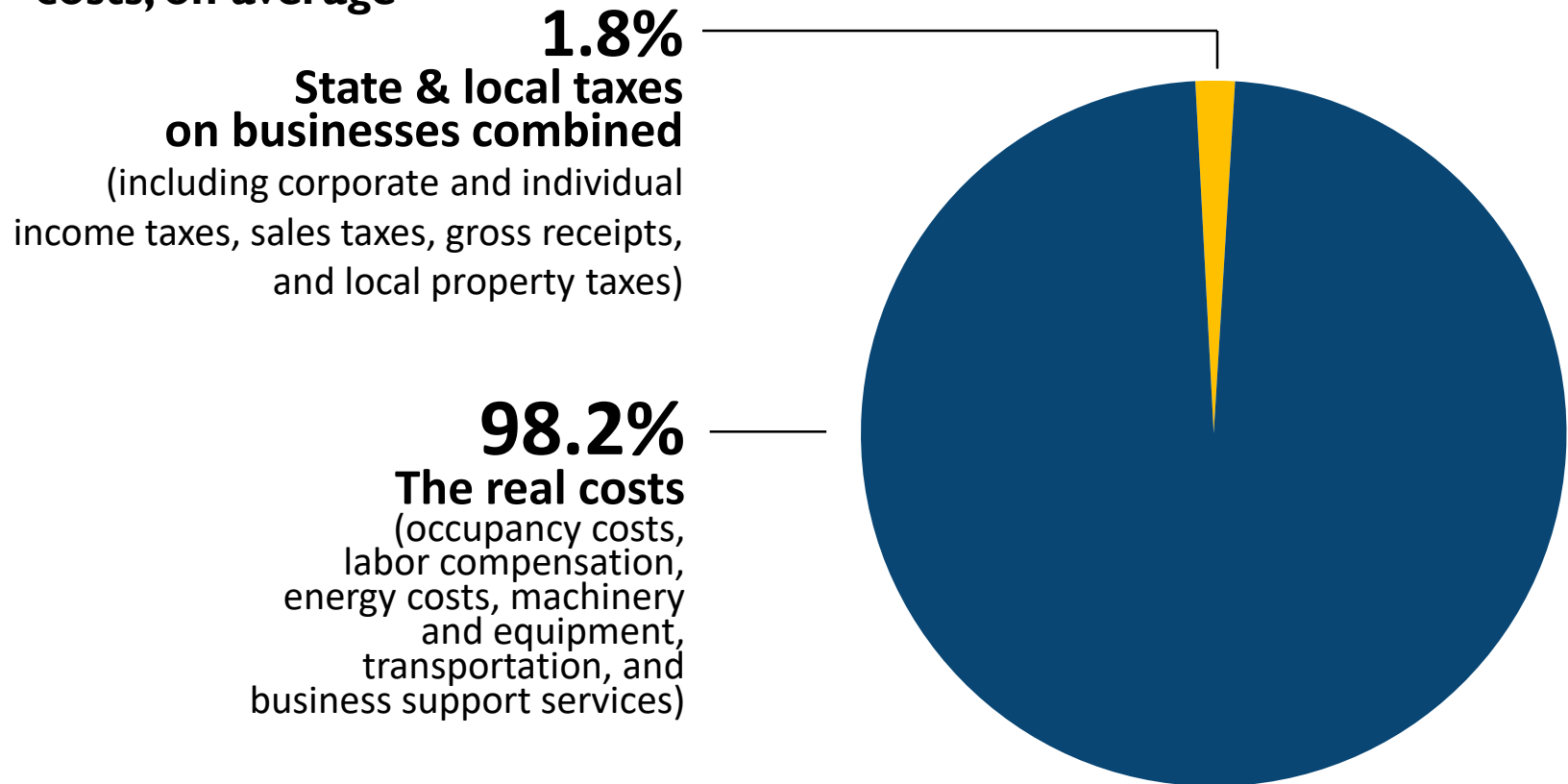


Source: WVCBP analysis of Energy Information Administration, Bureau of Labor Statistics (QECW), and Lincoln Institute of Land Policy data.

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



Source: Peter Fisher, www.gradingstates.org

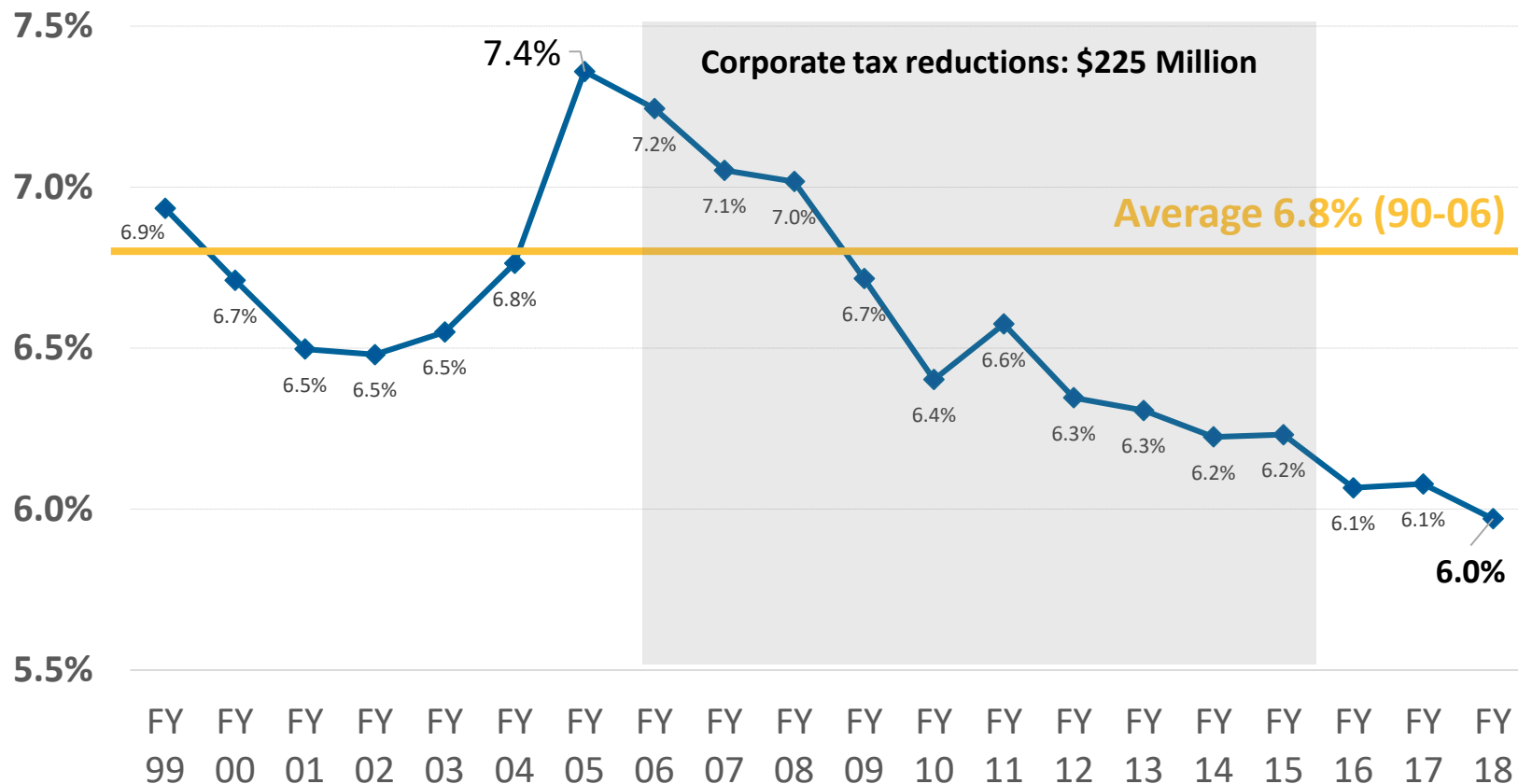
Reasons why business tax cuts don't work

- 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

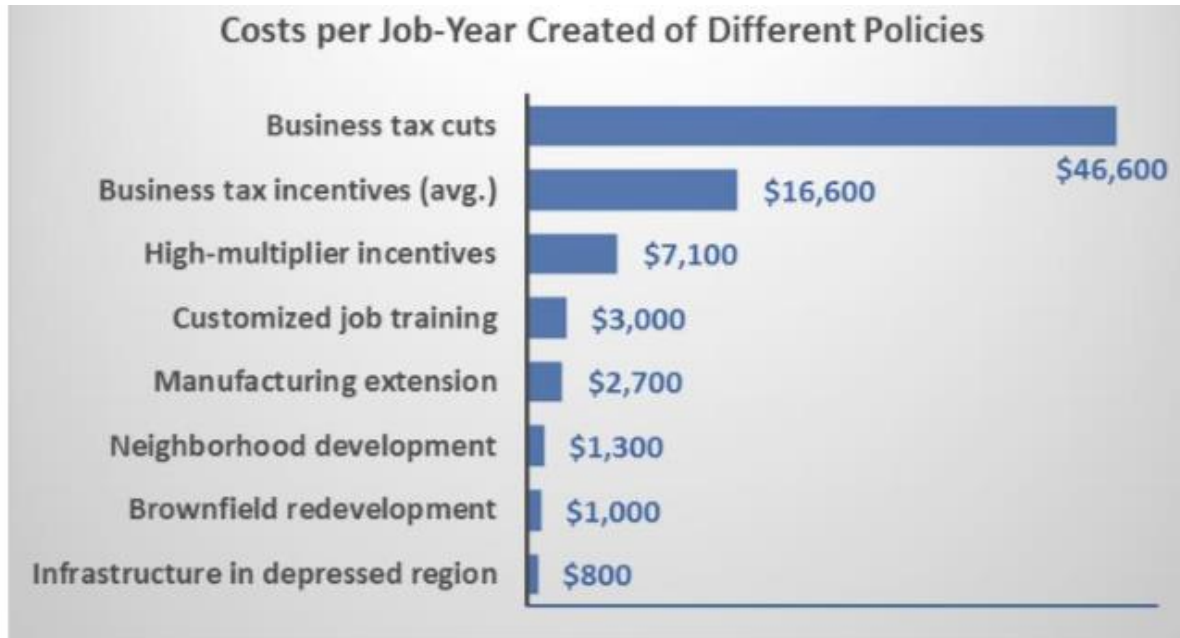
General Revenue fund collections as a share of state personal income



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



NOTE: From Bartik (2018b). Costs per job-year are present value of costs divided by present value of job-years created. Policies are funded by what is called “neutral” financing in Bartik (2018b), which comes half from tax increases, half from spending cuts. For business tax cuts, tax increases are only for household taxes. Average incentives, customized services, and land development are assumed to have a multiplier of 2; high-multiplier incentives have a multiplier of 1.

- 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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