

# PERSONAL INCOME TAX ELIMINATION

Strike and Insert  
Amendment to House  
Bill No. 3300

# Elimination of Personal Income Tax

- Provides Findings regarding efforts to reduce population loss
- Preserves past tax liabilities
- Requires taxpayer notification of changes in personal income tax
- Requires annual reporting to the Legislature
- Provides for inoperability of the section upon complete elimination of the personal income tax
- Establishes a criteria for reduction of Personal Income Tax (PIT)

# Elimination of Personal Income Tax – Continued

## **Mechanisms to trigger reduction in PIT**

- When the balance in a fund (created in the bill) reaches \$100,000,000 the balance will be transferred to General Revenue in \$50,000,000 increments to keep the balance of the fund between \$50,000,000 and \$100,000,000. This transfer reduces PIT 12.5 basis points in the next fiscal year.

# Elimination of Personal Income Tax – Continued

- When there is unappropriated general revenue – which is the difference between the general revenue budget as introduced by the Governor and the enacted budget – there shall be a proportionate reduction in each tax bracket based upon the bracket's contribution to PIT collections.
- If there are no unappropriated funds, then there is not a reduction.

# Elimination of Personal Income Tax – Continued

- Dollar for Dollar reduction for an increase in general revenue collections that can be attributed to increases in tax collections over previous year's collections and to newly created revenue sources.
- There shall be a proportionate reduction in each tax bracket based upon the bracket's contribution to PIT collections.
- If there are no increased revenue, then there is not a reduction.

# Elimination of Personal Income Tax – Continued

- When the PIT is decreased an increase would require further legislative action
- There is rulemaking authority for the Tax Commissioner to effectuate the provisions of the new section.
- Estimated PIT Loss to General Revenue: \$1,087,000,000

# Stabilization and Future Economic Reform Fund - SAFER Fund

- Special Revenue Account
- Creates a smoothing mechanism for one-time cuts and volatile taxes.
- Funding is from appropriation, investments, and deposits.
  - When the combined total of the two Rainy Day funds is equal to or greater than 23% of the rolling average of actual revenues collected in the preceding 7 fiscal years, Tax and Revenue deposits 50% of the surplus minus unappropriated revenue into this fund.
- Once the Personal Income Tax is eliminated this fund may be used to reduce/eliminate other taxes and help balance the budget.

# Revenue Replacement – Current

**The bill has a number of revenue generating measures**

- Increase in Consumers Sales and Service Tax
- Removal of Certain Exemptions from Sales and Service Tax
- Tax on Certain Services
- Increase in Tobacco and Tobacco Products Tax



# Revenue Replacement – New.

- An added Hotel Occupancy Fee
- Reinstatement of a Food Tax
- Modifies the Soft Drink Tax
- Create a Dedicated Lottery Scratch-Off Game

# Hotel Occupancy Tax – Added Fee

- In addition to the Hotel Occupancy Tax there would be an added fee of 4.3% of the total cost of the bill prior to the imposition of other taxes.
- Collected and processed with other taxes
- Deposited into General Revenue
- Effective January 1, 2022.
- Estimated Revenue: \$25,000,000 per year

# Consumer Sales and Use Tax

- Change from the current 6% to 8.5%
- Effective June 1, 2022
- Removed Exemptions from Tax for:
  - Downloaded Digital Products
  - Sales of Radio/Television Broadcasting Time, Preprinted Advertising Circulars and Newspaper and Outdoor Space
  - Sales of Lottery Tickets by Lottery Agents
  - Sales of Computer Equipment/Electronic Data Processing
  - Health Club Memberships
- Estimated Revenue: \$625,000,000 per year

# Elimination of Exemption from Sales Tax on Services

- Professional Legal Services, Professional Engineering Services, Professional Architectural Services and Professional Accounting Services would be subject to a 3% Excise Tax.
- Additional Excise Tax of 8.5% on Income Derived from Legal Services from a Contingency Fee from a Legal Settlement.
- The funds from the tax on contingency fee services would be deposited into the SAFER fund.
- Estimated Revenue: \$98,000,000

# Food Tax

- Reinstatement of Food Tax at 2.5%
- Prepared Foods would be subject to the Sales Tax at 8.5%
- Effective January 1, 2022
- Estimated Revenue: \$67,000,000

# Tobacco

- Increase Tobacco Tax
  - From \$1.20 to \$2.20 per 20 cigarettes
  - From 12% to 19.% of the wholesale price of other forms of tobacco
  - From 7.5 cents per milliliter to 35 cents per milliliter on e-cigarettes
- Effective January 1, 2022
- Estimated Revenue: \$80,750,000

# Lottery Scratch-Off Game

- A Scratch-Off Lottery Game with the proceeds dedicated to future and further reductions in the personal income tax.
- Effective January 1, 2022
- Estimated Revenue: Minimal

# Soft Drink Tax

- Eliminate the separate tax on Soft Drinks
- Makes Soft Drinks subject to Food Tax dependent on point of purchase
- Proceeds would be deposited into General Revenue
- Effective January 1, 2022
- Estimated Revenue: Included in Sales and Food Tax depending on point of sale.



# Upon Legalization of Recreational Cannabis

- As a source of additional revenue this bill would legalize recreational cannabis
- It makes necessary changes to the code to allow proceeds to be subject to similar banking requirements as Medical Cannabis.
- The bill transfers all regulation for both medical and recreational cannabis to the Department of Agriculture effective July 1, 2021.

# Upon Legalization of Recreational Cannabis – Continued

- The bill provides for findings regarding a transition from onerous taxation and the need to diversify West Virginia's economy
- There are definitions
  - Most notable are possession limits
    - 2 ounces in any form other than concentrated
    - 15 grams in concentrated form
    - 6 plants

# Upon Legalization of Recreational Cannabis – Continued

- Allows personal consumption for any person 21 years or older
- Allows cultivation of plants not in public view
- Allows cultivation for personal use of 6 plants with the proper permit – 2 or less plants does not require a permit.
- **Retains** the current criminal penalty for illegal possession if the provisions of this act are violated.

# Upon Legalization of Recreational Cannabis – Continued

- Allows for public smoking subject to the same restrictions as tobacco products
- Retains a penalty for using a false ID to obtain cannabis
- Precludes discrimination by licensing boards, employers, in custody or visitation matters, medical care, and probation officers
- Allows employers to regulate cannabis similar to alcohol and tobacco products

# Upon Legalization of Recreational Cannabis – Continued

- Allows the operation of cannabis related facilities for selling, cultivation, harvest, processing, packing, transporting, displaying or possessing cannabis.
- Municipalities may enact ordinances not inconsistent with the statute governing times of operation, locations, number of locations and manner of operation.

# Upon Legalization of Recreational Cannabis – Continued

- The Department of Agriculture is given rulemaking authority to regulate cannabis including:
  - Facilities
  - Permits and fees
  - An application process and an application fee – set at \$5000 in the bill (\$500 if the applicant also has a Medical Cannabis license)
  - Security/Labeling/Health and Safety Matters/Advertising Restrictions/Civil Penalties

# Upon Legalization of Recreational Cannabis – Continued

- There are protections for property owners that allow them to refuse to rent or lease – but they are not permitted to discriminate against a tenant based solely on a prior conviction for a cannabis offense
- They may also not limit the consumption of cannabis in a non-smoked format.
- There are exceptions if the property is incidental to a detention center, is a transitional housing/sober living facility or if the landlord would lose a license related benefit under federal law.

# Upon Legalization of Recreational Cannabis – Continued

- Cannabis would be subject to the sales and use tax
- Cannabis would also be subject to a special excise tax of 10% per ounce of the wholesale price
- These funds would be deposited into the SAFER Fund to help eliminate the PIT



# Upon Legalization of Recreational Cannabis – Continued

- There is a provision that indicates the Medical Cannabis statute is unaffected.
- There are provisions for expungement of a record and release of anyone convicted solely on a cannabis related offense.
- Cannabis is removed from the list of Schedule One Narcotics.
- The provisions of the act would only be effective upon action by the federal government allowing the legalization of the sale of cannabis on the state level.
- Estimated Revenue : \$45,000,000 in the first year.

# By The Numbers.

\$25,000,000 – Hotel Fee

\$625,000,000 – Consumer Sales and Use Tax Increase

\$98,000,000 – Removing Professional Services Exemption

\$67,000,000 – Reinstitution of the Food Tax

\$80,750,000 – Tobacco and Related Products Tax Increase

\$45,000,000 – Legalization of Cannabis

TOTAL: \$932,050,000

\$1,047,000,000 estimated revenue shortfall with the reduction in the PIT

	<b>Current</b>			
Income Bracket	Tax Rate %	Total Taxed	Collections (millions)	% share of total collection
<b>\$0-10,000</b>	3	6,366.67	191	9.29%
<b>\$10-25,000</b>	4	7,650.00	306	14.88%
<b>\$25-40,000</b>	4.5	5,844.44	263	12.79%
<b>\$40-60,000</b>	6	5,566.67	334	16.25%
<b>\$60,000+</b>	6.5	14,800.00	962	46.79%
	<b>Total Collections</b>		<b>2056</b>	
	Reduction			

	<b>Year 1</b>			
Income Bracket	Tax Rate	\$ Reduction	Collections	% share of total collection
<b>\$0-10,000</b>	1.47%	97.33	\$ 93.67	9%
<b>\$10-25,000</b>	1.96%	155.94	\$ 150.06	15%
<b>\$25-40,000</b>	2.21%	134.02	\$ 128.98	13%
<b>\$40-60,000</b>	2.94%	170.21	\$ 163.79	16%
<b>\$60,000+</b>	3.19%	490.23	\$ 471.77	47%
<b>Total Collections</b>			<b>\$ 1,008.27</b>	
Reduction			<b>\$ 1,047.73</b>	

**Year 2**

Income Bracket	Tax Rate	\$ Reduction	Collections	
<b>\$0-10,000</b>	1.40%	\$ 4.64	\$ 89.02	9%
<b>\$10-25,000</b>	1.86%	\$ 7.44	\$ 142.62	15%
<b>\$25-40,000</b>	2.10%	\$ 6.40	\$ 122.58	13%
<b>\$40-60,000</b>	2.80%	\$ 8.12	\$ 155.67	16%
<b>\$60,000+</b>	3.03%	\$ 23.39	\$ 448.37	47%
<b>Total Collections</b>			<b>\$ 958.27</b>	
<b>Reduction</b>			<b>\$ 50.00</b>	

**Year 3**

Income Bracket	Tax Rate	\$ Reduction	Collections	
<b>\$0-10,000</b>	0.96%	\$ 27.87	\$ 61.15	9%
<b>\$10-25,000</b>	1.28%	\$ 44.65	\$ 97.97	15%
<b>\$25-40,000</b>	1.44%	\$ 38.38	\$ 84.20	13%
<b>\$40-60,000</b>	1.92%	\$ 48.74	\$ 106.94	16%
<b>\$60,000+</b>	2.08%	\$ 140.37	\$ 308.00	47%
<b>Total Collections</b>			<b>\$ 658.27</b>	
<b>Reduction</b>			<b>\$ 300.00</b>	

	<b>Year 4</b>		
Income Bracket	Tax Rate	\$ Reduction	Collections
<b>\$0-10,000</b>	0.45%	\$ 32.51	\$ 28.64
<b>\$10-25,000</b>	0.60%	\$ 52.09	\$ 45.88
<b>\$25-40,000</b>	0.67%	\$ 44.77	\$ 39.43
<b>\$40-60,000</b>	0.90%	\$ 56.86	\$ 50.08
<b>\$60,000+</b>	0.97%	\$ 163.76	\$ 144.24
<b>Total Collections</b>			<b>\$ 308.27</b>
<b>Reduction</b>			<b>\$ 350.00</b>

# QUESTIONS

