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
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QUESTIONS