Improving West Virginia’s Competitiveness: How the Mountain State Matches Up With Our Region Where It Matters Most

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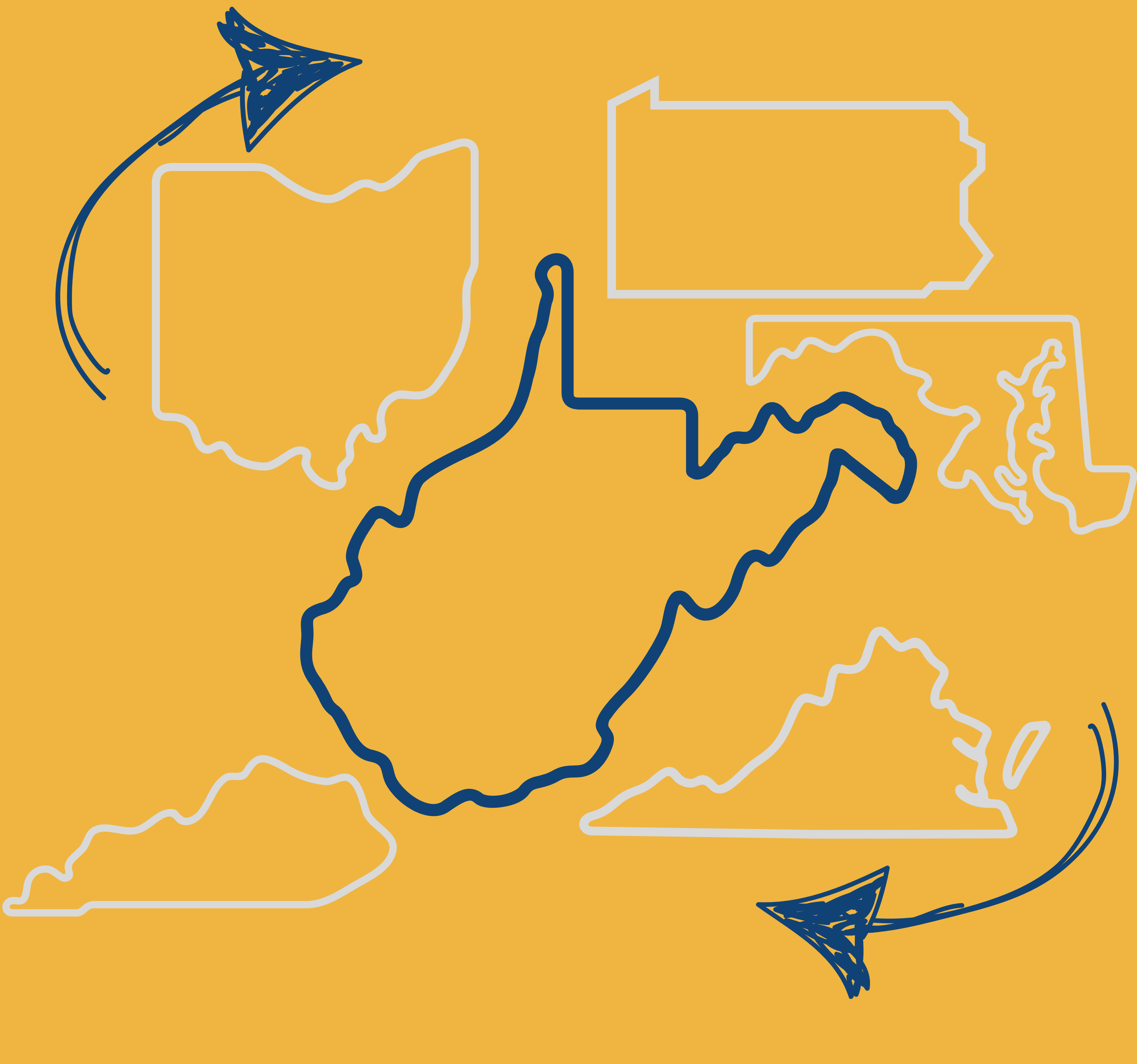

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Introduction

Nearly everyone agrees that policymakers and citizens should do all we can to make West Virginia a place where families and businesses can thrive. Vibrant communities, safe neighborhoods, high-quality education, strong infrastructure, and healthy residents are shared goals for most West Virginians.

Recently the conversation about improving West Virginia has centered almost exclusively on cutting taxes as a means of attracting people and businesses to our state. In fact, we've seen personal income tax cuts enacted three times in the last 18 months, with West Virginia enacting the deepest tax cuts of any state since 2021; this resulted in a larger cumulative impact on state general revenue than the infamous Kansas tax cuts that were quickly rolled back due to public pressure in the mid-2010s.[1]

Now some are arguing for deeper tax cuts—even going so far as to call for the elimination of the state's progressive personal income tax, which still makes up nearly 40 percent of the state's general revenue budget and funds public schools, health care, senior centers, and the day-to-day operations of the state government and agencies.

Centering the conversation about West Virginia's regional competitiveness on tax cuts only looks at one side of the equation. What are the costs to society, families, businesses, and our economy when we have fewer public dollars to invest in services and programs? Safe neighborhoods, high-quality education, infrastructure, and public health are all supported by public investments to fund collectively the things none of us could afford to fund alone.

West Virginia's well-being indicators and public investments, the services and amenities offered to families and businesses, are just as integral to understanding what draws people to a place. After all, taxes are simply the way we pay for our shared priorities and programs that support our people and power our economy. We also have a baseline responsibility to care for those who don't have the resources to care for themselves—children, people with disabilities, and seniors, among others. Tax revenue allows us to do all of these things.

While it is perfectly fair to debate the right levels of taxation and what type of taxes should be collected (including who should contribute and how much), that conversation simply cannot be had without first determining the level of public investments and services people need and want and, by extension, the baseline tax revenue necessary to provide that.

[1] Wesley Tharpe, "States Should Reverse Tax-Cut Spree, Take Brighter Path in 2024," Center on Budget and Policy Priorities, January 24, 2024.

While anti-government organizations and advocates repeatedly point to tax cuts as a way to grow the state's economy and population, that has not borne out historically, particularly in states where deep tax cuts led to the erosion of public services.[2]

Key Findings

- West Virginia is tied for the best overall tax climate among our neighboring states according to the conservative Tax Foundation and has the lowest overall effective tax rate for middle-income households among the states we border.
- The state's tax system is still regressive overall, with the top 1 percent of households paying less in taxes as a share of income than the bottom 80 percent.
- West Virginia had the largest reduction in general revenue fund expenditures of any state in the country between FY 2023 and FY 2024 and is on track to decline again in FY 2025, deeply eroding the state's capacity to provide vital public services.
- FY 2024 marked just the second time in 25 years that West Virginia's nominal state revenue collections declined outside of a recession, largely due to 2023's steep income tax cuts and the subsidence of temporary revenue factors.
- West Virginia spends less than our neighbors per capita on public education, child care assistance, and Medicaid.
- West Virginia has the worst child welfare outcomes in the nation, and a wide body of research shows that child welfare outcomes are correlated with generosity of state spending on safety net programs.
- School bus drivers and educators in West Virginia make far less on average than they could in any neighboring state, driving worker shortages in school districts.
- Tax-flight migration claims are overstated, with the majority of interstate movers reporting they moved because of work or family. Nearly as many people moved from Florida to West Virginia in 2023 as moved from West Virginia to Florida.
- Overzealous tax cuts can have the opposite of the intended effect, making our state less attractive to families and businesses if they undermine the state's ability to provide the high-quality public services that people value.
- Policymakers can raise more than $600 million annually by modernizing the state's income tax brackets and raising corporate and industry tax revenue to strengthen funding for critical public services without raising taxes on the vast majority of West Virginia households, making our tax system fairer for working West Virginians in the process.

[2] Michael Mazerov, "Kansas Provides Compelling Evidence of Failure of Supply-Side Tax Cuts," Center on Budget and Policy Priorities, January 22, 2018.

How Does West Virginia Match Up With Our Region on Taxes?

Proponents of income tax cuts often argue they are necessary to increase West Virginia's competitiveness with neighboring states. These claims tend to be centered on two arguments: a supply-side economic theory that tax cuts will spur economic growth and a claim that Americans are "fleeing" high income tax states for low- or no-income tax states. The validity of these claims will be further addressed later in this report, while this section takes tax cutting proponents' arguments at face value to determine how West Virginia matches up with our region on taxes.

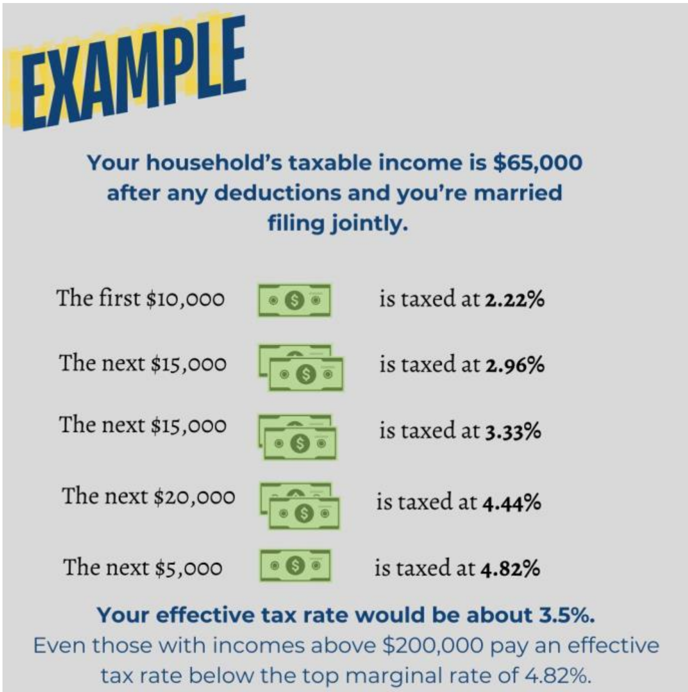
Whether looking at the personal income tax specifically or the entire tax system, West Virginia's tax environment is equal to or better than our neighbors' even prior to 2023's personal income tax cuts.

Each of West Virginia's neighboring states levy a tax on personal income, as do the vast majority of states nationwide. Only nine states have no individual income tax, and those states tend to be much more reliant on other taxes that fall heavily on low- and middle-income households like the sales tax and property tax. Virginia, Ohio, Maryland, and West Virginia all have graduated, marginal personal income taxes, meaning that the rate of tax increases as income increases.

This is notable, because the individual income tax is the state's only progressive tax, which helps balance out the regressivity of the other major taxes. All taxpayers receive the lower rates on earnings below each marginal threshold, which means that all taxpayers–even those above $200,000–pay an effective tax rate below the state's top bracket tax rate of 4.82 percent. The effective rate is the average rate of taxation for all taxable income.

Figure 1: All Taxpayers in West Virginia Pay an Effective Tax Rate Below the State's Top Tax Rate of 4.82 Percent

Hypothetical effective tax rate for a household with taxable income of $65,000

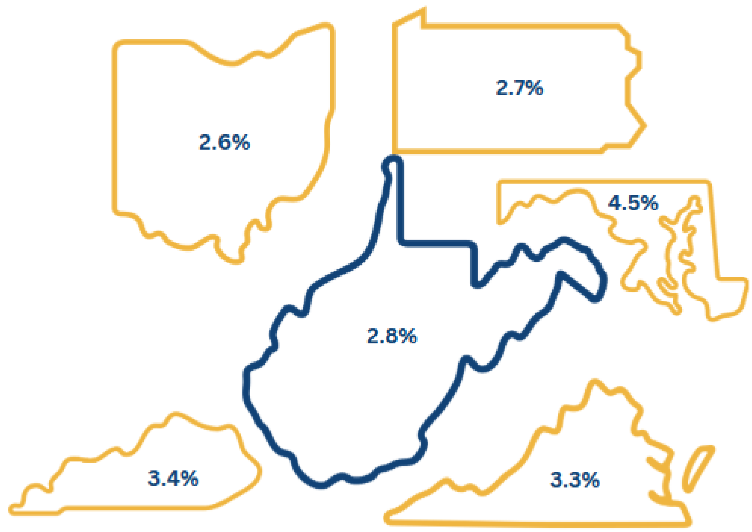


Source: WVCBP analysis of West Virginia tax rates

Examining overall effective tax rates instead of marginal or top tax rates offers the best cross-state comparison. Even prior to 2023's personal income tax cuts, West Virginia's income tax collections as a share of total personal income in the state was nearly equal to or below the average effective income tax rate of our neighboring states (Figure 2).

Figure 2: West Virginia's Effective Income Tax Rate Favorable Compared to Neighboring States' Even Before 2023 Income Tax Cuts

Average effective income tax rate, all households (state and local individual income tax revenue / total personal income), 2022

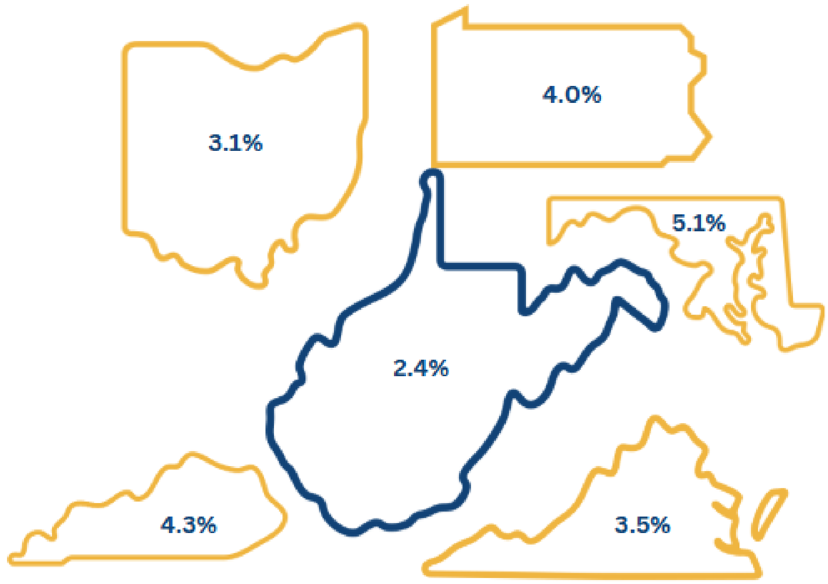


Source: WVCBP analysis of U.S. Census Bureau, Annual Surveys of State and Local Government Finances, and Bureau of Economic Analysis data.

Because Figure 2 compares effective tax rates in 2022—prior to West Virginia's deep 2023 personal income tax cuts—West Virginia's overall effective tax rate is now much lower, likely now below the rate in Pennsylvania, who did not reduce their personal income tax rates since. In fact, according to an analysis by the Institute on Taxation and Economic Policy, West Virginia's effective income tax rate on middle-income families was the lowest among neighboring states in 2024, even before additional income tax reductions were implemented in January 2025 (Figure 3).

Figure 3: West Virginia has the Lowest Effective Income Tax Rate on Middle-income Families After 2023's First Round of Income Tax Cuts

State and local income taxes as a share of middle 20 percent family income, 2024

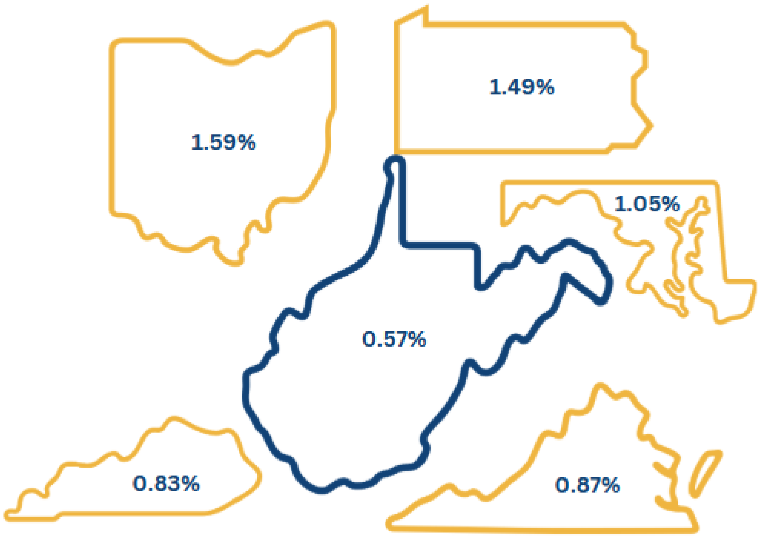


Source: Institute on Taxation and Economic Policy

Despite West Virginia's regional competitiveness in personal income tax rates, that tax alone does not tell us much about the full impact of taxes on families. In addition to the personal income tax, households contribute via property taxes and state and local sales taxes. States without personal income taxes tend to have much higher rates on both of those taxes—and by extension, much higher taxes on low- and middle-income households.

When it comes to property taxes, West Virginia has among the lowest effective rates of any state in the nation, including those without personal income taxes. In fact, Pennsylvania and Ohio, the two states that are closest to West Virginia in terms of effective personal income tax rates in the comparison above, have effective property tax rates that are nearly three times higher than West Virginia's (Figure 4).

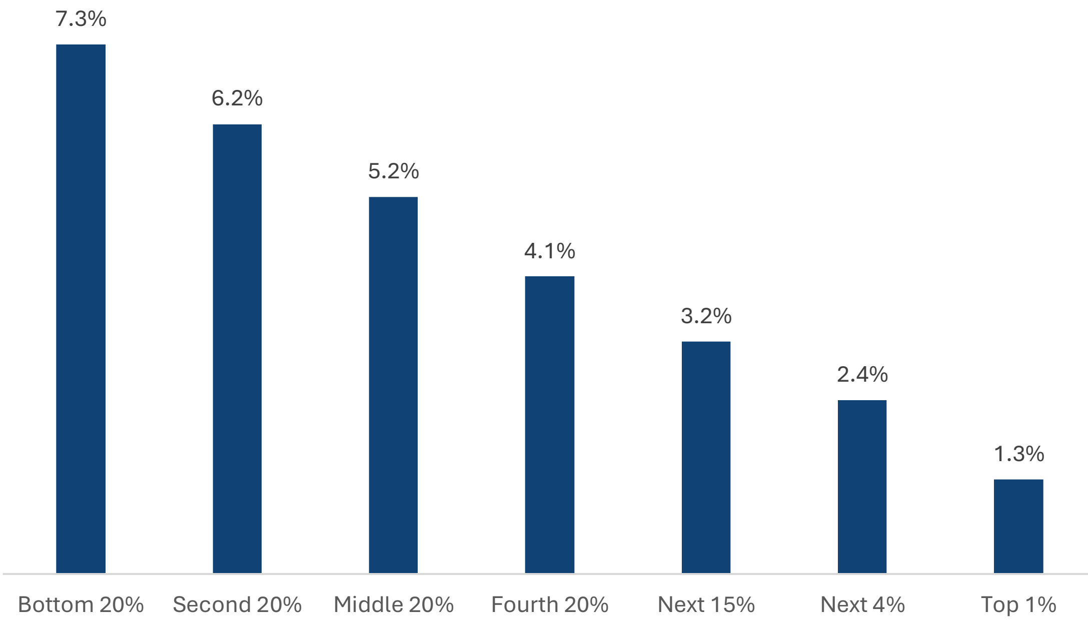
Figure 4: West Virginia's Property Tax Rates Far Below Rates in Neighboring States
Property taxes paid as a percentage of owner-occupied housing value, 2021



Source: Tax Foundation

West Virginia's least competitive tax compared with our region is the sales tax. As mentioned above, the sales tax falls more heavily on low- and middle-income households than on high-income households, since lower-income households generally spend a larger share of their household income on goods and services subject to the sales tax (Figure 5).

Figure 5: West Virginia's Sales Tax is Regressive
West Virginia state and local sales taxes as a share of family income, 2024

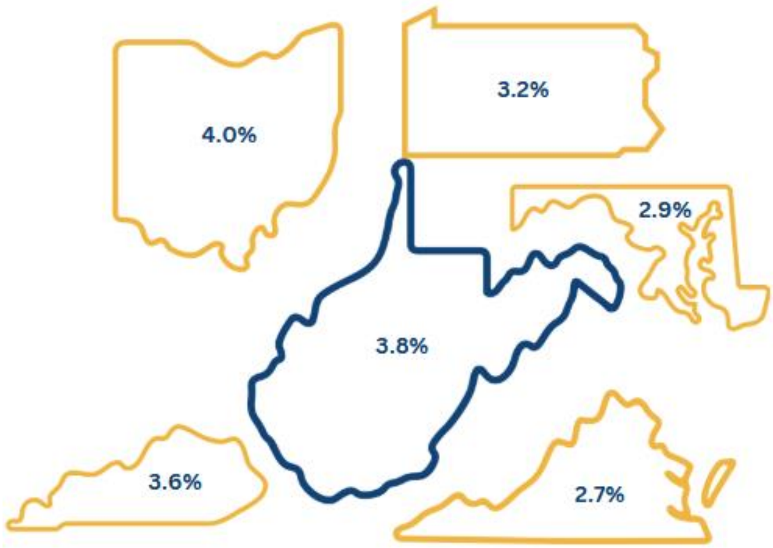


Source: Institute on Taxation and Economic Policy

Overall, West Virginia's effective state and local sales tax rate is higher than that in all but one of our neighboring states: Ohio (Figure 6).

Figure 6: The Sales Tax is West Virginia's Least Competitive Tax

Average effective sales tax rate (state and local sales tax revenue / total personal income), 2022



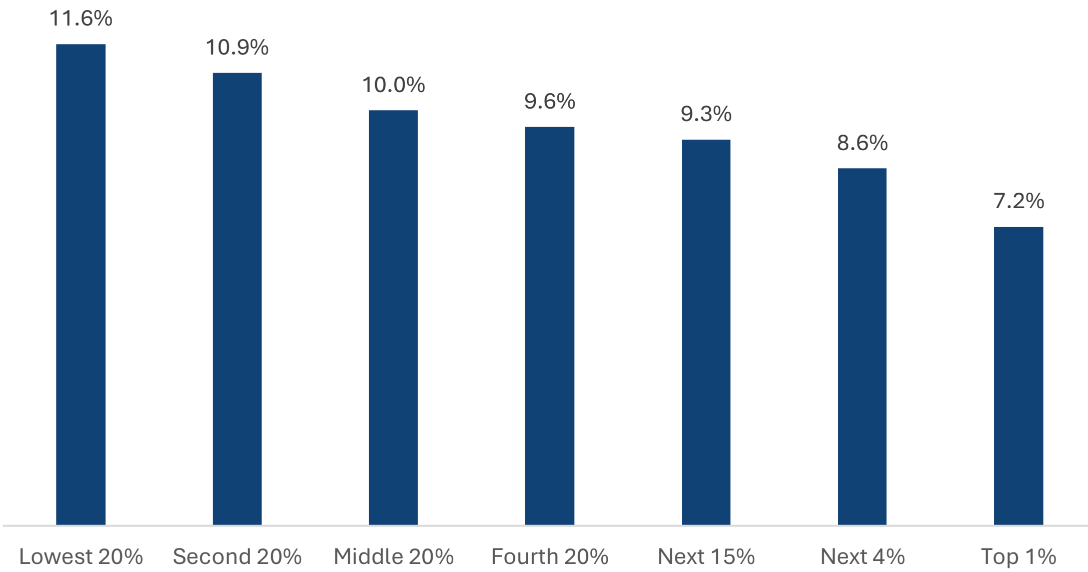
Source: WVCBP analysis of U.S. Census Bureau, Annual Surveys of State and Local Government Finances, and Bureau of Economic Analysis data.

West Virginia's budget has grown more reliant on the sales tax as the personal income tax has been cut. Sales tax revenue accounted for 28.8 percent of the general revenue fund in FY 2019. That share is estimated to increase to 35.0 percent in FY 2025. Meanwhile, cuts to the personal income tax have resulted in its share of total general revenue falling from 44.1 percent in FY 2019 to an estimated 38.4 percent in FY 2025.

West Virginia's prioritization of income tax cuts and, by extension, increased reliance on the sales tax has made the state's internal tax system more inequitable. According to the Institute on Taxation and Economic Policy's Tax Inequality Index, West Virginia has the 28th most regressive tax system in the country, where the top 5 percent of income earners pay less in taxes as a share of income than the bottom 80 percent. This inequity has only increased since 2023's tax cuts, which caused the state to rise from 37th most regressive to 28th. Put another way, West Virginia's tax system has become more regressive than nine additional states since the implementation of 2023's tax cuts. If lawmakers wanted to make the tax system fairer to the vast majority of West Virginia families, they could focus on rebalancing the existing upside-down tax system through a suite of tax policy options that will be discussed later in this report.

Figure 7: West Virginia's Tax System Is Upside-down, With the Wealthiest Households Paying the Least in Total Taxes

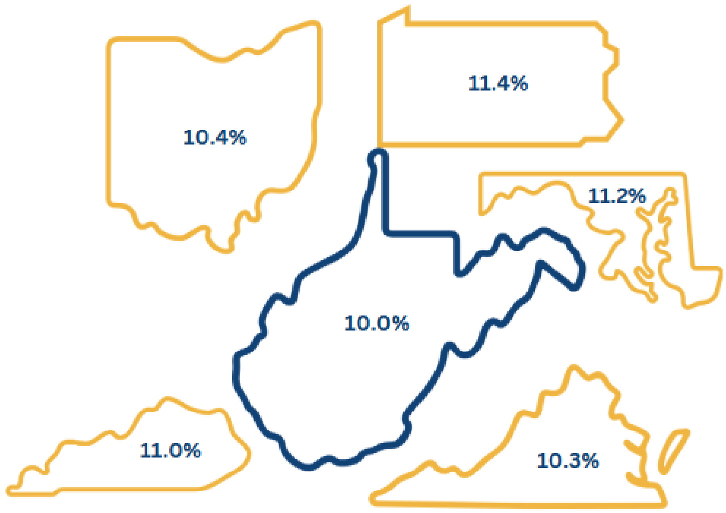
Total state and local taxes as a share of income by quintile, 2024 tax rates



Source: Institute on Taxation and Economic Policy

Despite having a regressive tax system overall (when accounting for all state and local taxes paid by middle-income families, including personal income taxes, real and personal property taxes, and sales taxes), West Virginia's overall effective rate was the lowest among its neighboring states in 2024, even before the additional six percent income tax cut was implemented in January 2025 (Figure 8). In fact, West Virginia ranks higher on the conservative Tax Foundation's 2025 State Tax Competitive Index than all of our neighboring states except Kentucky, which is ranked just one spot ahead of West Virginia.

Figure 8: Overall Taxes are Lowest in West Virginia Compared to Neighboring States
Total state and local taxes as a share of middle 20 percent family income, 2024



Source: Institute on Taxation and Economic Policy

How Does West Virginia Match Up With Our Region on Public Services and Well-being Outcomes?

While much attention has been paid to West Virginia's "tax climate" rankings, there are also many other worthy comparison metrics that examine critical aspects of our state's competitiveness and climate, including the well-being of our people.

Each year, the Annie E. Casey Foundation releases a KIDS COUNT Data Book, looking at state trends in child well-being. In 2024, West Virginia ranked 44th overall for child well-being, the worst of any state in our region. Only one state without an individual income tax, New Hampshire, appears in their top 15 states for child well-being.[3]

[3] Annie E. Casey Foundation, "2024 KIDS COUNT Data Book," 2024.

West Virginia's race-to-the-bottom strategy of enacting the largest tax cuts of any state in our region has already come with significant costs to our people, workers, and businesses. After several years of West Virginia lawmakers holding the state budget "flat" in order to create space for tax cuts, the level of services the state is able to provide has declined dramatically, resulting in highly visible crises and harm around the state.

The effects of eroding the state budget can be seen in overall general revenue spending in West Virginia compared with our neighboring states. In FY 2019, West Virginia's enacted budget spending was largely in line with our neighboring states, with enacted general revenue budget spending of $2,443 per capita, slightly behind the regional average of $2,647 per capita.

But in FY 2025 and after several years of flat budgets, West Virginia's enacted general revenue budget allocated $2,929 per capita, 23 percent less than the regional average of $3,780 per capita and far less than every state in our region (Figure 9).

What is a Flat Budget?

Responsible budgeting requires accounting for the impact of inflation on the cost of goods and services. Inflation reduces the purchasing power of money for the state just like it does for households, because the state also pays for health care, prescription drugs, gas, rent, and utilities.

By decoupling budget forecasting from inflationary factors and holding the state budget flat rather than adjusting it in line with inflation, the state's dollars go less far, meaning state programs and agencies are essentially operating with smaller and smaller budgets each year.

Figure 9: West Virginia's Per Capita Spending Has Fallen Behind After Years of Flat Budgets

Enacted general revenue budgets divided by state population, FY 2019 and FY 2025

State	FY 2019	FY 2025
WV	**$2,442.87**	**$2,928.56**
KY	$2,566.18	$3,573.14
MD	$2,897.74	$4,192.82
OH	$2,821.67	$3,788.31
PA	$2,530.24	$3,660.78
VA	$2,421.39	$3,684.23
Regional Average	$2,647.45	$3,779.86

Source: WVCBP Analysis of NASBO Summaries of Governors Enacted Budget Reports, FY 2019 and 2025

West Virginia also saw a much steeper reduction in general revenue expenditures than other states in the fiscal year when the first round of income tax cuts went into effect. West Virginia has the largest general revenue fund expenditure decline of any state between FY

2023 and FY 2024, with state general revenue fund spending declining by 16.6 percent, compared with the national average of 7.7 percent growth.[4]

FY 2024 marked just the second time in 25 years that West Virginia's nominal state revenue collections declined year-over-year outside of a recession. On average, state revenues grew by about 2.7 percent per year between 1999 and 2019, allowing the budget to keep pace with inflationary cost growth. In FY 2024, revenue collections shrunk by 12 percent. That experience is not unique to West Virginia—many states saw revenue collections decrease as federal pandemic-era funding expired and energy prices declined. But West Virginia is expected to have a second year of revenue decline in FY 2025, shrinking by another 7.8 percent, while state general revenue funds nationwide are expected to grow by 1.9 percent.[5] West Virginia has not experienced two consecutive years of revenue decline in 25 years outside of a recession. What's more, the declines in FY 2024 and FY 2025 are much deeper than any in recent history, including the years of the Great Recession.

The erosion of state spending is clear in a number of programs and services the state provides.

Public Education

The 2024-25 school year has brought a number of high-profile closures and consolidations of public schools in West Virginia affecting all corners of the state from Kanawha to Tucker counties. State school officials have said two dozen schools could be closed after this year, an alarming record for West Virginia.[6] While many of the closures and consolidations were blamed on declining state population and enrollment, policymakers have failed to prioritize the new investments in public education necessary to keep community schools open and address the changing needs of students.

The disinvestment in public schools is reflected through budgeting, with West Virginia spending less per pupil on public education than any state in our region except for Kentucky, according to the most recent data available. The next closest state, Virginia, spends $1,200 more *per student* in state and local education spending (Figure 10).[7]

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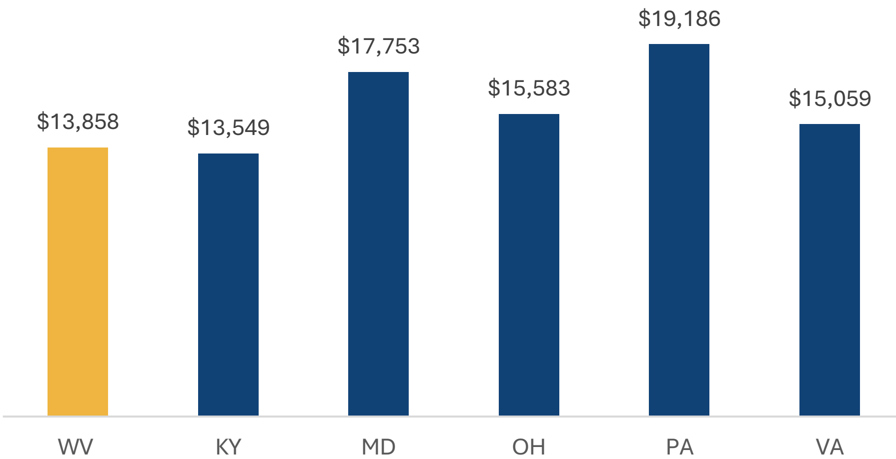
[4] National Association of State Budget Officers, "2024 State Expenditure Report."
[5] National Association of State Budget Officers, "The Fiscal Survey of States," Fall 2024.
[6] Mark Curtis, "More Concerns Raised About Additional School Closures, Consolidations in West Virginia," *WOWK TV*, December 2, 2024.
[7] US Census Bureau, Public Elementary-Secondary Education Finance Data, 2022.

Figure 10: West Virginia's Per Pupil Public Education Spending Lags Behind Our Neighbors'

Per pupil state and local spending, public education, SY 2022



Source: US Census Bureau, Public Elementary-Secondary Education Finance Data, 2022

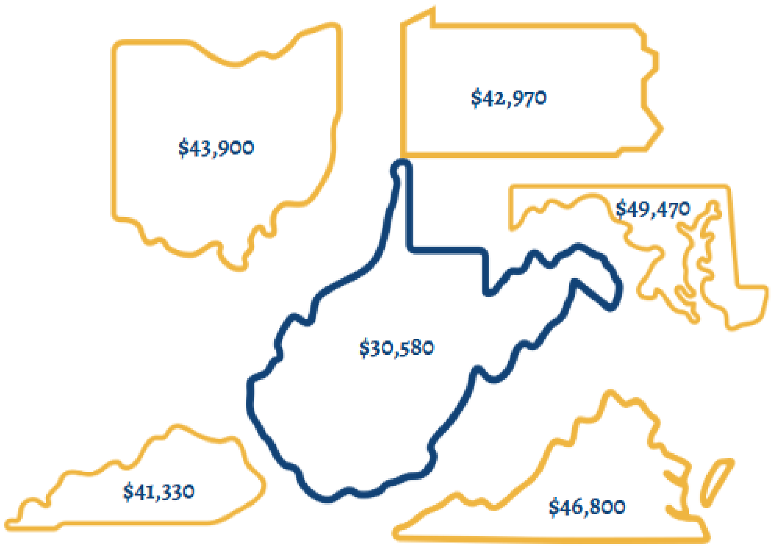
The deficit in overall per pupil spending can be seen in the resources dedicated to key parts of our public education system. West Virginia spends $1,000 less per pupil on instructional services than the national average and $2,000 less per pupil on student support staff. West Virginia also spends less than the nation and our region on school and district administrative costs. The only area where West Virginia spends more per pupil than the national average is on transportation costs, which is largely due to our state's rural and rugged geography.[8]

As a result of less investment in instructional and support staff, pay in these areas fails to be competitive with our region. The average annual wage for a school bus driver in West Virginia is $30,580, far below the average wage nationally or in any state in our region (Figure 11). Similarly, teacher pay in West Virginia ranks far below that in any neighboring state, to the point where qualified teachers could cross the state border and increase their pay by as much as 50 percent.[9]

[8] WVCBP analysis of Public Elementary-Secondary Education Finance Data, 2022.

[9] WVCBP analysis of Bureau of Labor Statistics Occupational Employment and Wages data.

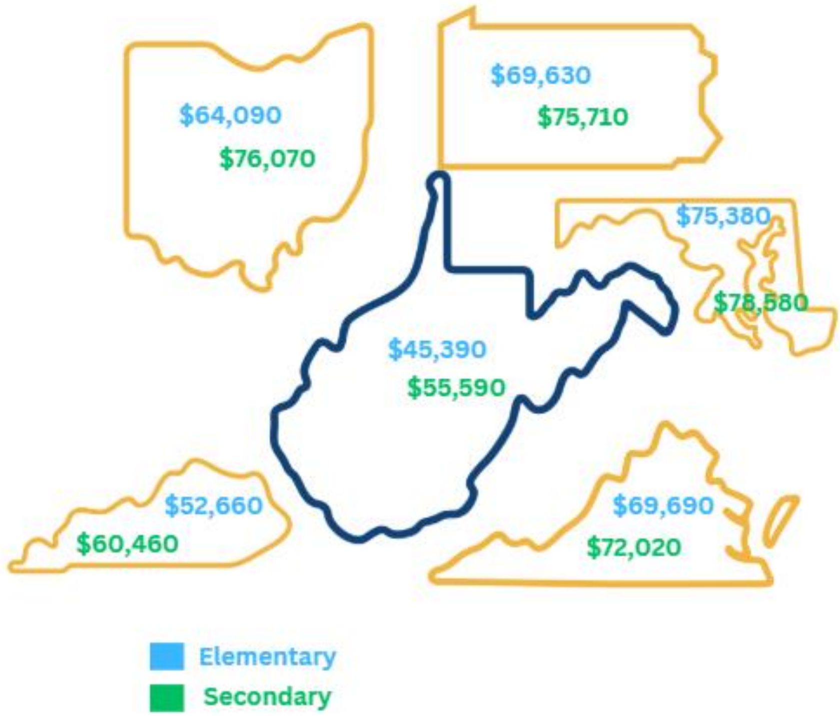
Figure 11: School Bus Driver Pay in West Virginia Ranks Last in Region
Annual mean wage of school bus drivers by state, May 2023



Source: Bureau of Labor Statistics, Occupational Employment and Wages

Average pay for elementary and secondary school teachers is also the lowest in our region. On average, elementary educators make $45,390 annually and secondary educators made $55,590, the lowest average in our region by a significant margin (Figure 12).

Figure 12: Educator Pay in West Virginia Ranks Last in Region
Annual mean wage of elementary and secondary education teachers (non-special education) by state, May 2023



Source: Bureau of Labor Statistics, Occupational Employment and Wages

Child Welfare

A wide body of research shows that child welfare outcomes are improved when states invest in primary and economic support programs including Medicaid, economic tax credits, and cash and food assistance.[10] One analysis found that child maltreatment is inversely proportional to state spending on these programs or, put another way, states that invest more in primary and safety net supports have better child welfare outcomes.[11] West Virginia tends to have lower investments in programs that increase child well-being than our neighboring states or forgo them altogether.

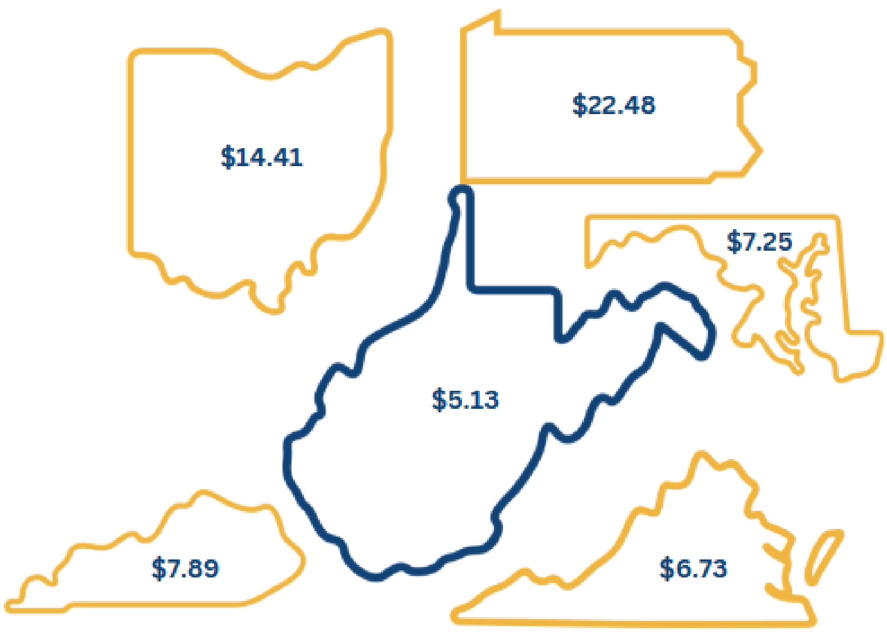
West Virginia spends less per capita than any state in the region on child care and development (Figure 13) and, in fact, has reduced its state general revenue expenditures on

[10] Dana Weiner, et al, "Addressing Economic Hardship Key to Preventing Child Welfare System Involvement," Chapin Hall, 2021.
[11] Henry T. Puls, et al., "State Spending on Public Benefit Programs and Child Maltreatment," *American Academy of Pediatrics,* November 2021.

child care over the last decade from $16.9 million to $8.8 million, before adjusting for inflation.[12] Research shows that access to high-quality child care boosts employment and earnings, reduces absenteeism and turnover, and increases productivity, all of which would positively impact our state's economy.[13]

Figure 13: West Virginia's Per Capita State Spending on Child Care Lags Behind All Neighbors'

State general revenue budget child care allocations per capita, FY 2023 expenditures and population estimates



Source: WVCBP analysis of FY 2023 state general revenue and operating budgets, the Administration for Children and Families, and U.S. Census Bureau population data

West Virginia also spends less than our neighboring states on Medicaid when looking at per enrollee annual cost (Figure 14).[14] While this is not necessarily a negative, it shows that claims about reckless Medicaid spending in the state are likely unfounded, whereas additional Medicaid investments could help West Virginia expand services and reimbursement rates to help children and families increase their health and well-being. It should be noted that approximately three-fourths of Medicaid funding is federal, and the per enrollee spending costs in Figure 14 are inclusive of both state and federal Medicaid contributions.

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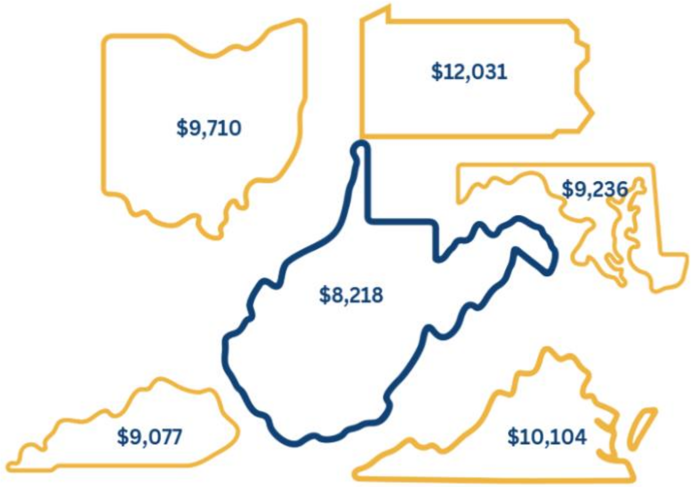
[12] WVCBP analysis of West Virginia budget, FY 2015 and FY 2025.
[13] Hailey Gibbs, "4 Reasons the U.S. Economy Needs Comprehensive Child Care," Center for American Progress, May 24, 2022.
[14] Medicaid and CHIP Payment and Access Commission, "MACStats: Medicaid and CHIP Data Book 2024."

Figure 14: Medicaid Per Enrollee Spending in West Virginia is Below That in All Neighboring States

Medicaid benefit spending per full-year equivalent enrollee by state, FY 2022



Source: Medicaid and CHIP Payment and Access Commission

Additional policies that strengthen child well-being and child welfare include tax credits that boost family economic security like Child Tax Credits (CTCs) and Earned Income Tax Credits (EITCs). Paid family and medical leave benefits for workers also strengthen birth outcomes, parental bonding, and child welfare. West Virginia has not adopted any of these policies that would make the state more attractive and welcoming for families, but some of our neighbors have. Maryland, Virginia, and Kentucky have all adopted paid family and medical leave programs, though Maryland's program has much stronger protections and wider access.[15] Maryland also offers a state-level CTC. Ohio and Maryland have adopted EITCs.

West Virginia's lack of competitive child and family policies comes with real moral and societal costs for our people. West Virginia has the worst child welfare outcomes not only among our neighbors, but nationwide. West Virginia's rate of maltreated children is higher than that in any of our neighboring states, but where we particularly stand out is in the rate of children who enter foster care. West Virginia places children into foster care at a rate four times the national average rate and nearly three times the rate of the next closest state in our region (Figure 15). For West Virginia families, there are too few supportive safety nets to help them weather the economic and health shocks that often drive abuse and neglect allegations.

[15] Bipartisan Policy Center, "Explainer: State paid family leave laws across the U.S.," Retrieved on January 28, 2025 from https://bipartisanpolicy.org/explainer/state-paid-family-leave-laws-across-the-u-s/.

Figure 15: West Virginia's Child Welfare Outcomes are Worst in the Region
Rate of maltreated children and rate of foster care entry, rates per 1,000 children, 2021

State	Rate of Maltreated Children Per 1,000 Children	Rate of Foster Care Entry Per 1,000 Children
WV	15.6	13.0
KY	12.3	5.0
MD	4.8	1.1
OH	8.7	3.7
PA	1.9	2.8
VA	2.4	1.2
US	7.6	2.8

Source: Child Trends, 2021 analysis

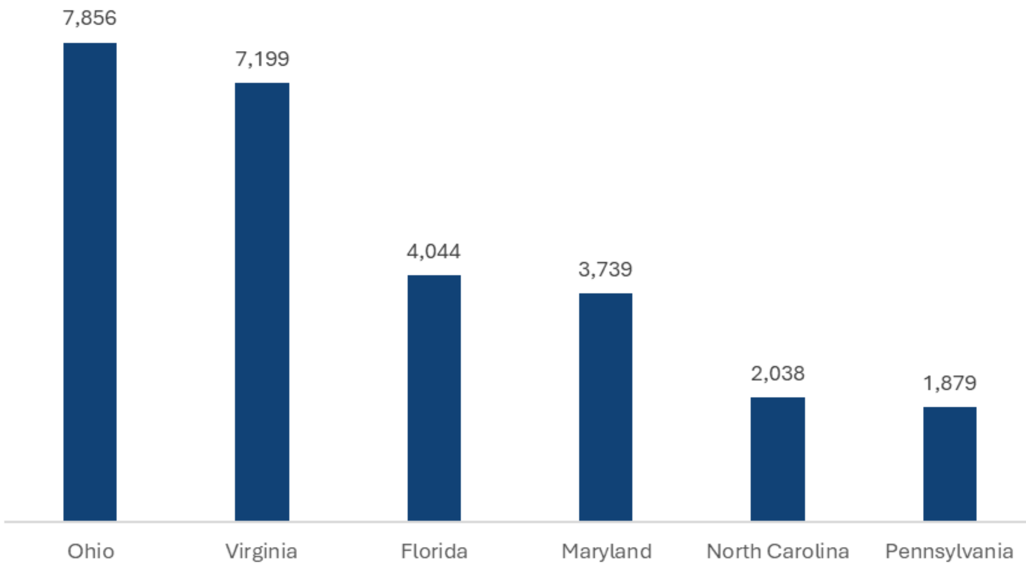
Do Tax Rates Drive Migration?

While reversing West Virginia's population loss is often an argument from anti-tax advocates, the best data available shows that most West Virginians who move out of state simply move to a nearby state. This squares with national data, which shows that rather than tax rates, a large majority of people who do move (68 percent in 2020) cite job- and family-related reasons as the primary motive for their move.

In 2023, most people who left West Virginia for another state went to neighboring Ohio, with 7,856 movers, or 19.1 percent of total out of state movers. Virginia, Florida, Maryland, North Carolina, and Pennsylvania were the other states that saw the largest numbers of movers from West Virginia (Figure 16).

Figure 16: Most Out of State Movers Move to a Nearby State

Top states for people moving from West Virginia in 2023

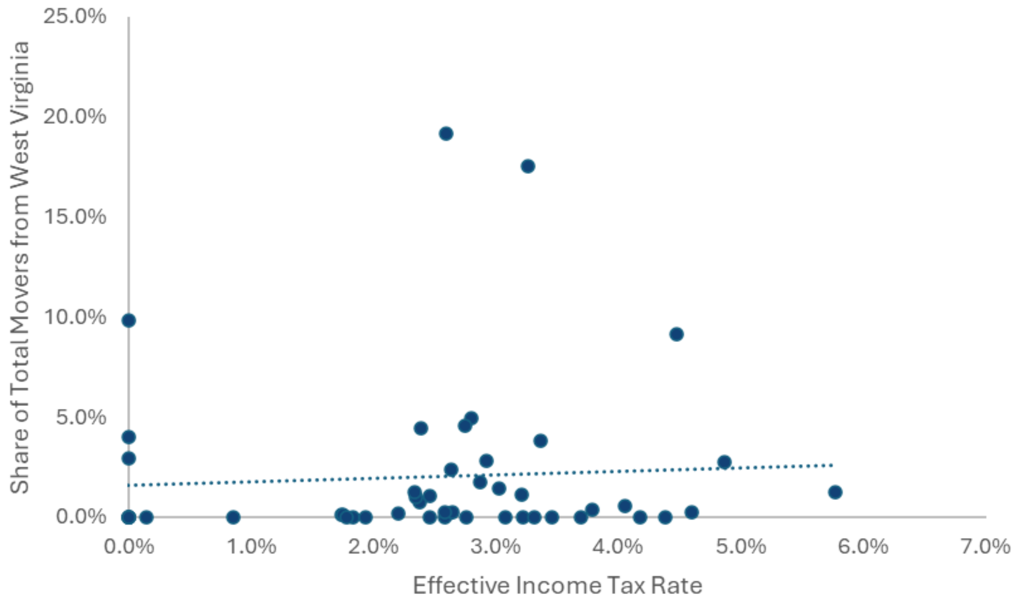


Source: 2023 American Community Survey, State-to-State Migration Flows

When looking at movers from West Virginia to all other 49 states, there is no relationship between the amount of movers and effective income tax rates, even for states with no income taxes. To exemplify, nearly as many West Virginians moved to the relatively high income tax state of California (1,125) as moved to the no income tax state of Texas (1,194). The reality is that there was nearly no correlation between where the most West Virginians moved and effective income tax rates in those states (Figure 17).

Figure 17: West Virginians are Not Fleeing to Low Income Tax States

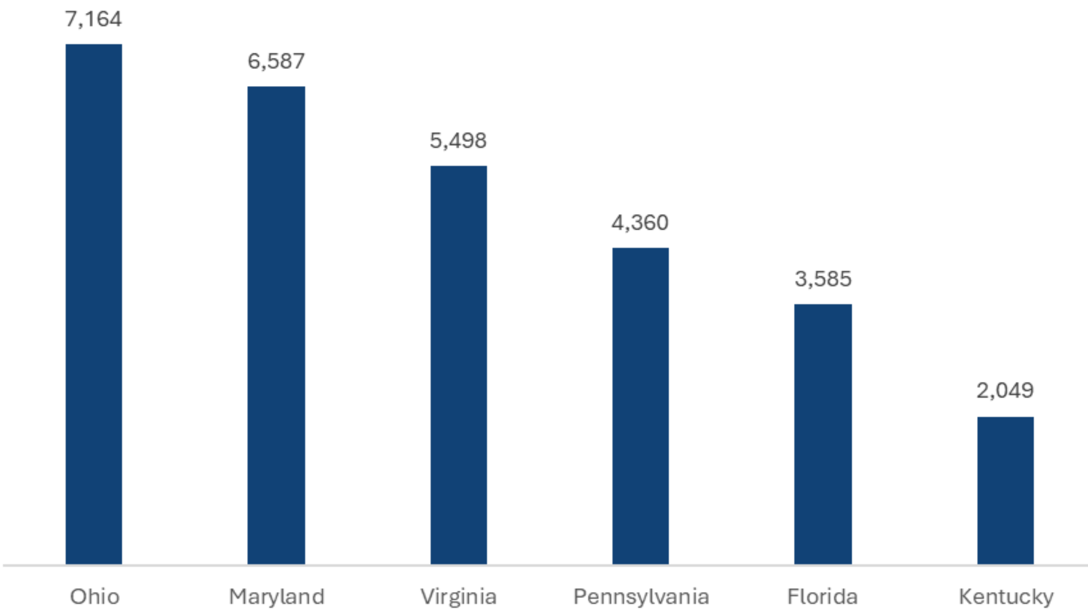
Share of out of state movers and effective income tax rates in moved-to states, 2023



Source: 2023 American Community Survey, State-to-State Migration Flows, U.S. Census Bureau Annual Survey of State and Local Government Finances, and Bureau of Economic Analysis

The same is true for those moving to West Virginia from other states. According to U.S. Census Bureau estimates, in 2023, 42,020 people moved to West Virginia from another state. Again, most of these movers came from nearby states, with the most coming from neighboring Ohio (7,164 movers to West Virginia, or 17.0 percent of all movers to the state). Maryland, Virginia, Pennsylvania, Florida, and Kentucky were the other states that saw the largest numbers of movers to West Virginia (Figure 18).

Figure 18: Most Movers to West Virginia are From a Nearby State
Top states for people moving to West Virginia, 2023



Source: 2023 American Community Survey, State-to-State Migration Flows

While Florida is often touted as a no income tax state that residents are fleeing to, nearly as many people moved to West Virginia from Florida (3,585) as moved to Florida from West Virginia (4,044) in 2023.

In recent years, West Virginia's population decline has been explained by a trend of more West Virginians dying than being born, numbers that far outpace our positive net migration.[16] In addition to growing our population by attracting residents from out of state, we must prioritize policies that address poor health outcomes for those who already live here, as that is a far greater driver of the state's population loss. Improving West Virginia's health outcomes would help both current residents and make the state more welcoming and attractive for new families and businesses.

Do Low Income Tax States Experience More Economic Growth?

The other frequent argument from lawmakers and advocates who support cutting income taxes is that doing so will spur economic growth. However, several studies have debunked this claim. Analyses by the Institute on Taxation and Economic Policy found that broadly, the states with the highest personal income tax rates experienced faster economic growth,

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[16] Curtis Tate, "Deaths Outnumbered Births In State In 2023, Offsetting New Residents," *West Virginia Public Broadcasting*, December 20, 2023.

faster per capita income growth, greater GDP growth, greater prime age workforce participation, and lower unemployment rates than the states without a personal income tax.[17] Again, this aligns with common sense when considering that adequate tax revenue helps support health care systems, public and higher education, and infrastructure investments, all of which strengthen economies and help individuals and businesses.

Overly zealous tax cuts can have the unintended effect of making a state less appealing to families and businesses, particularly if they lead to the deterioration of education, public safety, parks, roads, and other critical services and infrastructure, the erosion of which makes a state a less desirable place to live, work, raise a family, and locate business.

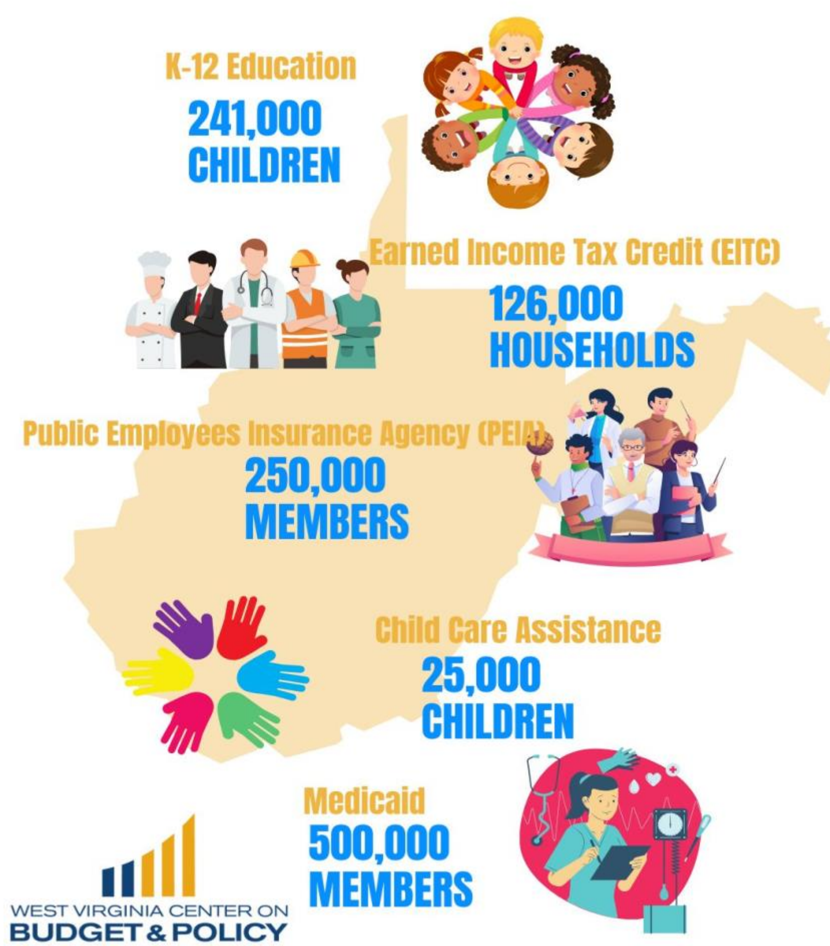
Recommendations

Following years of deep tax cuts and austerity, a combination of slowing revenues and neglected spending needs means that West Virginia policymakers are at a critical crossroads. After years of an administration that failed to prioritize long-term budget planning, new Governor Patrick Morrisey has confirmed that the state is facing a structural budget deficit, meaning that using one-time money to patch holes this year will not address the state's broader revenue problem.

While conservative lawmakers have generally been unwilling to consider raising revenue, it is clear that must be part of the discussion in order to avoid deep cuts to programs and services that nearly all West Virginians rely upon. And while difficult, this presents an opportunity

Figure 19: State Public Services Impact Most West Virginia Households

Estimated impact of various state programs, 2025



[17] Carl Davis, "Another Reason to Tax the Rich? States with High Top Tax Rates Doing as Well if Not Better," Institute on Taxation and Economic Policy, September 23, 2020.

to rebalance our overall tax code in West Virginia and make it less upside down, whereas the 2023 tax cuts made it more inequitable for low- and middle-income households. To be clear, West Virginia can raise the necessary revenue to fund vital state programs without raising taxes on the vast majority of West Virginians.

By prioritizing raising revenue, West Virginia can improve our standing among the states in our region and better serve the families and businesses who already live here. By doing so, they will improve the lives of the vast majority of households in our state, while the revenue they raise will impact very few households and big industries and corporations, who should pay more to fix our upside-down tax system. Figure 20 includes a few options lawmakers could consider to close revenue gaps and improve funding for vital state programs.

Figure 20: Lawmakers Could Improve and Fund Higher Quality Public Services to More Households and Businesses with Revenue Enhancements

Menu of possible budget improvements and expansions

Service or Program	New Funding	Improvement
Medicaid	$160 million	Close current budget gap and maintain services
PEIA	$150 million	Close current budget gap and improve services
K-12 Public Education	$150 million	Increase funding for public education, including increasing funding to get staffing for social workers, nurses, and special education teachers to recommended ratios
Child Care Assistance	$100 million	Subsidize 5,000 additional slots and raise reimbursement rates for providers
TOTAL	**$560 million**	

Source: WVCBP analysis of West Virginia State Budget and Program data

Lawmakers can fund the above improvements through the enactment of the following revenue-raising options.[18]

[18] All revenue raising options from the Institute on Taxation and Economic Policy, January 2025.

$353 Million: Modernize State Income Tax Brackets and Enact an Earned Income Tax Credit

Before 2023's income tax cuts, West Virginia's personal income tax schedule had not been changed since 1987, when the state's top personal income tax rate was reduced from 13 percent to 6.5 percent. The brackets themselves have not changed since 1987, with the new top rate of 4.82 percent applying to all income above $60,000, which is just above the median household income of $57,917. The following proposal to modernize our tax brackets and rates would better reflect current income levels by keeping the new lower rates on lower brackets and adding new high-income brackets and rates (Figure 21).

Figure 21: West Virginia Can Modernize its Tax Brackets to Reflect Current Income Levels and Raise Much Needed Revenues

Current marginal tax rates compared with new proposed rates

Income Bracket	Current Marginal Tax Rates	New Proposed Marginal Tax Rates
$0 - $10,000	2.22%	2.22%
$10,001 - $25,000	2.96%	2.96%
$25,001 - $40,000	3.33%	3.33%
$40,001 - $60,000	4.44%	4.44%
$60,001 - $100,000		4.82%
$100,001 - $200,000	4.82%	7.0%
Above $200,000		8.0%

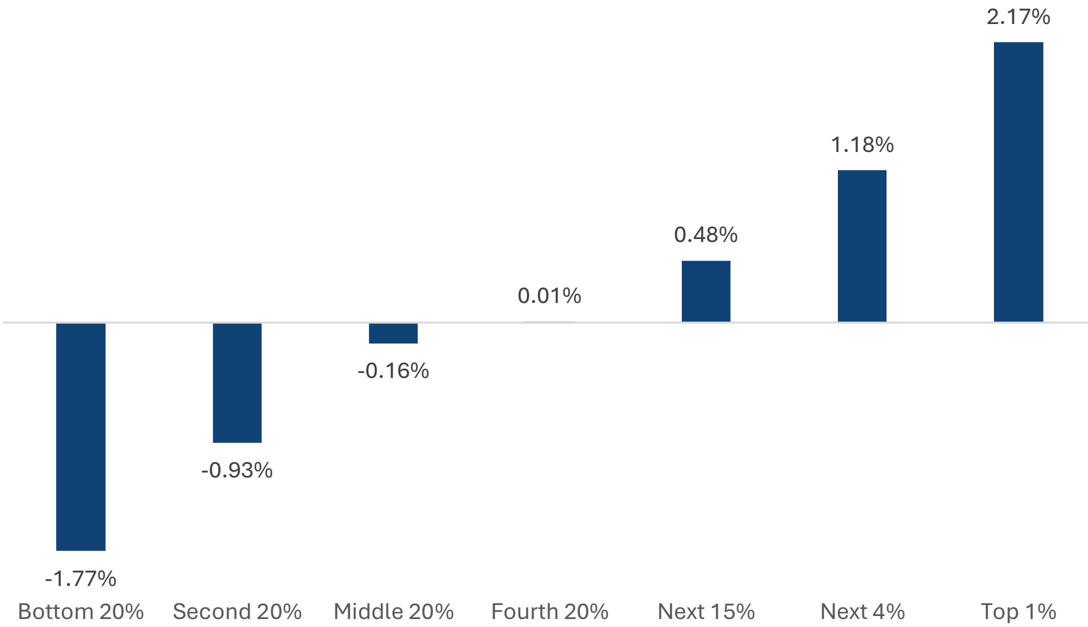
Source: Institute on Taxation and Economic Policy

This proposal would not raise taxes on any household with annual incomes of $100,000 or lower. In fact, it would provide a tax cut for 60 percent of residents by adding a fully refundable Earned Income Tax Credit (EITC) worth 25 percent of the federal credit, returning $648 on average to more than 126,000 eligible households.

These changes would raise $353 million annually in new revenue for the state, only raising taxes on income above $100,000, giving West Virginia one of the most balanced income tax systems in the country (Figure 22).

Figure 22: Average Tax Change as a Share of Income from Modernizing West Virginia's Income Tax Brackets, by Quintile, 2025 Incomes

New bracket structure, adding two new brackets, taking top rate to 8.0 percent, and enacting a fully refundable EITC worth 25 percent of the federal credit



Source: Institute on Taxation and Economic Policy

$122 Million: Increase the Corporate Net Income Tax Back to 2007 Levels of 9 Percent

Between 2007 and 2015, West Virginia reduced its corporate net income tax (CNIT) from 9 percent to 6.5 percent. Despite promises from proponents at the time, West Virginia had far slower job growth than the nation in the eight years that followed. Most of the CNIT is paid by firms outside of West Virginia and their shareholders—who also live mostly outside of West Virginia and have very high incomes. Increasing the CNIT back to 2007 levels would raise an estimated $122 million.

$123 Million: Strengthen Severance Tax Collections by Eliminating Tax Preferences

Tax preferences provide exclusions or special variation provisions from regular tax rates. In West Virginia, coal operators pay a reduced severance tax on thin-seam coal and steam coal. Together, eliminating these tax preferences would raise an estimated $123 million, which could help fund programs that offset the negative externalities of coal extraction on the environment and public health.

$70 Million: Legalize and Tax Recreational Cannabis

Twenty-four states and the District of Columbia have legalized cannabis for recreational use. Depending on usage and the tax rate, West Virginia could raise an estimated $70 million by legalizing and taxing recreational cannabis.

Total Potential Revenue: $668 Million

Without raising additional revenue, lawmakers will likely face challenging decisions in the upcoming budget process about making cuts to important state programs that serve most of their constituents or being forced to use one-time rainy day funds that fail to adequately address the state's ongoing, structural revenue problem. While all new lawmakers come into office with their own legislative and spending priorities, in the current environment they will have too few resources to make much-needed investments that improve West Virginia's competitiveness with our neighbors in terms of the public services we provide that support families, businesses, and our broader economy. Lawmakers should seriously consider taking the opportunity to rebalance the state's tax system, simultaneously raising the revenue needed to fund vital state programs.

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