

# West Virginia Tax Reform Revisited

*Submitted by Emily Lambricht, Member of the Taxation Committee*

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After a hiatus of several years, political leaders in West Virginia have, again, embarked on a comprehensive review of the State's tax structure with an eye to reform. Thus, under the authority of Senate Current Resolution No. 31, adopted by the West Virginia Legislature in its 2015 regular session, a Joint Select Committee on Tax Reform was appointed and has, over this summer, conducted numerous hearings.

As of mid-August, 2015, the Committee has held five (5) day-long public hearings during which they heard presentations from both current and past Department of Revenue officials, former tax reform commission members, representatives of national tax policy organizations and consultants, academics, municipal and county government officials, local government association representatives, private tax practitioners and industry representatives. The topics covered by those presentations have included a historic review of the evolution of the State's tax structure, a detailed description of the current structure and the State's current fiscal condition, a summary of past tax reform projects, descriptions of national state and local tax policy trends and best practices and, most significantly, the challenges the current structure presents to State and local governments and to both individual and business taxpayers.

With seven (7) more meetings of the Committee tentatively scheduled over the remaining months of this year (starting on August 17), the Committee's thoroughness and deliberate approach is apparent and reflects an open-minded inquiry, an absence of any pre-ordained agenda and, most of all, the difficulty of the task it has undertaken.

At the onset, the Committee will have to resolve an inherent mismatch of objectives among those to whom tax reform and simple tax relief are interchangeable and others who aspire to a more thorough and substantive correction of the systemic flaws of the current structure. At the same time, both camps of "reformers" will be vigorously opposed both by the members of the tax expenditure community (i.e. government bodies and those, such as public employees, benefit recipients and private vendors and contractors who depend on them financially) and by others who can always be counted on to, by rote, defend the status quo regardless of the circumstance. Then, once concrete proposals are offered and considered, the Committee will need credible answers to the questions typically inspired by tax reform proposals: "how are you going to pay for that?" and "what do other states do?" Indeed, that this work is being undertaken in the context of the serious fiscal challenges the State is presently facing,

due, in large part, to the projected continuing decline in revenues from natural resources production taxes and the need for major highway renovations, makes its task all the more daunting.

Though an in-depth discussion of them is far beyond the scope of this article, to date, the most likely proposals for tax reform are: (1) relief from the uncompetitive tax on business tangible personal property (inventory, machinery and equipment); (2) extended homestead property tax relief for seniors living in their own homes (despite the fact that West Virginia's tax on owner-occupied residences is the lowest in the U.S.); (3) rate relief from the nation's highest coal severance tax; (4) elimination of many sales tax exemptions (possibly including some professional fees) as a part of comprehensive reform of the entire structure and a move to primary reliance on consumption taxes allowing, in turn, major reduction or even elimination of personal income taxes; and (5) devolution of both revenue-raising authority and expenditure responsibility to local governments (counties and municipalities) in a broad expansion of the baby steps taken so far toward home rule. As to the last of those items, the potential inter-play between reallocation of taxing power to local government and the need for massive secondary road repairs and upgrades will not be lost on the Committee.

Finally, it is clear that the success of the Committee's work will depend, in large part, on the willingness of those on both sides of the public expenditure debate to recognize that, regardless of the optimum resolution of those questions, a simpler, more fair, neutral, competitive and efficient tax system is essential. Thus, both to support investments in our state's human and public capital, and to stimulate the private sector growth needed for the emergence of West Virginia from the economic basement of this country, we need a constructive, creative and open-minded approach to tax reform.

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