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The Challenge of West Virginia's Tax on Inventory, Machinery and Equipment

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Rebecca R. McPhail became President of the West Virginia Manufacturers Association in 2013. In this role, she represents manufacturers from across the state in order to share ideas, build relationships and strengthen policy.

She previously served as the President of Vision Shared – an economic development organization designed to bring together business, labor, government and other interests to develop a strategy that will sustain West Virginia and make the state more economically competitive. Prior to her work at Vision Shared, McPhail was Assistant Vice President of Development at Marshall University.

McPhail is a graduate of the West Virginia Institute of Technology, with a bachelor's degree in history and government. She is also a graduate of Leadership West Virginia and was named a 2017 Young Gun by *West Virginia Executive* magazine.

As a volunteer, McPhail chairs the Charleston March for Babies event for the March of Dimes. She is a member of the West Virginia Department of Environmental Protection Advisory Council and the West Virginia Early Childhood Development Council.

West Virginia lawmakers are making considerable progress in addressing impediments to job creation in our state. Policies related to improving the state's legal climate, creating a protective yet reasonable regulatory environment and addressing a myriad of labor issues faced by employers all have contributed to increased investment and job growth in West Virginia. But despite these improvements, the need for additional reform remains.

Our state stands at a critical intersection in determining its future. As the economy continues to transform, it is important to consider which industries provide the greatest benefit to overall growth, and how best to attract continued investment in those sectors. While manufacturing is strong in our state, the industry still faces challenges and barriers in competing for investment and job creation. One such challenge is West Virginia's tax on inventory, machinery and equipment.

WEST VIRGINIA MANUFACTURERS ASSOCIATION

Economists, policy makers and business leaders know that the property tax on industrial inventory, machinery and equipment is a significant impediment to economic growth in West Virginia. Have you ever wondered why West Virginia ranks 43rd for capital-intensive manufacturing and 47th for labor-intensive manufacturing compared to all states? It's due in large part to this tax. Our surrounding states don't impose it; in fact, West Virginia is one of only seven states that utilizes the tax. We are a higher-cost state for manufacturing and, as we all know, cost is a key consideration that companies weigh when making location decisions. Existing companies who pay the tax miss out on an opportunity to reinvest in their operations or workforce.

Figures show that county and local governments, along with schools, receive $140 million from industrial inventory, machinery and equipment tax each year. Research completed by the West Virginia Department of Revenue for the 2018 legislative session further indicates that that figure has dropped considerably over the last several years and is likely to continue to do so. Whether due to lack of investment or incentives that abate these taxes for new companies, these taxes are no longer a reliable source of revenue for the state.

Images above and from the opposite page are from the Argos Cement Plant in Martinsburg, West Virginia. The quarry-based operation, which dates back to the 1800s, produces over 2 million metric tons of cement per year and is responsible for millions more in state tax revenue.

Policy makers need to maximize the return on any investment in economic development, especially tax incentives. When we recruit a new manufacturing firm or help with an expansion, we generate new jobs in other sectors to support the new company. We are increasing tax revenue and stimulating economic growth because of the increase in wages paid to employees. Economists call this return on investment the "multiplier effect."

There are four types of multiplying effects that contribute to the increased value of industry. The initial effect represents the jobs, sales and earnings related to a facilities design, construction and operations. Direct impacts are the first round of impacts to the industry's supply chain due to new input purchases required by a project. Indirect impacts reflect the second round of activity when the supply chains stimulate sales within their supply chains. Finally, induced impacts are the result of increased earnings and, therefore, further spending throughout the economy.

When accounting for this multiplying effect on the economy, the total impact of the manufacturing industry on the total economy is much stronger. In West Virginia, the employment that is indirectly supported by manufacturing jobs represents 22.2 percent of total employment.

Anticipated annual tax impacts were also calculated for this scenario. These tax impacts represent taxes on productions and imports, which includes non-personal property taxes, licenses, sales/gross receipts taxes and federal excise taxes. At the state level, a 100-employee industrial equipment manufacturing firm could generate about $571,000 annually in tax revenue.

Gradually phasing out the industrial inventory, machinery and equipment tax can create future incentive to invest in West Virginia while growing our overall economy and tax base in many ways. State leaders must work together to realize the return on investment that fair taxation will create by providing a stable funding source for our state and local governments and the services they provide.