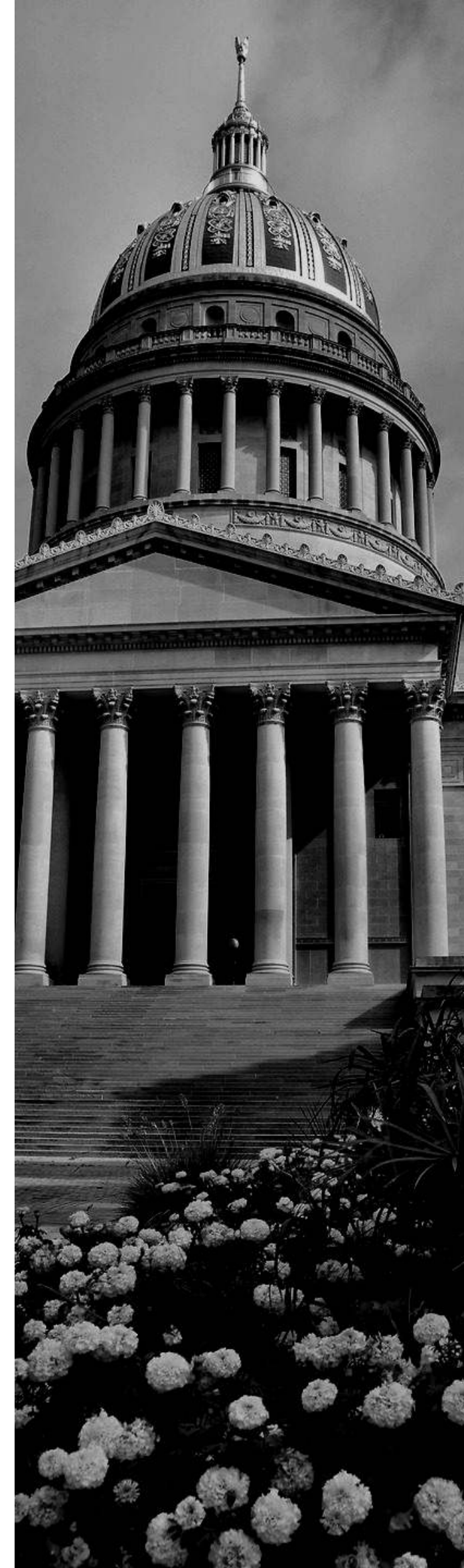


Eliminating the Personal Income Tax



**Governor Justice's
Tax Plan:
HB2027/SB600**

The Justice Tax Plan: Overview

- The bill proposes even rate reductions across the board rather than a phase-in plan
- The first round of deductions is only applicable to wages, retirement, social security, IRAs and unemployment — Does not apply to business, farm or investment income (Page 57, Lines 5-7)
- Implementation of a "luxury tax" — Does not apply to cars/homes
- Excise Tax Increases:
 - Soda
 - Cigarette
 - Alcohol
- Sales Tax Increases of 6% to 7.9%
- Rebate checks to 200,000 families (totaling ~\$52 million)

Governor's Tax Proposal

The first round of deductions is only applicable to wages, retirement, social security, IRAs and unemployment — Does not apply to business, farm or investment income (Page 57, Lines 5-7)

Income Bracket	Current Marginal Tax Rate	Governor's Proposal
\$0-\$10,000	3.00%	1.20%
\$10,000-\$25,000	4.00%	1.60%
\$25,000-\$40,000	4.50%	1.80%
\$40,000-\$60,000	6.00%	2.40%
\$60,000 and over	6.50%	2.60%

Governor's Tax Proposal

Base Broadening

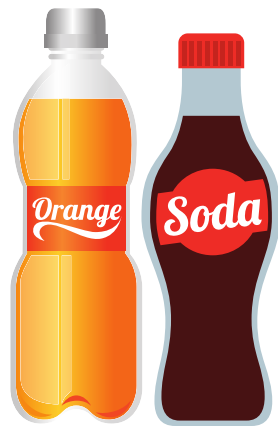
The following services would become taxable with implementation of the bill:

- Computer hardware/software
- Legal services
- Accounting services
- Other professional services
- Selected advertising
- Electronic data processing
- Health and fitness memberships
- Sales of lottery tickets



Governor's Tax Proposal

Excise Tax Increases

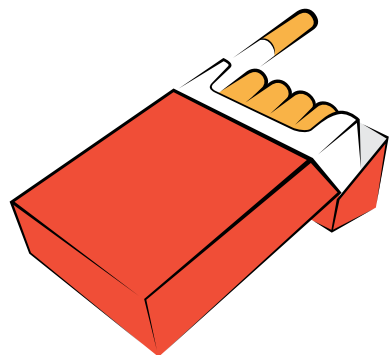


Beverages

Current rate: 1 cent per 16.9 fl oz.

Proposed rate: 6 cents per 16.9 fl oz.

(Page 66, Lines 14-26)

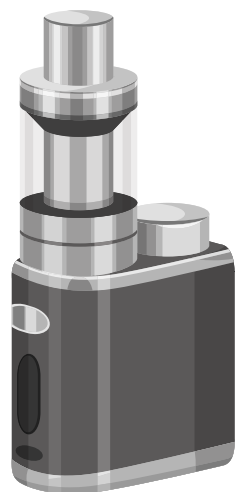


Cigarettes

Current rate: \$1.51 per pack

Proposed rate: \$2.25 per pack*

(Page 48, Lines 7-9)



E-Cigarettes

Current rate: 7 cents per milliliter

Proposed rate: 75 cents per milliliter

(Page 50, Lines 25-27)

Governor's Tax Proposal

Excise Tax Increases

Alcohol



Current rates:

- Beer: \$5.50 per barrel
- Wine: \$1.07 - \$3.40 per gallon, depending on alcohol content
- Liquor wholesale mark-up at 28%

Proposed rates:

- Beer: to \$29.25 per barrel
(Page 45, Lines 7-13)
- Wine: to \$4.00 per gallon
(Page 77, Lines 4-7)
- Liquor wholesale mark-up to 39.25%
(Page 76, Lines 14-16)

House Tax Plan: HB3300

The House Tax Plan: Overview

The West Virginia Tax Commissioner will make new rates based on criteria set out in the code.

- The annual reduction must equal \$150M
- Each change in tax brackets must result in a tax decrease for all brackets
- Focus will be on eliminating lower tax brackets first

When a \$400 million cash balance is reached, \$100 million will be transferred to the General Revenue fund

This will provide instant tax relief in the form of an additional \$100 million cut to the PIT (on top of the scheduled \$150 million reductions occurring on a yearly basis)

House's Tax Proposal: Bracket Reductions

Taxable Income	Current Rate	New Rate
\$0 - \$5,000	3.0%	2.8%
\$5,000 - \$12,500	4.0%	3.7%
\$12,500 - \$20,000	4.5%	4.2%
\$20,000 - \$30,000	6.0%	5.6%
\$30,000+	6.5%	6.0%

(Married Filing Separate Tax Brackets)

House's Tax Proposal: Bracket Reductions

Taxable Income	Current Rate	New Rate
\$0 - \$10,000	3.0%	2.8%
\$10,000 - \$25,000	4.0%	3.7%
\$25,000 - \$40,000	4.5%	4.2%
\$40,000 - \$60,000	6.0%	5.6%
\$60,000+	6.5%	6.0%

(All Other Tax Brackets)

House's Tax Proposal

Tax Year '22

(Jan. 2022 – Dec. 2022)

New rates apply to this year.
In January, the Tax Commissioner looks at total income tax collections (reduction of less than \$150M) to determine the tax rates for 2023 Tax Year

Tax Year '23

(Jan. 2023 – Dec. 2023)

Tax rates established in January of 2022 (based on 2021 collections) apply this year. The same process of Tax Commissioner looking at total income tax collections to determine tax rates for next year.
(Reduction to equal \$150M)

Tax Year '24

(Jan. 2024 – Dec. 2024)

2024 tax rates based on 2022 collections (\$150M reduction)
2025 rates determined in January

Tax Year '25

(Jan. 2025 – Dec. 2025)

2025 tax rates based on 2023 collections (\$150M reduction)
2026 rates determined in January

Tax Year '26

(Jan. 2026 – Dec. 2026)

2026 tax rates based on 2024 collections (\$150M reduction)
2027 rates determined in January

This process continues until the final income tax bracket is eliminated

**Senate Tax Plan:
Strike and Insert to
HB3300**

Senate's Tax Proposal

Summary of the new legislation

- Reduction of the PIT is by \$300 million rather than the \$150 million as indicated in the House's proposition
- When the personal income tax is reduced, legislative action would be needed for any increase
- Immediate reduction of earned income rates and pass-throughs (but not investment income) by 50%
- Sales tax base broadening
- Taxing contingency-based legal settlements at 8.5 percent

The Senate Tax Plan: Overview

- Reduction of the PIT is by \$300 million rather than the \$150 million as indicated in the House's proposition
- When the personal income tax is reduced, legislative action would be needed for any increase
- Immediate reduction of earned income rates and pass-throughs (but not investment income) by 50%
- Sales tax base broadening
- Taxing contingency-based legal settlements at 8.5%

Senate's Tax Proposal

Tax Triggers

- When the balance in the PIT Reduction fund (SAFER Fund) reaches \$100,000,000, the balance will begin to be transferred to the General Revenue in \$50,000,000 increments to keep the fund at no less than \$50,000,000 and no more than \$100,000,000
- Each year after the enactment of the budget, the difference between the Governor's proposal and enacted budget would then be used to reduce the tax brackets
- When the state sees an increase in general revenue directly related to taxes, there will be a \$ for \$ reduction in current tax products. No increase in general revenue would mean no tax cut.

Senate's Tax Proposal

Sales Tax: Base Broadening

Would now include computer software, hardware, advertising, digital goods, health/fitness memberships

Legal, accounting, architectural, and engineering services included in taxation at 3%

2.5% grocery rate

General sales tax rate from 6% to 8.5%

4.3% state occupancy tax on short-term lodging

Tax Policy 101

- Should be simple and easy for taxpayers to comply with
- Should clearly and plainly define what taxpayers must pay and when they must pay it
- Should remain neutral, neither encouraging nor discouraging personal or business decisions
- Should be stable and predictable



Learn more through the Tax Foundation at taxfoundation.org

A Four-Step Plan for Tax Cuts



**Have a plan to
balance the
budget ahead of
time**



**Reduce waste in
government to
help pay for tax
cuts**



**Phase in tax
reductions over
time (like North
Carolina)**



**Set reasonable
expectations;
change doesn't
happen overnight**