

# An Economic Perspective

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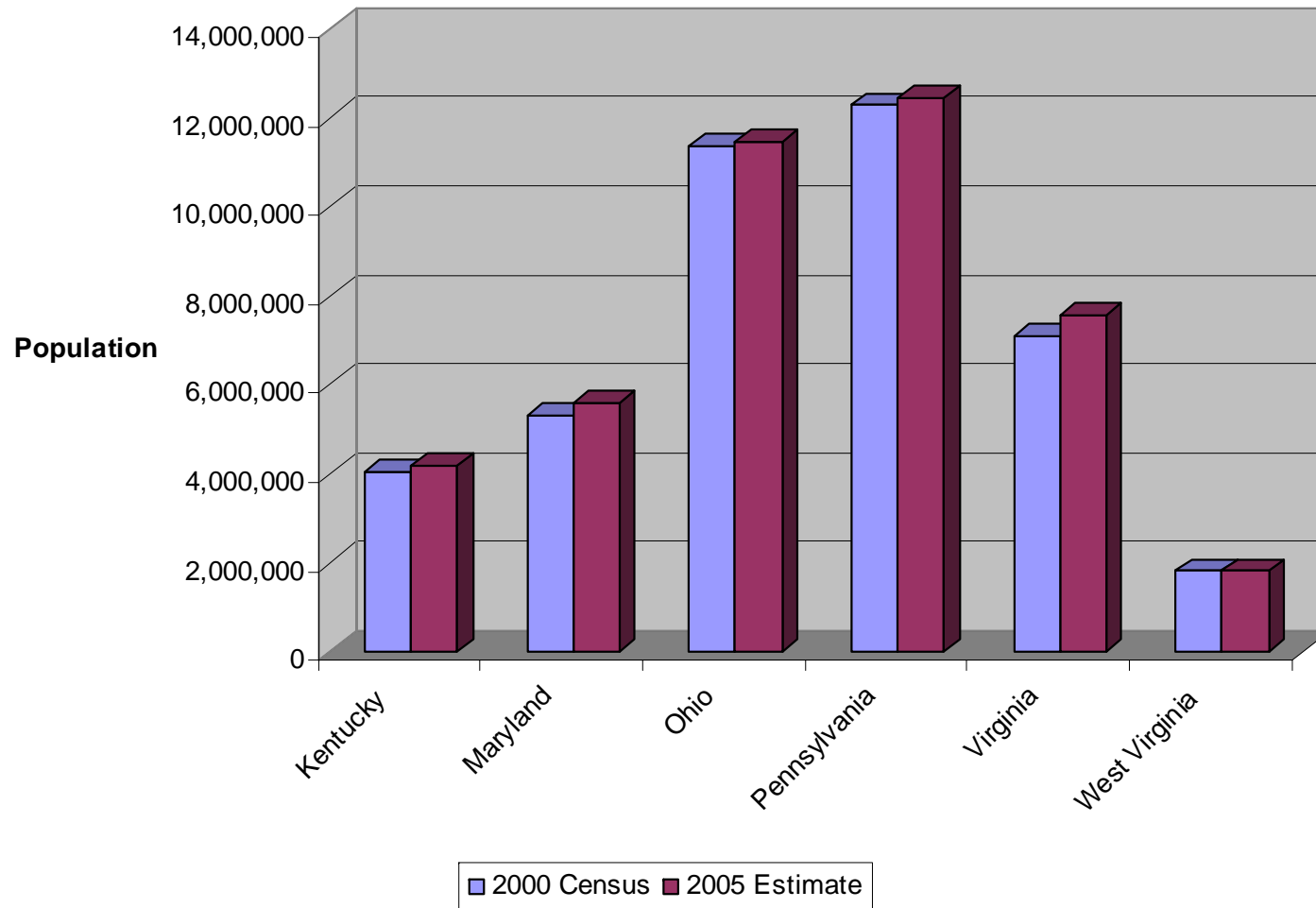


# Current Economic Conditions in West Virginia

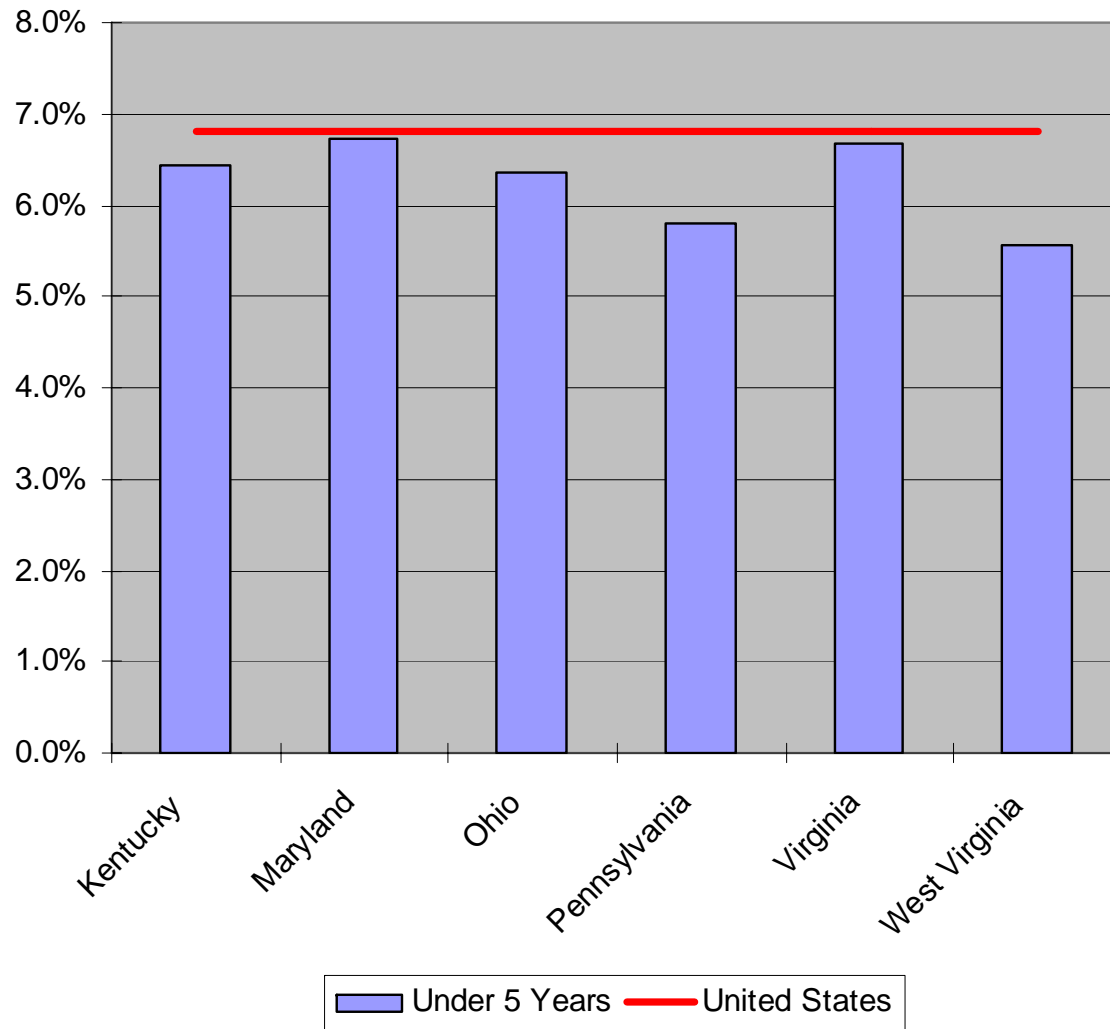
Where are we going?



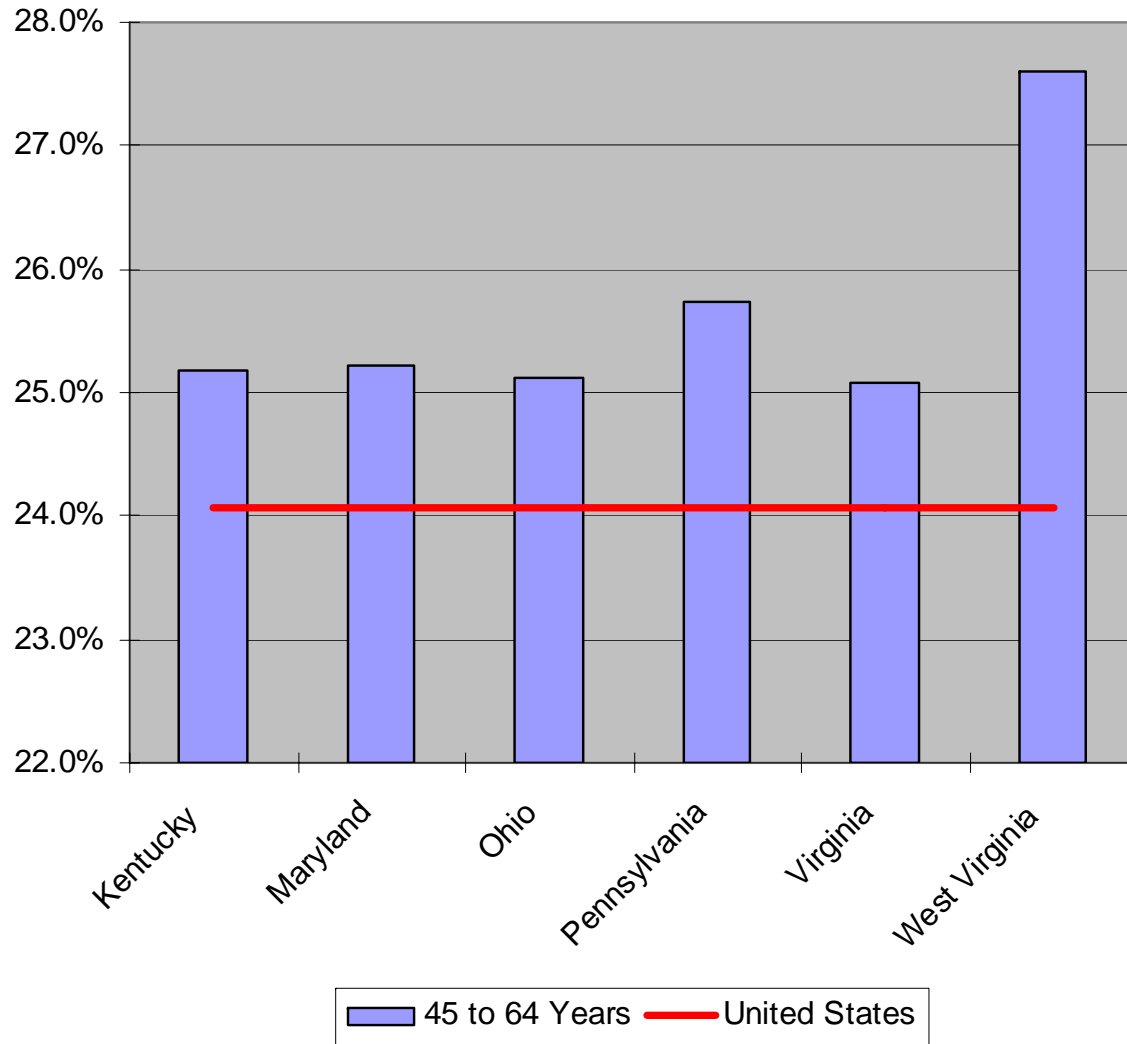
## 2000 and 2005 Population



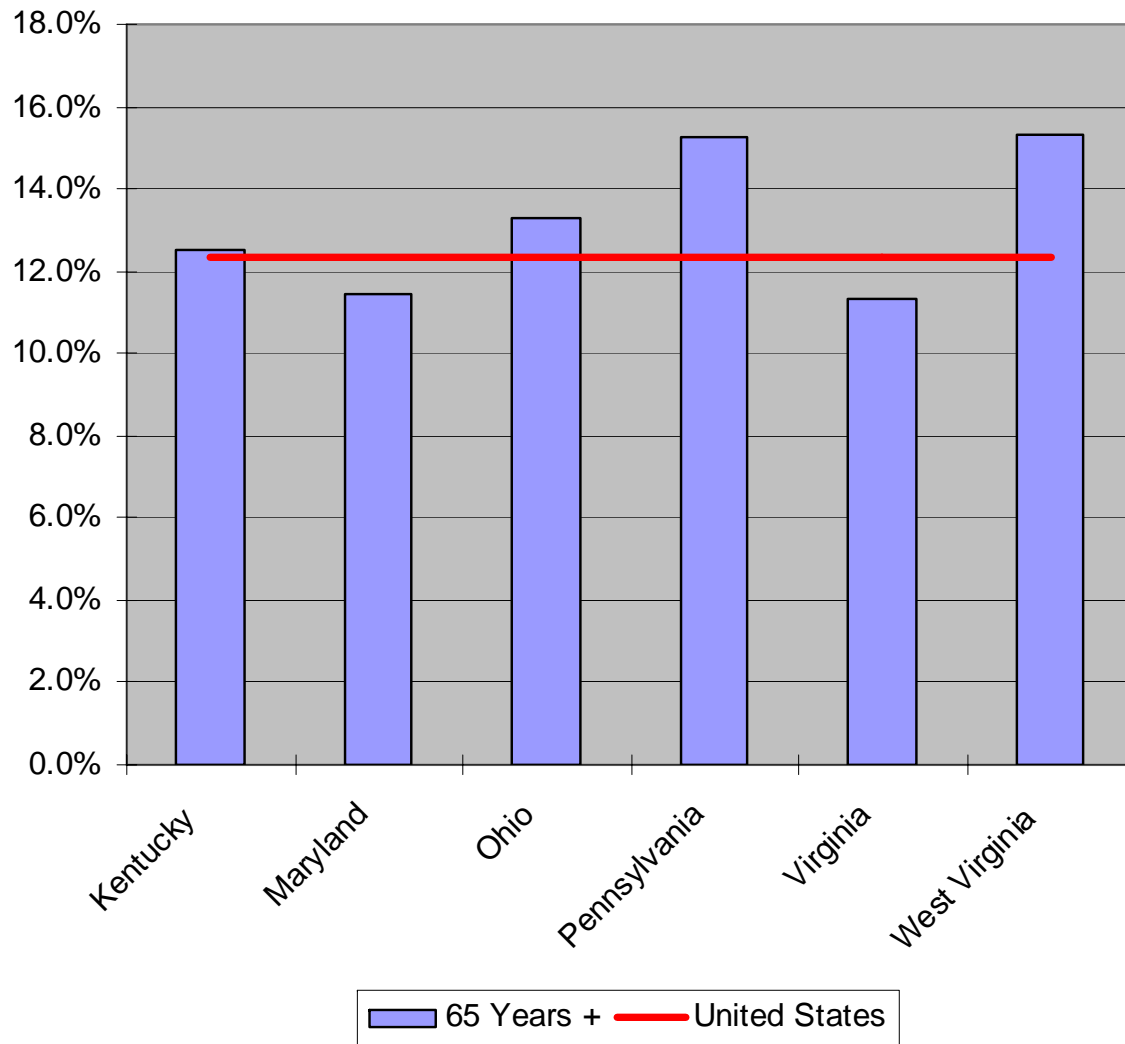
# Population Under 5 Years



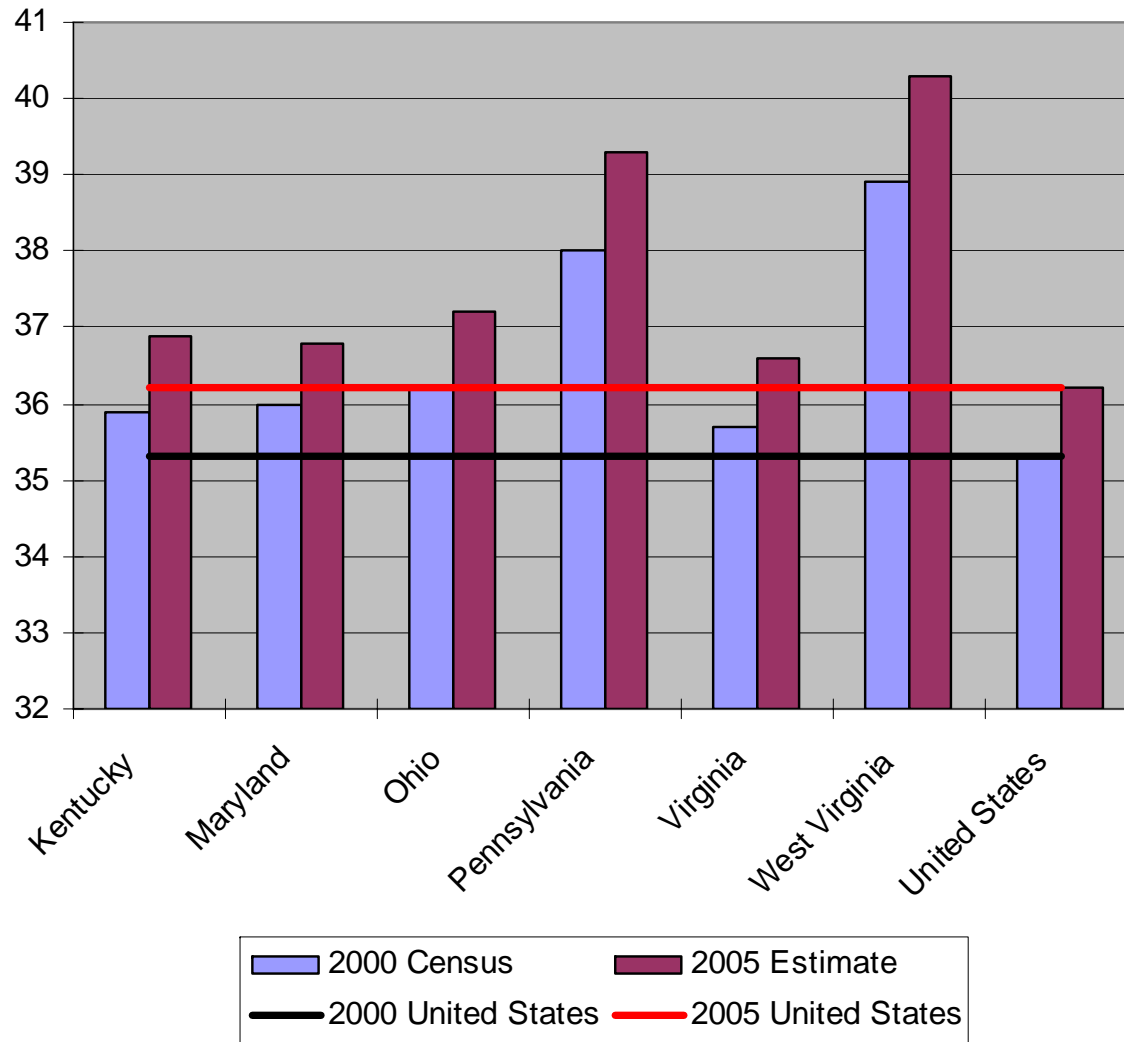
# Population 45 to 64 Years



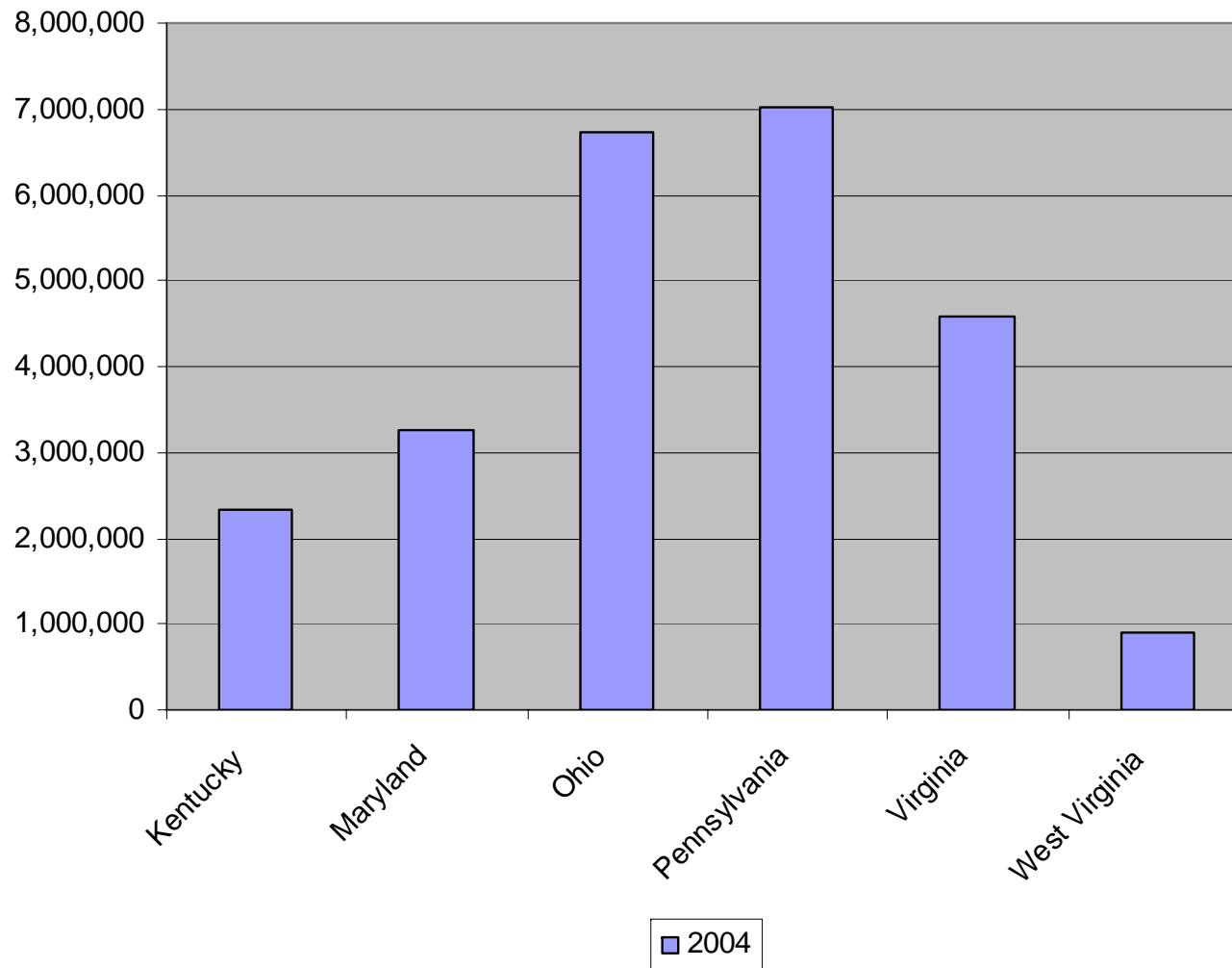
# Population 65 Years and Older



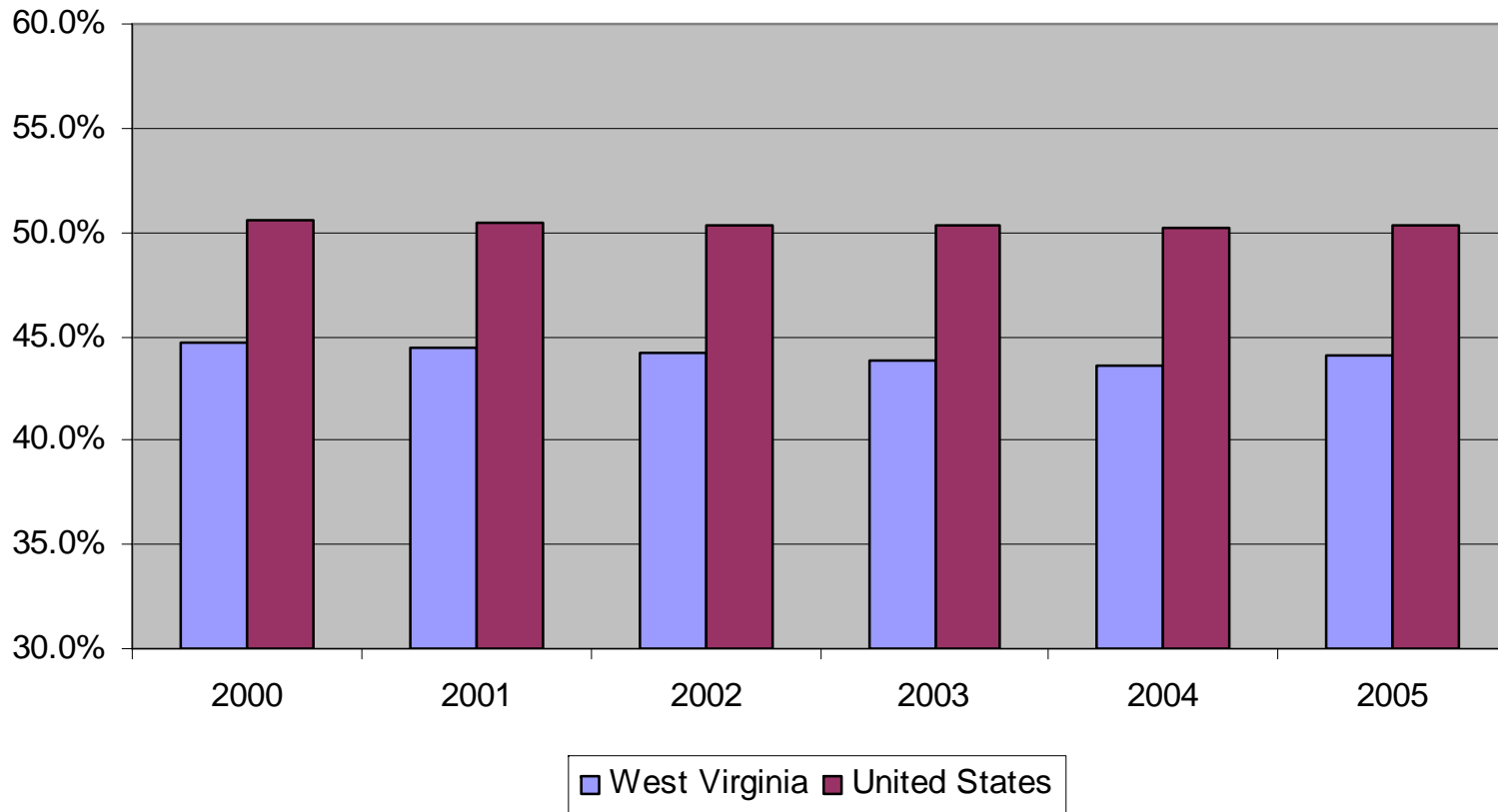
## Median Age, 2000 and 2005



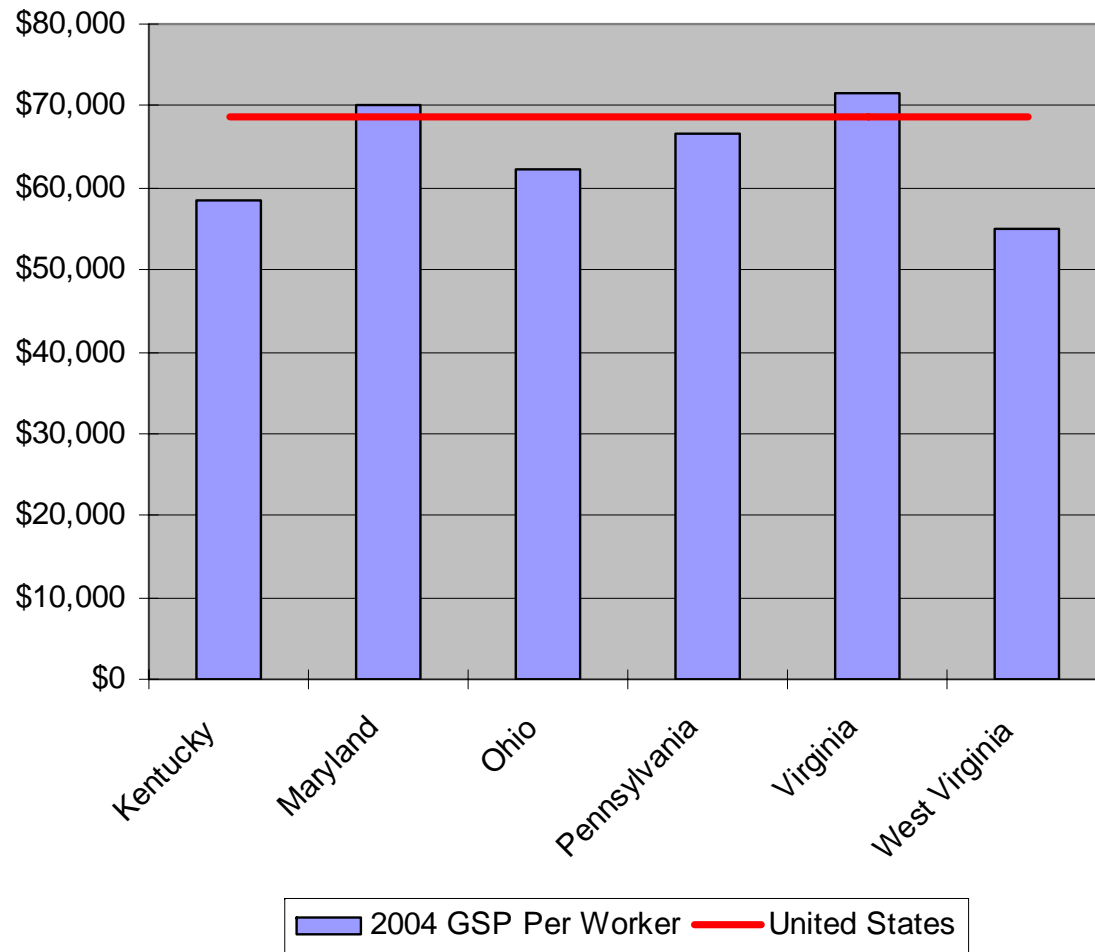
# Total 2004 Employment



## Labor Force Participation Rates 2000-2005



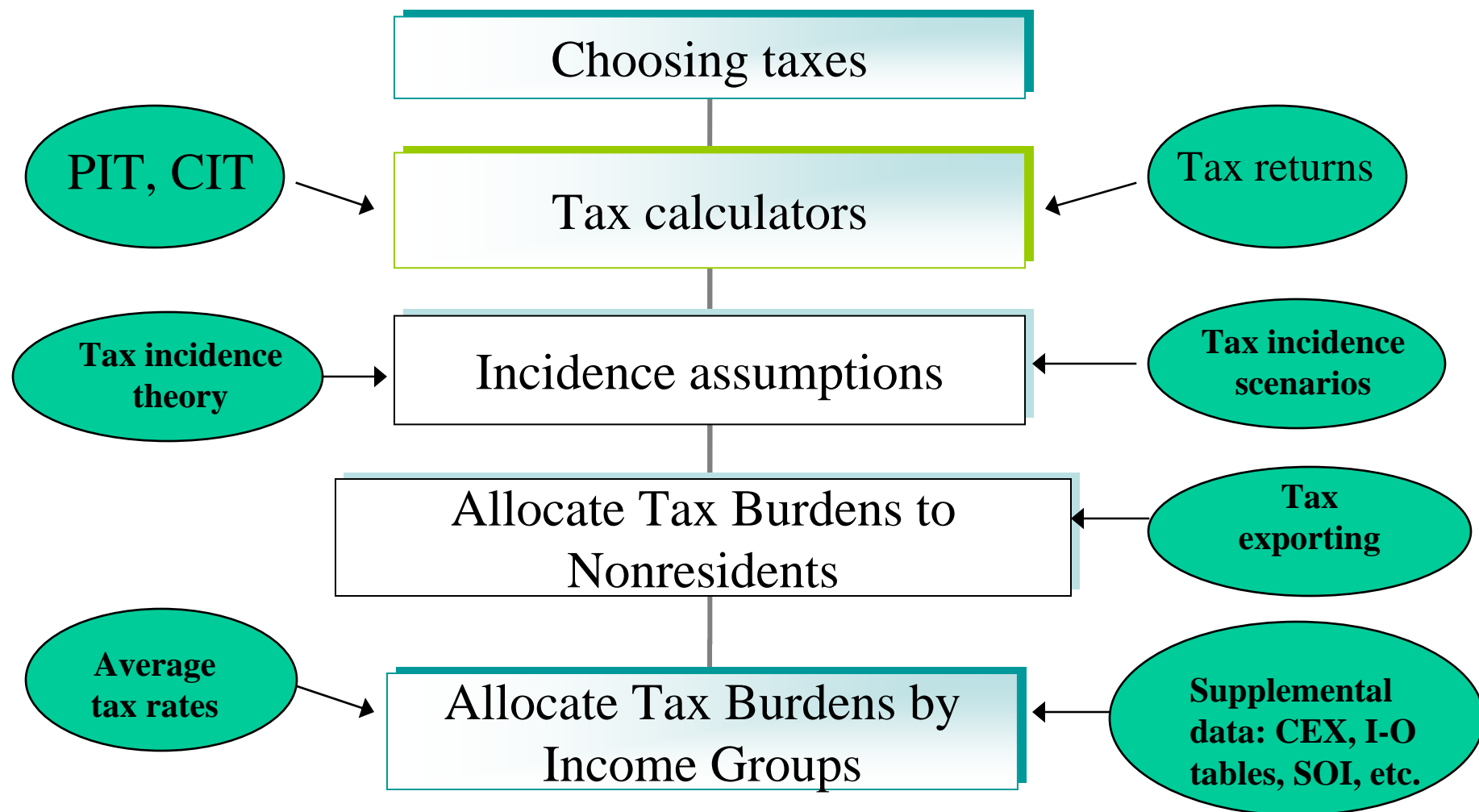
# Gross State Product Per Worker, 2004



# Who Pays The Taxes?

- Who bears the burden?
- Where is the incidence ultimately?
- Can the tax be exported?
- Incidence Analysis 101

# General Procedures of Estimating Tax Incidence



# Major Types of State Taxes

- Personal income taxes
- Sales and excise taxes (state and/or local)
- Business taxes
- Property tax (state and/or local)

# Linking Tax Calculators

- People pay taxes
  - All tax collections must be allocated to households
- Choose return as basic unit and link to Personal Income Tax files
- Adjust tax calculators for nonfilers

# Linking Sales Taxes

- Use Consumer Expenditure Survey to identify consumption patterns across income classes
- Group products as taxed and untaxed
- Account for exported sales tax
- Assign taxes on each product group to each income class

# Linking Business Taxes

- Mixture of forward shifting to consumers, backward shifting to labor, backward shifting to capital
- Identify share exported of each shifted tax
- Forward shifting
  - Classify firms by industry
  - Use I/O tables to show fraction of each industry devoted to each consumer good
  - Assign taxes following sales tax procedures

# Linking Business Taxes cont'd

- **Backward Shifting - Capital**
  - Assume capital ownership in each industry follows same pattern as interest and dividends by income classes
  - Impute taxes directly to PIT files
- **Backward Shifting - Labor**
  - Assume wage income distribution in each industry follows same pattern as wage distribution by income classes
  - Impute taxes directly to PIT files

# Relationship Between Taxes and Capital Formation

- World economy characterized by capital surplus with few barriers to capital investments
- Critical factors affecting business location
  - Access to markets
  - Human capital
  - Energy
  - Land and facilities
  - Transportation networks
  - Quality of life
  - At the margin, however, is the return on investment
- Impact of capital formation on job creations

# West Virginia Taxes On Capital and Their Impacts

- Corporate net income tax
- Business franchise tax
- Business property tax
- Other taxes and fees
- Role of tax expenditures-are they effective in over coming current tax system?
  - Law of unintended consequences
- Importance of predictability and certainty

# Standards of a Good Tax System



# Efficiency

- Encourages economic growth and job creation
- Competitive with other states

# Equity/Fair

- Ability to Pay
  - Current Income (Federal/WV Personal Income Tax)
  - Wealth (Property Tax, Death Taxes)
  - Consumption (Sales Tax, Value Added Tax)

# Equity/Fair

- Benefits Received
  - General benefits from government (all taxes, particularly business taxes)
  - Specific benefits let those who benefit pay for the provision (gasoline tax)

# Equity/Fair

## – Neutrality

- Taxes should interfere as little as possible with market decisions
- Avoid taxes which distort economic outcomes

# Revenue Adequacy

- Produces a yield that is significantly in excess of collection costs
- Produces a yield that is sufficient to meet the demands of government
- Produces a yield that is stable and increases with growth of the economy

# Simplicity/Accountability

- Easy for the taxpayer to know
  - On what he/she/they are paying
  - How to calculate the amount to be paid
  - When it is to be paid and to whom
- Ease of Administration
- Transparency
  - Public has sufficient knowledge to evaluate the system

# Score Card for WV Taxes

Tax    Equity    Efficiency    Adequacy    Accountability

PI

CN

RP

PP

BF

CS

BO

GT

LT

CT

?