



West Virginia Taxes Hit Poor & Middle Class Harder than the Wealthy

Low- and middle-income families in West Virginia pay a higher share of their income in state and local taxes than do the richest families in West Virginia, according to a new study by the Institute on Taxation & Economic Policy.

“State and local governments are being called upon to take on more and more responsibilities,” said Robert S. McIntyre, ITEP’s tax policy director and lead author of the study, titled *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*. “Unfortunately, when it comes to paying for services, West Virginia has an unfair tax system.”

West Virginia’s Tax Code: Tax the Poor and Middle Class, Spare the Rich

When all West Virginia taxes are totaled up, the study found that:

- The richest West Virginia taxpayers—with average incomes of \$207,000—pay 8.7% of their income in West Virginia state and local taxes before accounting for the tax savings from federal itemized deductions. After the federal offset, they pay only 6.5%.
- Middle-income West Virginia taxpayers—those earning between \$20,000 and \$33,000—pay 9.7% of their income in West Virginia state and local taxes before the federal deduction offset. With no appreciable federal offset, these families pay significantly more than what the rich pay.
- West Virginia families earning less than \$6,900—the poorest fifth of West Virginia non-elderly taxpayers—pay 9.3% of their income in West Virginia state and local taxes which is half again as much as the richest West Virginians pay.

“West Virginia’s income tax fails to offset the regressivity of its sales and excise taxes, giving the state an unfair, regressive tax system,” McIntyre said. “Taxes ought to be based on people’s ability to pay them, which means that the share of income paid in taxes should rise as income grows, not fall as is the case in West Virginia.”

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Tax Regressivity Has Declined Slightly Since 1989

The study also examined the impact of changes in the regressivity of West Virginia taxes since 1989, when the last cycle of state government shortfalls began. The study's findings include:

- Low-income taxpayers benefitted from an earned income exclusion which helped offset some of the regressivity caused by the sales and excise taxes.
- Most other income groups saw modest tax increases or tax cuts.

"While West Virginia lawmakers did well to exclude \$10,000 in earned income, these changes weren't enough to prevent the overall tax system from becoming even more regressive," said McIntyre. "As lawmakers consider budget-balancing strategies in 2003, they should remember that their tax system taxes its ordinary citizens at considerably higher rates than the richest."

Two pages of tables detailing the West Virginia findings of the study follow

The Institute on Taxation and Economic Policy is a nonpartisan Washington-based research group. The full *Who Pays?* report is available in PDF format at www.itepnet.org. Printed copies can be ordered by calling ITEP at 202-737-4315.

Who Pays? examines the tax systems of all 50 states and the District of Columbia, using the Institute on Taxation & Economic Policy Microsimulation Tax Model. The ITEP Model is similar in methodology and data sources to the elaborate computer models used by the U.S. Treasury and the congressional Joint Committee on Taxation, except that the ITEP Model adds state-by-state estimating capabilities.

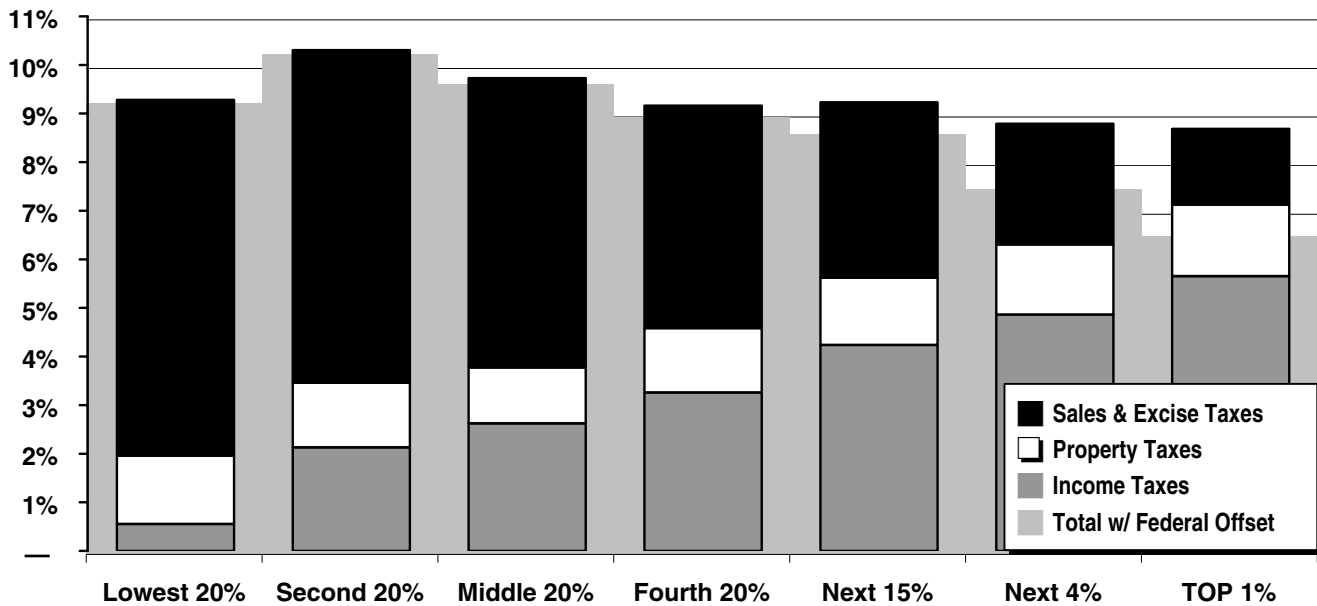
The findings published in the study detail state and local taxes paid by non-elderly couples and individuals. The study includes all major state and local taxes: personal and corporate income taxes, property taxes, and sales and excise taxes.

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West Virginia

State & Local Taxes in 2002

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$12,000	\$12,000 – \$20,000	\$20,000 – \$33,000	\$33,000 – \$55,000	\$55,000 – \$96,000	\$96,000 – \$207,000	\$207,000 or more
Average Income in Group	\$6,900	\$16,100	\$26,900	\$43,700	\$70,200	\$123,300	\$447,900
Sales & Excise Taxes	7.3%	6.8%	6.0%	4.6%	3.6%	2.5%	1.6%
General Sales—Individuals	4.5%	4.4%	4.0%	3.1%	2.5%	1.7%	1.0%
Other Sales & Excise—Ind.	1.5%	1.2%	1.0%	0.7%	0.5%	0.3%	0.1%
Sales & Excise on Business	1.3%	1.2%	1.0%	0.8%	0.6%	0.5%	0.5%
Property Taxes	1.4%	1.3%	1.1%	1.3%	1.4%	1.4%	1.5%
Property Taxes on Families	1.3%	1.2%	1.0%	1.2%	1.1%	0.9%	0.6%
Other Property Taxes	0.1%	0.1%	0.2%	0.1%	0.3%	0.5%	0.9%
Income Taxes	0.6%	2.1%	2.6%	3.3%	4.2%	4.9%	5.7%
Personal Income Tax	0.5%	2.1%	2.6%	3.2%	4.2%	4.8%	5.5%
Corporate Income Tax	0.1%	0.1%	0.1%	0.0%	0.0%	0.1%	0.2%
TOTAL TAXES	9.3%	10.3%	9.7%	9.2%	9.2%	8.8%	8.7%
Federal Deduction Offset	-0.0%	-0.0%	-0.0%	-0.2%	-0.6%	-1.3%	-2.1%
TOTAL AFTER OFFSET	9.3%	10.3%	9.7%	9.0%	8.7%	7.5%	6.5%

Note: Table shows 2002 tax law at 2000 income levels.

West Virginia Tax Trends

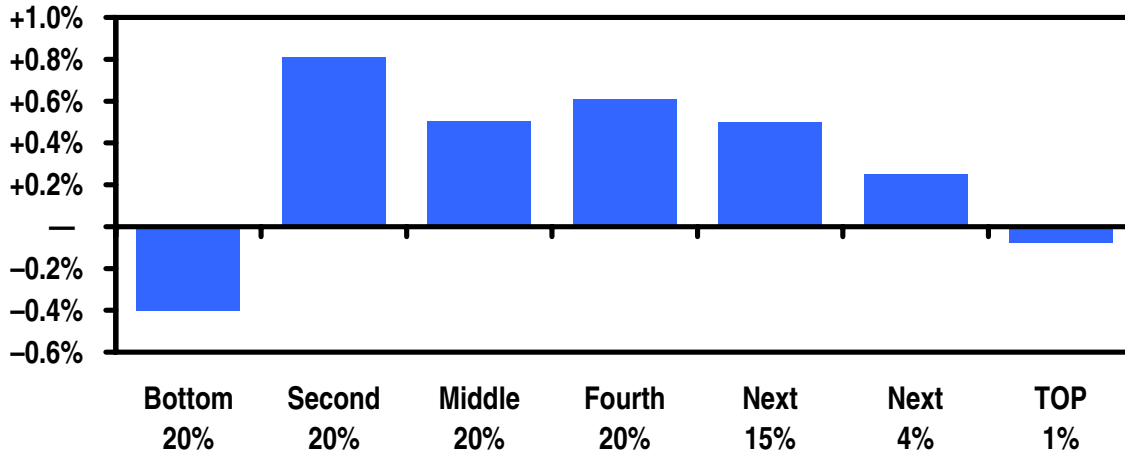
Progressive Features

- ✓ Earned income exclusion
- ✓ Alternative minimum tax
- ✓ Graduated income tax rates

Regressive Features

- ✗ Sales tax applies to groceries
- ✗ Brackets and personal exemption not indexed

Changes in Taxes as Shares of Income, 1989 – 2002

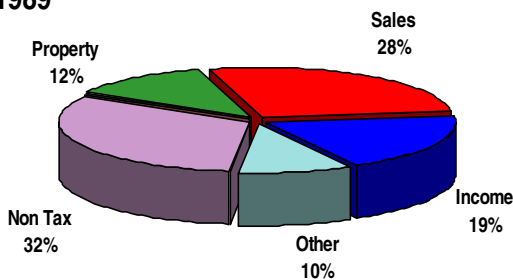


	Bottom 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Sales & Excise	-0.2%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.0%
Property	+0.2%	+0.4%	+0.2%	+0.3%	+0.0%	+0.1%	+0.2%
Income	-0.4%	+0.6%	+0.4%	+0.4%	+0.8%	+0.6%	+0.4%
Federal Offset	-0.0%	-0.0%	-0.0%	-0.1%	-0.2%	-0.3%	-0.6%
Overall Change	-0.4%	+0.8%	+0.5%	+0.6%	+0.5%	+0.2%	-0.1%

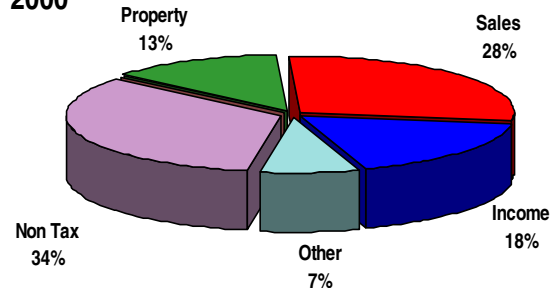
Low-income taxpayers benefited when West Virginia enacted an earned income exclusion in 1999. Inflation caused an implicit tax hike for other income groups as it reduced the value of exemptions and pushed many taxpayers into higher tax brackets. Inflation caused an opposite effect of reducing excise tax burdens.

Composition of Revenues

1989



2000



Source: Government Finances, US Department of Census