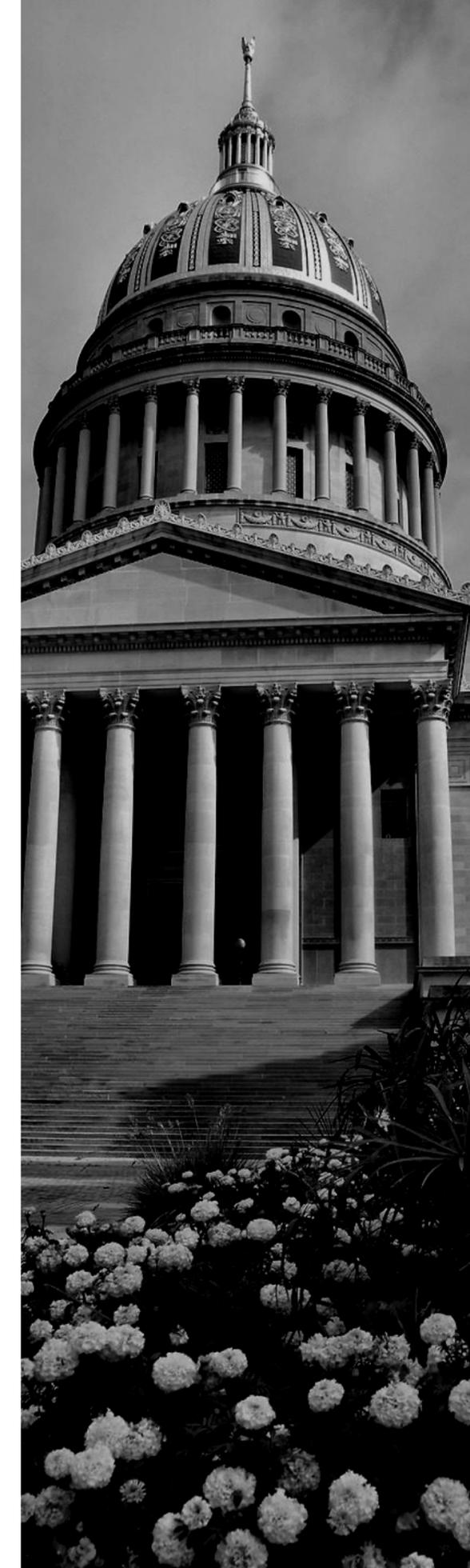


# Taxes: Theory, Practice, and West Virginia's Plans

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# What is a Tax?

Encyclopedia Britannica: imposition of compulsory levies on individuals or entities by governments

Economic definition: Transfer of wealth from households or businesses to government



# What things are taxed?

1

## What you earn:

- Individual income taxes
- Corporate income taxes
- Payroll taxes
- Capital gains taxes



2

## What you own:

- Property taxes
- Tangible personal property taxes
- Estate & inheritance taxes
- Wealth taxes

3

## What you buy:

- Sales taxes
- Gross receipts taxes
- Value-added taxes
- Excise taxes (sin taxes)



# Progressive, Regressive, and Flat Taxes

## Progressive

Tax rates increase as an individual's wealth increases

Ex. U.S. & West Virginia Personal Income Taxes

## Regressive

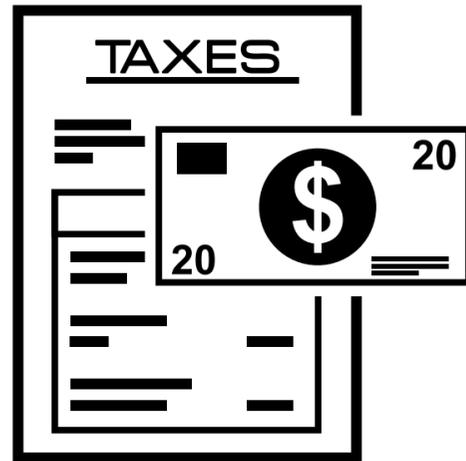
Lower income individuals pay a higher tax rate compared to higher income individuals

## Flat

Assesses the same tax rate on everyone regardless of income or wealth

Ex. Kentucky & Pennsylvania Personal Income Taxes

# Effective vs. Marginal Rates



Effective tax rates are the taxpayer's average rate. In other words, what portion of their total annual income is needed to pay their taxes.



Marginal rates are the amount of tax that applies to each additional level of income

# Effective vs. Marginal Example

Income is taxed at the following marginal rates:

- 5% on income from \$0 to \$50,000
- 10% on income from \$50,000 to \$100,000
- 15% on income above \$100,000

# Effective vs. Marginal Example

**A taxpayer with income of \$175,000 would pay:**

$$(0.05 \times 50,000) + (0.10 \times 50,000) + (0.15 \times 75,000) \\ = 2,500 + 5,000 + 11,250 = \$18,750$$

**The effective rate would be:**

$$\$18,750 / \$175,000 = 10.7\%$$

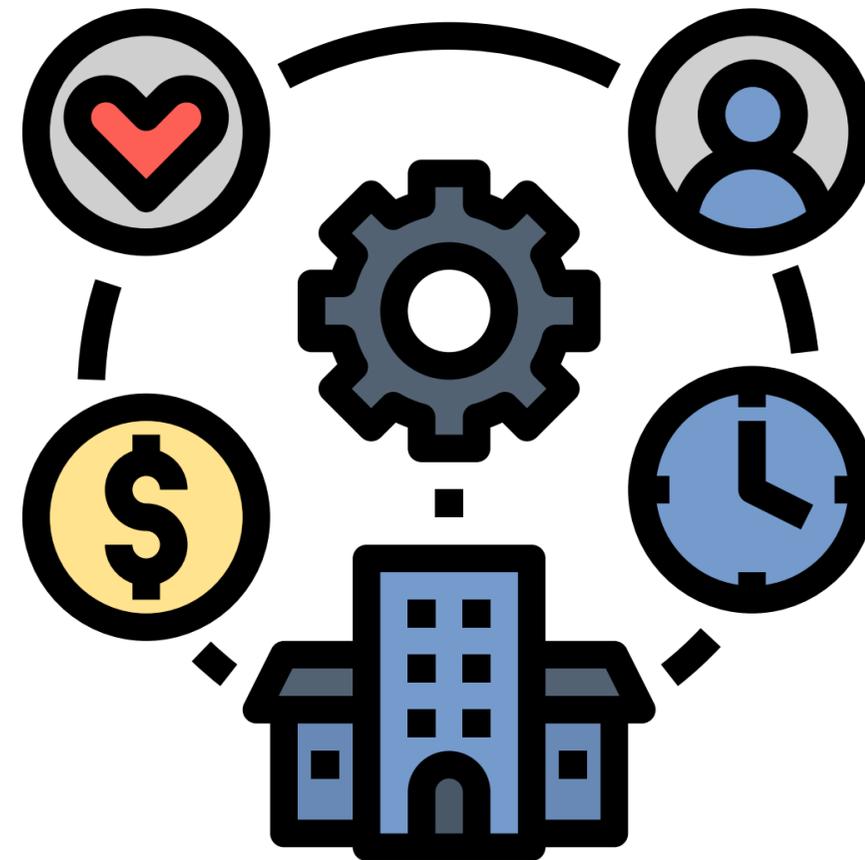
# Effects of Taxes

## Direct

- Raise government revenue
- Deter consumption (e.g. sin taxes)

## Indirect

- Alters other behaviors (e.g. high marginal rates discourage activities)
- Incentivizes nonproductive activities (e.g. tax minimization efforts)
- Allocates resources



# Tax Type Hierarchy

	Taxes On What <b>YOU EARN</b>	Taxes On What <b>YOU BUY</b>	Taxes On What <b>YOU OWN</b>
<b>MOST HARMFUL</b>	Corporate Income Taxes	Gross Receipts Taxes	Wealth Taxes
	Individual Income Taxes	Excise Taxes	Estate Taxes
<b>LEAST HARMFUL</b>	Payroll Taxes	Sales Taxes	Property Taxes On Immovable Property

# 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](https://taxfoundation.org)**

# West Virginia's Income Tax Rates

## Income

## Rate

\$0 to \$10,000 ..... 3%

\$10,000 to \$25,000 ..... 4%

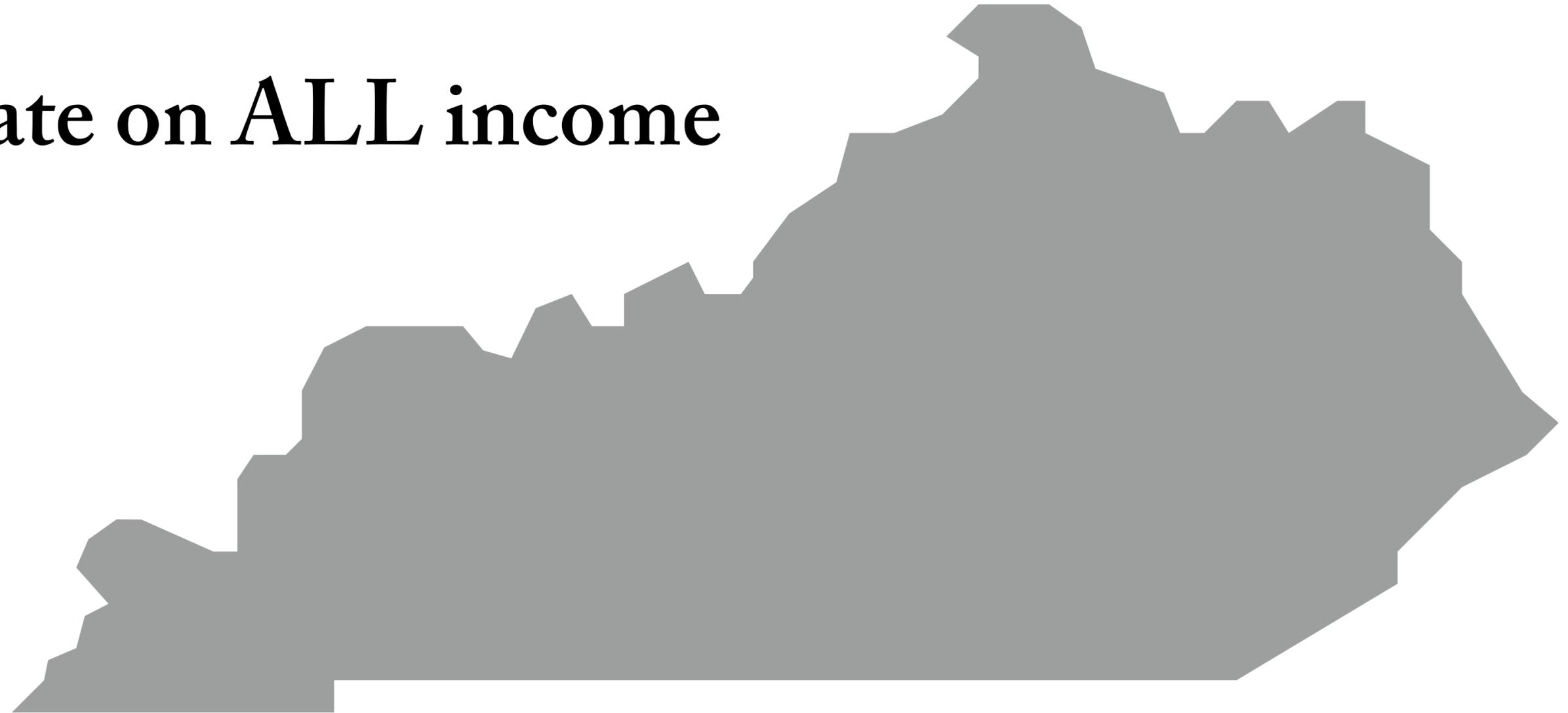
\$25,000 to \$40,000 ..... 4.5%

\$40,000 to \$60,000 ..... 6%

\$60,000+ ..... 6.5%

# Kentucky Income Tax Rate

**Flat 5% rate on ALL income**



# Maryland Income Tax Rates

Income	Rate
> \$0	2%
> \$1,000	3%
> \$2,000	4%
> \$3,000	4.75%
> \$100,000	5%
> \$125,000	5.25%
> \$150,000	5.50%
> \$250,000	5.75%



# Ohio Income Tax Rates

Income	Rate
> \$22,150 .....	2.85%
> \$44,250 .....	3.326%
> \$88,450 .....	3.802%
> \$110,650 .....	4.413%
> \$221,300 .....	7.797%



# Pennsylvania Income Tax Rate

**Flat 3.07% rate  
on ALL income**

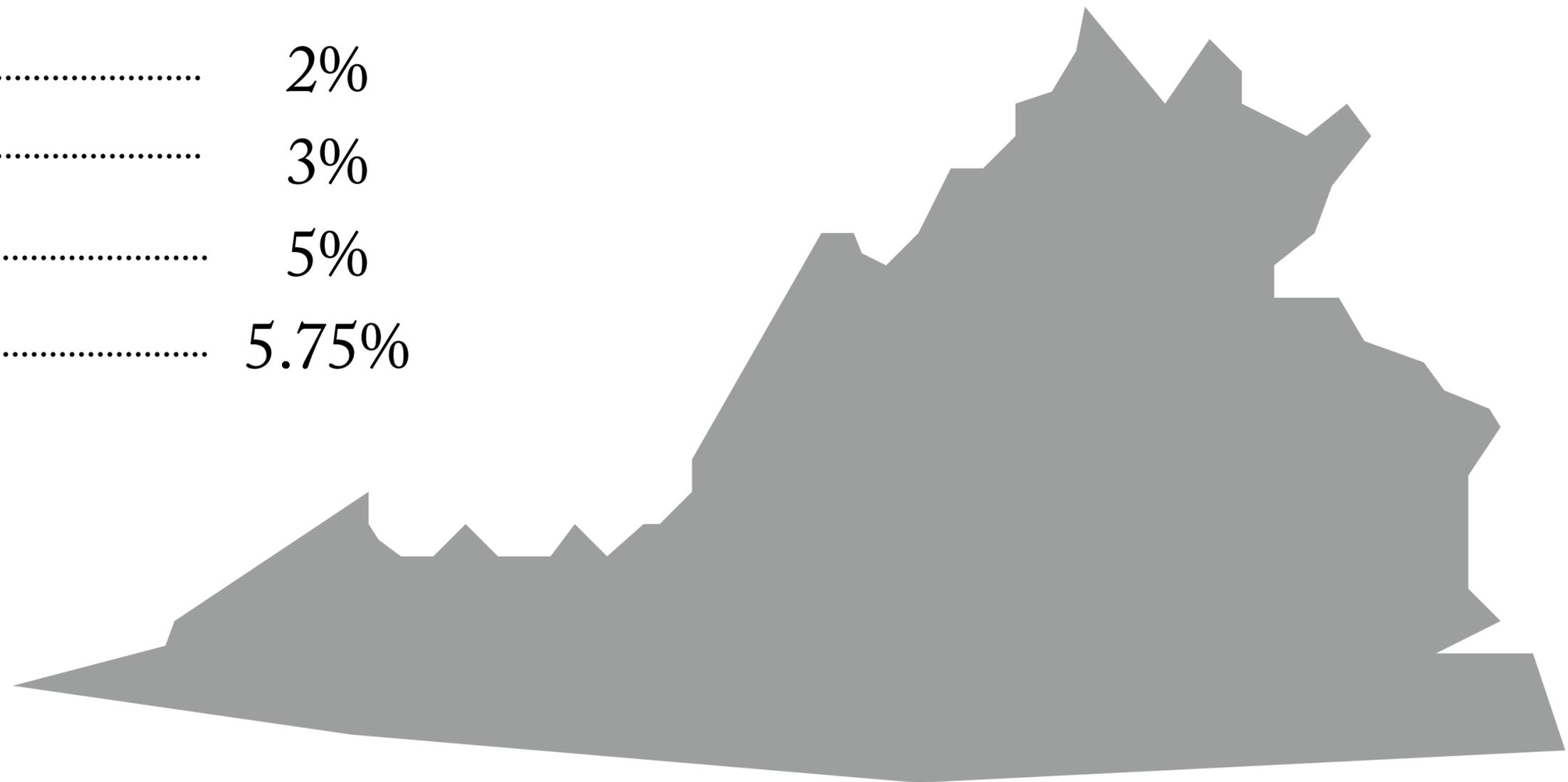


# Virginia Income Tax Rates

Income

Rate

> \$0	.....	2%
> \$3,000	.....	3%
> \$5,000	.....	5%
> \$17,000	.....	5.75%



# North Carolina Income Tax Rate



**Flat 5.25% rate  
on ALL income**

**Income Tax  
Liability for a  
Single Earner  
making \$25,000  
a year**

- Kentucky: \$1,115.50
- Maryland: \$873.75
- Ohio: \$12.83
- Pennsylvania: \$767.50
- Virginia: \$867.78
- **West Virginia: \$820.00**
- North Carolina: \$748.13

**Income Tax  
Liability for a  
Single Earner  
making \$50,000  
a year**

- Kentucky: \$2,365.50
- Maryland: \$2,061.25
- Ohio: \$741.41
- Pennsylvania: \$1,535.00
- Virginia: \$2,305.28
- **West Virginia: \$2,055.00**
- North Carolina: \$2,060.63

**Income Tax  
Liability for a  
Single Earner  
making  
\$100,000 a year**

- Kentucky: \$4,865.50
- Maryland: \$4,436.25
- Ohio: \$2,449.41
- Pennsylvania: \$3,070.00
- Virginia: \$5,180.28
- **West Virginia: \$5,345.00**
- North Carolina: \$4,685.63

# Why eliminate the personal income tax?

Elimination would incentivize:

- Savings
- Work
- Investment
- Innovation



Empowers West Virginians to be the authors of their own destinies by promoting financial stability and allowing them to keep more of their hard-earned money.

# 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**