EVALUATION OF THE

GOVERNOR'S COMMISSION ON FAIR TAXATION'S

"WEST VIRGINIA'S AGENDA FOR FAIR TAXATION"

A Report Prepared for the Affiliated Construction Trades Foundation

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February 24, 1999

EXECUTIVE SUMMARY

The Governor's Commission on Fair Taxation's "Agenda" recognized that "West Virginia's overall state tax structure is regressive. Sales and property taxes tend to take a larger percentage of the income of low-income individuals than they do from those with higher incomes." When state and local taxes are taken together, sales and property taxes account for 61 percent of the total. The fifth of the families with incomes under $17,000 a year pay 10.6 percent of their income in taxes, while the wealthiest 1 percent of families with $191,000 or more in income pay 7.9 percent.

The Commission's proposals are to be revenue neutral, but when there are changes there are winners and losers. The winners are the owners of businesses, who would enjoy a $348 million tax reduction the first year. Forty one percent of this tax reduction will go to just the wealthiest one percent of the tax payers. Three-fourths of the reduced business taxes will benefit the wealthiest 20 percent of the families. The losers are the bottom 80 percent of the families. Married non-elderly families will pay $51 million in new taxes, while the upper 20 percent of the families will pay $56 million less.

The Commission set as a goal to lower the regressivity of the state tax system. **The proposal made by the Commission would increase regressivity. Working families averaging $35,600 a year would pay $246 more in taxes, while the top 1 percent of the families averaging of $397,000 would have a reduction of $17,503.** Today West Virginia is 19 among the 50 states and Washington DC as measured by the ratio of the tax burden on the poorest 20 percent of the population to the top 1 percent. (The poorest pay 10.6 percent, the richest 7.9 percent). If the Commission's proposals are enacted it will be number 46. (The poorest would pay 11.6 percent, the richest only 3.5 percent).

Professor Mark Burton of Marshall University prepared a study for the Commission entitled, "The Projected Economic Impacts of West Virginia's Agenda for Fair Taxation". It found that the main impact of the proposed changes will be to stimulate investment. Unfortunately Professor Burton made major errors in estimating the current level of investment, overestimating investment in mining by $543 million or 75 percent and underestimating investment in manufacturing by $216 million or 25 percent. These major errors in inputs invalidate the study.

Michigan has had a Single Business Tax in effect since 1979. It failed to stimulate investment in manufacturing and did nothing to reverse the loss of jobs and the higher unemployment level in the state compared to the rest of the country. Over the years under pressure from small businesses who disliked the tax, all kinds of exemptions were added, so that the tax brings in a declining amount of the states revenue. MCLR finds that Michigan today has the 10th most regressive tax system of all the states in the country.

West Virginia could adopt either the California or Vermont tax rates and bring in more money than the current system does, or adopt a strictly progressive tax system, combining the best of three states' rates, which would bring in the same revenue as taxes do today.

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INTRODUCTION

The Affiliated Construction Trades Foundation of West Virginia asked the Midwest Center for Labor Research (MCLR) to examine the proposal of the Governor's Commission on Fair Taxation's proposed Agenda for major changes in the state's tax system, with proposed tax rates released on February 8, 1999. MCLR is a not-for-profit organization that does research for unions, community organizations and local government with respect to workers' standard of living, the problems of deindustrialization and taxation, as well as promoting High Road economic development.

What the study will examine

Since the Commission's Agenda makes suggestions for considerable changes in the state's tax system, MCLR will examine what these changes would mean for working families. Although the proposed changes are to be revenue neutral, they will benefit certain parties and hurt others. MCLR will look at the impact on families at different income levels. MCLR will examine the analysis of the tax proposals on economic growth in the state which was prepared by Marshall University Professor Mark Burton. The analysis projects that the proposed changes will stimulate economic growth. A major part of the proposal is the establishment of a Single Business Tax. MCLR will look at the impact of the Single Business Tax in Michigan, the one state with such a tax at a rate close to what the Commission is considering. Finally, MCLR will offer an alternative proposal for changes that will create a more progressive tax system.

Methods

MCLR looks at the tax burden of the lowest, middle and high groupings of families with respect to their income. The ratio of taxes as a percent of income paid by the bottom twenty percent of families to that paid by the top one percent of families, and also of the middle sixty percent of families to the top one percent, is the measure of progressivity of the taxes. MCLR uses economic multipliers from an input-output analysis of the state to see who bears the burden of the Single Business Tax. MCLR looks at investment in Michigan in relation to investment in the United States and also at the change in employment and unemployment in Michigan and the U.S. to measure the impact of the Single Business Tax on the state's economic performance.

THE CURRENT TAX SYSTEM

The Commission on Fair Taxation's proposal will affect many of the taxes in the state, both those of the state government itself and local government. In order to understand the impact of these changes, we need to look at the existing tax system.

> "West Virginia's overall state tax structure is regressive. Sales and property taxes tend to take a larger percentage of the income of low-income individuals than they do from those with higher incomes."
> *West Virginia's Agenda for Fair Taxation*, p. 13

> "A taxpayer's tax burden should increase as his capacity to pay increases."
> *West Virginia's Agenda for Fair Taxation*, p. iii.

Local government relies on the property tax

Today local governments take in 24 percent of the tax revenues of the state. Almost all local government revenues come from the property tax, 82 percent of the total for the 1994-95 tax year. The state government only receives $2.8 million from the property tax. The following table shows the property tax burden on married non-elderly families in West Virginia 1995:

THE PROPERTY TAX BURDEN

	1st Fifth Under $17,000	2nd Fifth $17,000 to $29,000	3rd Fifth $29,000 to $42,000	4th Fifth $42,000 to $58,000	Next 14% $58,000 to $89,000	Next 4% $89,000 to $191,000	Top 1% $191,000 or more
Average Income	$10,100	$22,800	$35,600	$49,500	$69,300	$114,000	$397,000
Property taxes % of Income	2.2%	1.5%	1.2%	1.2%	1.3%	1.4%	1.4%

Source: Citizens for Tax Justice, *Who Pays? A Distributional Analysis of the Tax System in All 50 States*, June 1996.

Regressive sales and excise taxes

The most important source of revenue for the state government today are sales and excise taxes, which make up 52 percent of state tax revenues. A little over half of these taxes are the General Excise Tax, which is currently 6 percent on the sale of most goods, but not various services. The other half come from selective sales tax, most importantly on motor fuels, public utilities and insurance premiums.

SALES AND EXCISE TAX BURDEN

	1st Fifth Under $17,000	2nd Fifth $17,000 to $29,000	3rd Fifth $29,000 to $42,000	4th Fifth $42,000 to $58,000	Next 14% $58,000 to $89,000	Next 4% $89,000 to $191,000	Top 1% $191,000 or more
Average Income	$10,100	$22,800	$35,600	$49,500	$69,300	$114,000	$397,000
Sales & Excise % of Income	7.2%	5.6%	4.5%	3.6%	2.8%	1.9%	1.1%

Progressive personal income and corporate profits taxes

The personal income tax today brings in 27 percent of state tax revenues. The rate is progressive, rising from 3 percent for a married family with earnings over $10,000 to 6.5 percent for over $68,000. The corporate income tax along with the business franchise tax bring in 8.6 percent of state taxes.

THE PERSONAL INCOME TAX AND TAXES ON CORPORATE PROFITS

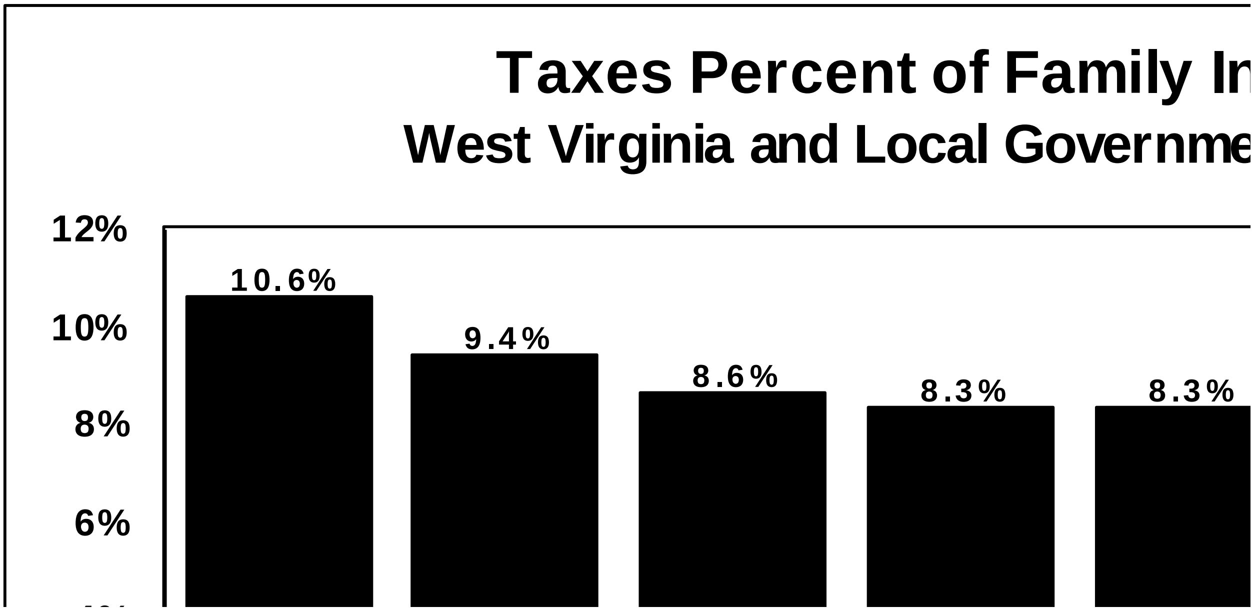
	1st Fifth Under $17,000	2nd Fifth $17,000 to $29,000	3rd Fifth $29,000 to $42,000	4th Fifth $42,000 to $58,000	Next 14% $58,000 to $89,000	Next 4% $89,000 to $191,000	Top 1% $191,000 or more
Average Income	$10,100	$22,800	$35,600	$49,500	$69,300	$114,000	$397,000
Personal income % of Income	1.0%	2.2%	2.9%	3.4%	4.1%	4.6%	5.1%
Corporate Income % of Income	0.1%	0.1%	0.0%	0.1%	0.1%	0.1%	0.3%

The following table combined all state and local taxes in West Virginia and shows these rates in relation to the share of income earned by grouping of families in order of their income:

THE TOTAL TAX BURDEN

	1st Fifth Under $17,000	2nd Fifth $17,000 to $29,000	3rd Fifth $29,000 to $42,000	4th Fifth $42,000 to $58,000	Next 14% $58,000 to $89,000	Next 4% $89,000 to $191,000	Top 1% $191,000 or more
Average Income	$10,100	$22,800	$35,600	$49,500	$69,300	$114,000	$397,000
Income Millions	$707	$1,593	$2,493	$3,467	$3,642	$1,599	$1,390
Percent of total Income	4.7%	10.7%	16.7%	23.3%	24.5%	10.7%	9.3%
Total taxes % of Income	**10.6%**	**9.4%**	**8.6%**	**8.3%**	**8.3%**	**8.1%**	**7.9%**
Taxes Paid Millions	$ 75	$150	$214	$288	$302	$130	$110
Percent of total taxes	5.9%	11.8%	16.9%	22.7%	23.8%	10.2%	8.7%

Married non-elderly families have 64 percent of all income in the state. According to Citizens for Tax Justice, the distribution of all taxes, including on single and elderly people, should be very similar to what is shown in this table.



In the table "The Total Tax Burden" on page 5, the row in bold "Total taxes % of Income" shows the regressive character of the state's taxes. The bottom 20 percent of the families pay 10.6 percent of their income in state and local taxes, while the top 1 percent of the families pay 7.9 percent. The bottom 80 percent of the families, with incomes under $58,000 a year received 55.5 percent of the income and paid 57.3 percent of the taxes. The top 20 percent of the families, had 44.5 percent of the income and paid 42.7 percent of the taxes. It is clear that the current tax system violates this principal that families' tax burden should increase as their capacity to pay increases.

THE COMMISSION'S PROPOSED CHANGES

The Commission's proposed tax changes fall into two groupings: Taxes that are reduced or eliminated and taxes that are increased or created. Business will enjoy a major reduction in taxes, with the elimination of the corporate profits tax, property taxes on inventory and equipment, and the franchise tax. Consumers will not longer have to pay the personal property tax paid on cars, boats and planes, and four person families with incomes under $48,000 a year will enjoy a small personal income tax reduction.

The major reduction in taxes paid by business are to be replaced by the Single Business Tax. The Commission says, "The implementation of the SBT would represent a fundamental shift in the taxation of business entities from the taxation of capital and growth to a far broader base of all economic activity." p. 38. This is correct, the SBT and the other business taxes that are being eliminated mean a major shift away from taxes on capital, but the Commission's report glaringly omitted to say on whom the tax is shifted, which is onto households. Most of the Single Business Tax falls on consumers, who also have to pay an increase in the General Excise Tax.

A major cut in taxes for the owners of business

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Most of the Commission's proposals reduce the taxes paid by businesses. Current taxes are paid after companies calculate their profit or loss for the year. They are not taxes that rise automatically with sales, and are therefore paid for by the owners of businesses. The Commission rightly says, "Moreover, the business tax structure emphasizes the taxation of capital through the personal property tax on machinery, equipment and inventory, the business franchise tax ... " p. 37

REDUCTION IN BUSINESS TAXES THE FIRST YEAR
Millions

Corporate profits tax	$161
Franchise tax	91
Corporate charter tax	5
Business inventory	15
Business tax on equipment	76
Total	$348

Source: West Virginia Department of Tax and Revenue

New capital investment and inventory buildup will be impacted by the Single Business Tax. MCLR looked at the impact of the Single Business Tax by employing the input-output modeling system called Implan developed by the U.S. Forestry Service. The 2.1 percent first year tax rate was applied to Employee Compensation and Proprietors Income in 502 detailed industries that would be subject to the tax.[i] Taking new capital investment in plant and equipment and using the multipliers of the model, the Single Business Tax will add $26 million to new capital spent in the state. As this capital is depreciated the cost would be passed on to consumers, but this occurs over a number of years. An additional $1.4 million a year in Single Business Tax would be paid on businesses' inventory build up.

No data is available on the owners of businesses in West Virginia, but very accurate information is available for the U.S. as a whole. In 1995 the top one percent of the households owned 51.4 percent of the stock, the next nine percent 37 percent and the bottom ninety percent 11.6 percent. The top one percent own 65.9 percent of the bonds, the next nine percent 23.9 percent and the bottom ninety percent 10.2 percent. The top one percent own 69.5 percent of the business equity, the next nine percent 10.2 percent and the bottom ninety percent 8.3 percent. (Edward Wolff, "Recent Trends in the Size Distribution of Household Wealth," *Journal of Economic Perspectives,* Summer 1998, p.140.) There is every reason to believe that the ownership of stocks, bonds and businesses in West Virginia follows the national pattern.

The U.S. Congressional Budget Office (CBO) regularly studies the incidence of the U.S. corporate income tax on households by income group.

WHO BENEFITS FROM THE BUSINESS TAX SAVINGS?
Dollars in Millions

	Lowest 5th	2nd Fifth	3rd Fifth	4th Fifth	Next 15%	Next 4%	Top 1%	Totals
Percent of U.S. corporate tax paid	1.0%	6.0%	8.0%	10.0%	16.0%	18.0%	41.0%	100.0%
Savings to WV business owners	$3	$19	$26	$32	$51	$58	$131	$321
West Virginia distribution of income	4.7%	10.7%	16.7%	23.3%	24.5%	10.7%	9.3%	100.0%
West Virginia Income	$1,576	$3,550	$5,555	$7,726	$8,116	$3,563	$3,098	$33,177
Savings % of WV Income	0.2%	0.5%	0.5%	0.4%	0.6%	1.6%	4.2%	

Source: U.S. Congressional Budget Office, *Estimates of Federal Tax Liabilities for Individuals and Families by Income Category and Family Type for 1995 and 1999,* Table 10. West Virginia income distribution, Citizens for Tax Justice, *Who Pays?* West Virginia total income from Implan.

MCLR applied the CBO distribution showing which families pay the U.S. corporate income tax to the $321 million first year savings of West Virginia business owners. Many of the corporations operating in West Virginia are owned out-of-state or by publicly traded companies headquartered in the state, but owned by stockholders located throughout the country. This is the case of coal companies, steel mills, chemical plants, department stores, airline companies, trucking companies, railroads, public utilities, and fast food restaurant chains. There is every reason to believe the ownership of the stock of these companies is concentrated by income category in the same way as stock ownership in the country as a whole, and the addition of West Virginian privately owned corporations doesn't change the overall pattern of ownership. Using the West Virginia distribution of income, we found the total family income in each bracket. The savings in business taxes is calculated as a percent of income for each income bracket.

The greatest beneficiaries of the business tax reduction are the wealthiest families, who either live in West Virginia or live outside the state but have substantial business investments in the state. The top 1 percent of the families enjoy 41 percent of the business tax savings. The top

20 percent enjoy three fourths of the savings.

The Single Business Tax falls mainly on consumers

The Single Business Tax would replace the various business taxes. This is a Value Added Tax that is paid by businesses at each level of the production chain. The Commission is considering a 2.1 percent rate the first year and 2 percent thereafter. The Department of Tax and Revenue estimates this tax will bring in $336 million the first year.

There is no doubt among economists that a Single Business Tax will be passed along to consumers. Susan Wieler writing in the November-December 1998 issue of *Challenge*, "Consumption Taxes: Do They Spur Growth", says of Value Added Taxes, "Although the VAT is levied on business inputs as well as consumer goods, it is passed on to the consumer in the same way as the retail sales tax. This becomes obvious when one sees the VAT added to retail purchases in Canada and Europe."

The Single Business Tax is remitted by businesses at each level of the production chain to the state. The tax is built into the price for which the good or service is sold to the various levels of business purchases and is ultimately paid by the household consumer. In this respect it is the same as a sales tax. The Single Business Tax removes all the progressive features of the current taxes on capital, which is owned by the wealthiest people, and shifts the burden onto households. Lower income households spend a higher proportion of their income on consumer goods than do upper income families, who have savings. Thus sales taxes always make up a higher percentage of the income of the poorest families.

The multipliers of the model show that the increased cost of producing consumer goods and services would raise the cost of living for the poorest twenty percent of families by 1.4 percent of their total income. For families averaging $50,000 a year their cost of living would rise by 0.5 percent of their income. For the wealthiest one percent of families the Single Business Tax would raise living costs by only 0.2 percent.

The Department of Tax and Revenue estimates the Single Business Tax will bring in $336 million the first year. MCLR estimates that households will pay $180 million or 54 percent of the total, the owners of capital $27 million or 8 percent, government $27 million or 12 percent (by having to pay higher prices for the goods and services it buys), and $89 million or 26 percent will be exported out of the state.

The General Excise Tax is increased

The Governor's Commission is proposing to rename the Sales and Use tax a General Excise Tax (GET), and to apply this 6 percent rate to a variety of services that have been exempt up to now, such as to barbers and beauticians, accountants, lawyers, computer, repair and other services. There are also proposed changes in the tax on electric, gas, and water utilities, and telecommunications. The Governor's Commission is also proposing small changes in the tobacco, soft drink and gasoline sales tax, which we treated together with the GET. The poorest families averaging only $10,000 a year would have to pay 1 percent of their income in the increased GET tax or $97 a year. A family making $50,000 would have to pay $282 a year or 0.6 percent of their income. A family with $397,000 income would pay only $208 more in GET taxes, or 0.4 percent of their income.

Removal of the Personal Property Tax on Cars, Boats and Planes
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This is a tax on cars, boats and airplanes owned by individuals that the Commission proposes removing. The West Virginia Department of Tax and Revenue estimates that a family with $10,000 a year income pays 0.2 percent a year in this tax, while families with incomes over $35,000 pay 0.5 percent a year. The Commission proposes to end this tax that is very much disliked, but the change is actually in a regressive direction, since the wealthiest tax payers save 0.5 percent, while the poorest tax payers save only 0.2 percent.

The Personal Income Tax

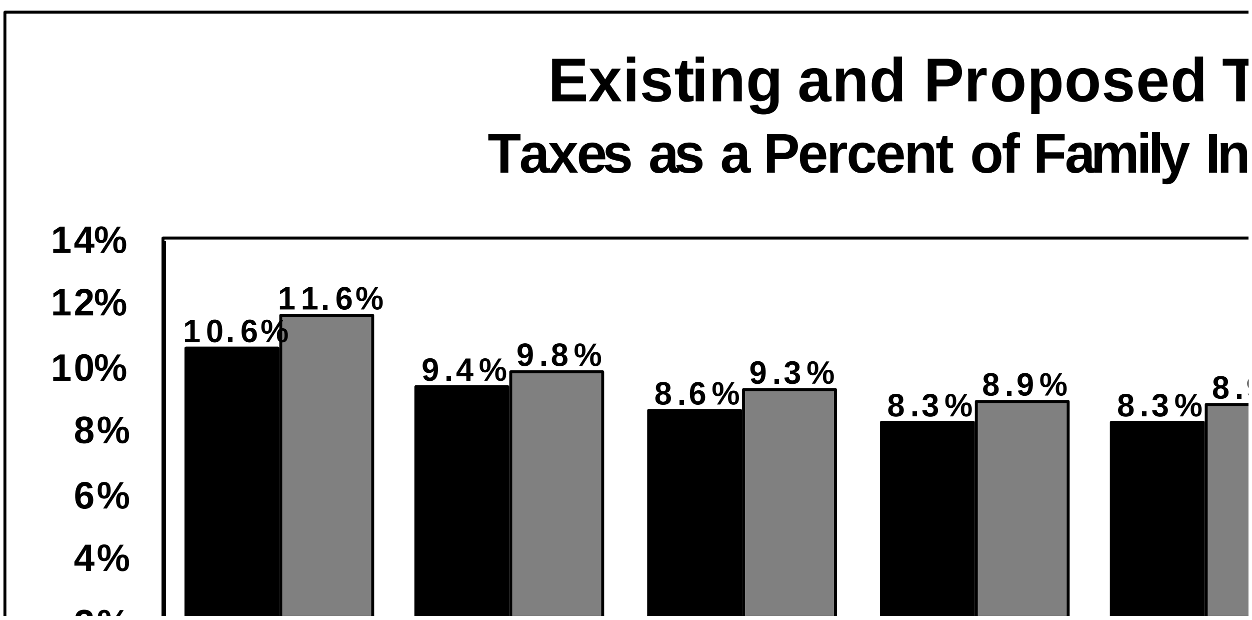
The Commission's proposal uses multiples of the Federal Poverty Level as an exemption and then has a rate of 5 percent on the first $40,000 of adjusted income, and 6.5 percent over that. On average it estimates a 5.9 percent reduction in income tax revenues. The poorest families averaging $10,000 a year will enjoy a 1.2 percent reduction in the tax as a percent of their total income. Families of three with $35,600 income will receive only a 0.1 percent reduction in the tax in relation to their income, and families averaging $50,000 will receive no reduction. Families averaging $397,000 will pay a small increase of 0.1 percent of their income.

THE DISTRIBUTIONAL IMPACT OF THE CHANGES ON TAXPAYERS

IMPACT BY INCOME BRACKET

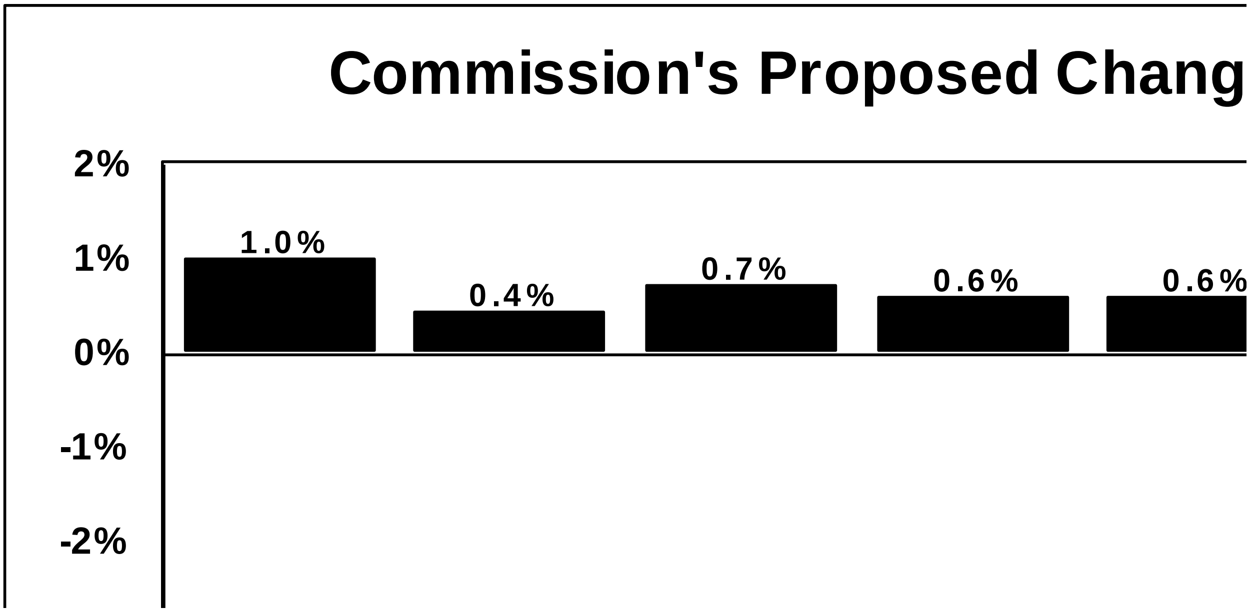
	1st Fifth	2nd Fifth	3rd Fifth	4th Fifth	Next 15%	Next 4%	Top 1%
Income ranges	Under $17,000	$17,000 to $29,000	$29,000 to $42,000	$42,000 to $58,000	$58,000 to $89,000	$89,000 to $191,000	$191,000 or more
Total income Millions	707	1,593	2,493	3,467	3,642	1,599	1,390
Average Income	10,100	22,800	35,600	49,500	69,300	114,000	397,000
Tax % of Income now	10.6%	9.4%	8.6%	8.3%	8.3%	8.1%	7.9%
Single Business Tax	1.4%	0.8%	0.6%	0.5%	0.5%	0.4%	0.2%
General Excise Tax	1.0%	0.8%	0.7%	0.6%	0.5%	0.4%	0.1%
Personal Income tax	-1.2%	-0.6%	-0.1%	-0.0%	0.8%	0.5%	0.1%
Auto Tax	-0.2%	-0.6%	-0.5%	-0.5%	-0.5%	-0.5%	-0.5%
Business tax reduction	-0.2%	-0.5%	-0.5%	-0.4%	-0.6%	-1.6%	-4.2%
Total % Change	**1.0%**	**0.4%**	**0.7%**	**0.6%**	**0.6%**	**-0.9%**	**-4.4%**
Total Change Millions	7	7	17	20	21	-15	-61
Increase per family	100	97	246	284	392	-1,059	-17,503
New tax % of income	11.6%	9.8%	9.3%	8.9%	8.9%	7.2%	3.5%

The row in bold "Total % Change" shows the effect of the Commission's proposal on households. The bottom 20 percent of the families would pay 1 percent more of their income in taxes, while the top 1 percent of the families would have a reduction equal to 4.4 percent of their



income. Working families averaging $35,600 a year would pay $246 more in taxes, while the top 1 percent of the families averaging of $397,000 would have a reduction of $17,503. There would be a sharp increase in the regressivity of the tax system.

A useful measure of the progressivity or regressivity of taxes is the ratio of taxes paid as



a percent of income by the bottom 20 percent of families to the top 1 percent, and by the middle 60 percent of families to the top 1 percent. The following table shows the increase in regressivity of the West Virginia tax system if the Commission's proposal were to be adopted:

CHANGE IN TAX BURDEN – CURRENT TO PROPOSED TAXES

	Poorest 20%	**Middle 60%**	**Top 1%**	**Poorest to Top 1%**	**Middle to Top 1%**
Current Taxes	10.6%	8.6%	7.9%	1.34	1.09
Proposed Taxes	11.6%	9.2%	3.5%	3.32	2.64

When the changes in taxes of all married non-elderly families are added together, the tax revenue is down a very small $5 million, meaning it is basically revenue neutral. But the bottom 80 percent of the families would pay $51 million new taxes, while the upper 20 percent of the families would pay $56 million less. The bottom 80 percent of the families have to pay 0.6 percent of their income in increased taxes, while the top 20 percent of families will receive a tax reduction equal to 0.8 percent of their income.

The proposed changes lead to much more regressive taxes

"First, through the use of the small business exemption and the elimination of the property tax on personal property, the overall tax structure of the State will be less regressive."

West Virginia's Agenda for Fair Taxation, p. 40.

Currently West Virginia ranks 19 among the 50 states and Washington DC by the ratio of the bottom fifth of the families to the top 1 percent on a scale from the progressive to the most regressive using Citizens for Tax Justice figures. If the Commission's proposal passes, by this measure it would rank 46. (See Appendix) Taking the ratio of the second fifth of families to the top 1 percent, today West Virginia ranks 16. If the Commission's proposal passes it would rank 48. The Commission's proposals violate its goal of "A Less regressive tax system" and its principal of Ability to Pay "A taxpayer's tax burden should increase as his capacity to pay increases."

HOW VALID IS THE ECONOMIC IMPACT REPORT?

The Commission employed Mark Burton, Professor at the Marshall University Center for Business and Economic Research to study the economic impact on the state of the proposed tax changes. His paper, "The Projected Economic Impacts of West Virginia's Agenda for Fair Taxation" was issued in November 1998, and is the only study published by the Commission to date showing the purported benefit to the state of its proposed tax changes. The study used an elaborate economic model to measure the impact of the proposed changes. As the study indicates, the reliability of the projected impacts depends on the quality of the data put into the model. MCLR finds that there are major errors in the investment data entered into the model, which in turn affects the level of profitability, new investment and forecast growth. Due to these major errors the study cannot be used to forecast the economic impact of the proposed tax changes.

A forecast of rapid economic growth as a result of the tax changes ?

The Impact analysis predicts that the tax changes would bring very great economic benefit to the state. If the proposed changes were in effect in the year 2000 it is predicted that employment would rise by 4.8 percent, the Gross State Product by 4.5 percent, and final demand by 10.3 percent. Looking at the figure 4.12 on page 41 it forecasts that new investment in equipment will go from $0.9 billion to $1.7 billion or almost double, and that equipment investment will go from $3.1 billion to $5.6 billion or increase by 81%. Total new capital investment would be up 87 percent. There would be a remarkable increase in business investment in the state.

The Impact analysis utilizes the REMI model developed by Regional Economic Models Inc. This model embodies a considerable amount of data on West Virginia and a system of numerous equations that enables the user to examine the impact of policy changes such as the Commission's proposed tax changes. With REMI the user first has to calibrate a baseline situation that should accurately reflect the economy as it is today. Then the model measures the impact of the policy changes. The analysis correctly says, "The utmost caution must be taken to ensure that the best possible data is used to populate the empirical model." p. 4. This needs to be emphasized. If poor data is entered in to the model, the results will not be valid.

MCLR found that the Impact analysis exaggerated the level of mining investment by $543 million or 75 percent and underestimated the level of manufacturing investment by $216 million or 25 percent. These major errors meant the study cannot produce reliable results of the impact of the proposed tax changes on the West Virginian economy.

If business keeps more of its profits, it would be a major spur to investment?

The analysis emphasizes that the projected economic growth comes from the change in capital investment: "the proposed changes also entail a much more favorable treatment of capital formation by the State's system of taxes. It is this favorable treatment of capital that largely drives the forecasted changes in economic outcomes." p. 22

The most important change that entered into REMI to measure the proposed tax changes comes from the elimination of the corporate profits tax and its replacement by the Single Business Tax. The Commission is considering a 3.5 percent Single Business Tax. The study input into REMI the effect of a 3.5 percent increase in "Non Wage Labor" costs. Then it looked at the effect of the 3.5 percent tax on profits minus new investment. If the SBT on profits is less than the current corporate profits tax then the company has an increase in its after tax profits. REMI then takes this into account and looks how the industry would respond to these additional profits in terms of its cost of capital and labor, which determines the level of its investment. When REMI projected a 87 percent increase in new capital investment, it depended on how well the analysis estimated the level of profits and investment by industry.

In the case of new capital investment, the study estimates the current level is $3.862 billion. Professor Burton provided this figure to MCLR, along with the estimated capital investment by industry. He used the following methodology to estimate investment, "Annual investment values were derived from national firm averages and applied to West Virginia industries based on output." p. 10. The two most important areas of investment are mining with $1.267 billion estimated, and manufacturing with $666 million. Mining accounts for 32.8 percent of the total estimated investment and manufacturing 17.2 percent. The two industrial sectors combined add up to half the estimated investment level.

There are major errors in the analysis' new investment estimates

MCLR examined these estimated investment levels and found major problems with them. Fortunately there is a precise check to these figures in the case of manufacturing investment. Each year the Bureau of the Census puts out the *Annual Survey of Manufacturers* which gives investment figures for each West Virginia manufacturing industry. In 1996, the most recent year available, total new capital investment in manufacturing was $882 million or $216 million more than the study estimated. Its figure was off by 25 percent. In the important chemical industry, which received the most investment of any manufacturing industry, the new investment was $451 million, but it estimated $305 million or a $146 million underestimate. In the primary metals industry, which includes steel, the correct figure is $138 million while it estimated $91 million, or a $47 million error. In seven manufacturing industries which receive much less investment, the study overestimated investment. The full figures from the *Annual Survey* and the report's estimates are included in the Appendix to this report.

In the case of mining, the study's estimate of $1.267 billion is in the opinion of MCLR even more in error. Unfortunately no recent figures are available for new investment in the state's mining, but sufficient data exists to make a reliable estimate. In the case of coal mining, U.S. investment was 23.9 percent of Gross Domestic Product originating in coal mining in 1996. West Virginia had $2.63 billion in Gross State Product (GSP) originating in coal. Therefore the estimated investment was $629 million. In the oil and gas industry, national investment was 28 percent of output, and West Virginia's GSP was $266 million, so estimated investment was $75 million. Coal and Oil & gas account for 97.2 percent of the entire West Virginia mining industry.

Therefore we estimate 1996 total sector investment at $724 million.

The study's figure of $1,267 million in mining investment is $543 million more than our estimate or 75 percent higher. The reason for his error was that the study used the ratio of investment to output for mining as a whole in the U.S. and then applied it to West Virginia. This ratio is 17.1 percent for mining as a whole, but is only 11.5 percent for coal mining. In 1996 coal mining was 88.3 percent of West Virginia's GSP, while it was only 11.3 percent of U.S. mining. By using a much higher ratio of investment to output than is appropriate for the state, he produced a greatly exaggerated level of investment.

The biggest problem of study's investment figures was that there was no control that the estimates for each industry had to add up to. This means there was nothing that would point out highly dubious figures. By using the capital investment estimate of Implan we can obtain such a control. For 1995 Implan estimates West Virginian non-residential capital investment at $2,212 million. Implan takes national investment figures from the U.S. Department of Commerce and applies them to all states. The state totals as well as the final demand for capital goods by industry in each state have to add up to the national total. There is a control to see that the state total makes sense, a control that the study's estimate lacked. The Impact analysis' level of investment at $3.862 billion is $1.650 billion higher than what Implan provides or 75 percent more.

This major flaw in the investment level invalidates the study's results

As the study emphasized, its high growth projections for the state are driven by new capital investment. Unfortunately the study employed highly flawed data for the baseline investment level. REMI is a very complicated economic model. Unless all the inputs are correct, the output will not be right. The mining investment level is off by $543 million or 75 percent and the manufacturing level by $216 million or 25 percent. The study's estimates on the impact on profits must be completely wrong, and give rise to wrong growth estimates. Under these circumstances the reports's estimates of substantial economic growth due to the proposed tax changes are invalid.

THE SINGLE BUSINESS TAX IN MICHIGAN

The Commission recommends the Single Business Tax as a way to spur economic growth and make the state competitive. There is an excellent check on the impact of a state replacing various forms of corporate profits tax with a Single Business Tax. Today two states have Single Business Taxes, Michigan with a 2.3 percent tax and New Hampshire with an 0.25 percent rate. Since West Virginia is considering a 3.5 percent rate, it makes sense to see what the impact was of the introduction of the Single Business Tax in Michigan. MCLR finds that the Single Business Tax in Michigan did not spur manufacturing investment and did not improve employment growth. It did not result in a lower unemployment rate in comparison with the state's historical relationship to the country.

The Michigan Single Business Tax was passed into law in 1975 and replaced a host of business taxes with a Value Added Tax, almost identical to what is proposed in West Virginia, in that it subtracts new capital investment from Value Added before the tax is applied. When the tax first went into effect it overlapped with the old tax system for one year to make up a budget deficit. The first year it was in operation alone was in fiscal year 1979.

The Michigan Office of Revenue and Tax Analysis produced a study "The Michigan Single Business Tax 1993-94" which discusses the impact of the tax. "Unfortunately, the neutrality of the SBT has been compromised over the past 20 years as a result of modifications which have narrowed or altered the pure value-added tax base." Soon after the tax was passed in 1975 various changes were made, including a gross receipts reduction, excess compensation reduction and numerous other exemptions, credits and deductions. There is an alternate tax rate for firms with adjusted gross receipts less than $10 million, so that small firms eliminate most of their liability in years when they have low earnings. Originally the rate was 2%, but with the changes it was raised to 2.35% to be revenue neutral and then the rate was reduced to 2.3%. "Many firms are still strongly opposed to the VAT concept because they have liability in years when they do not realize a profit."

The Single Business Tax is bringing in a declining share of state tax revenue

The Michigan Single Business Tax has failed to be a steady source of income for the state. In 1979, the first full year the Single Business Tax was in effect, it brought in 18.37% of total state taxes, and 19.99% in 1980. By 1995 it brought in 13.42% and 12.92% in 1996, a substantial drop. In 1979 it brought in 1.25% of state personal income and 1.29% in 1980. By 1995 it brought in 1.03% and 1.01% in 1996. (The figures for all years the Single Business Tax have been in effect are shown in the Appendix.) That is, in general it is bringing in a declining share of the state's taxes.

The Single Business Tax did not spur manufacturing investment

The following table shows what happened in manufacturing investment in Michigan following the enactment of the Single Business Tax. Unfortunately the U.S. Bureau of the Census didn't collect data on manufacturing investment from 1979 to 1981. After the Single Business Tax went into effect in 1979, Michigan investment has not grown at a faster rate than national investment.

**NEW CAPITAL INVESTMENT IN MANUFACTURING
MICHIGAN & THE U.S. MILLIONS OF DOLLARS**

	MI	**U.S.**	**MI % U.S.**
1974	$2,850.7	$35,696.4	8.0%
1975	2,263.3	37,262.1	6.1%
1976	2,636.1	40,545.2	6.5%
1977	3,739.2	47,459.0	7.9%
1978	4,742.7	55,209.2	8.6%
1982	3,512.8	74,561.6	4.7%
1983	2,546.8	61,930.5	4.1%
1984	4,239.2	75,185.8	5.6%
1985	5,718.6	83,058.3	6.9%
1986	5,621.3	76,354.5	7.4%
1987	4,793.5	78,649.9	6.1%

Source: U.S. Bureau of the Census, *Annual Survey of Manufacturers, Geographic Area Statistics*, Various Years. No Michigan data is available for 1979 to 1981.

The Single Business Tax did not improve the employment situation in the state

The following table shows that Michigan total employment increased at a slightly higher rate than the U.S. increase in 1978, but in 1979, 1980, and 1981 its growth rate was below the U.S. level The Michigan unemployment rate was at a level higher than the U.S. from 1979 to 1981, continuing the pattern that existed before the beginning of the Single Business Tax. This tax had no demonstrable effect in changing economic performance in the state..

EMPLOYMENT AND UNEMPLOYMENT IN MICHIGAN AND THE U.S.

Employment

Unemployment Rate

MI % Change U.S. % Change MI U.S.
Thousands Millions

1976	3,618		79.4		9.4%	7.6%
1977	3,777	4.9%	82.5	3.9%	8.2%	6.9%
1978	3,908	4.9%	86.7	5.1%	6.9%	6.0%
1979	**3,979**	**0.8%**	**89.8**	**3.6%**	**7.8%**	**5.8%**
1980	**3,759**	**-5.3%**	**90.4**	**0.7%**	**12.4%**	**7.0%**
1981	**3,777**	**-2.3%**	**91.2**	**0.9%**	**12.3%**	**7.5%**

Source: U.S. Bureau of the Census, *Current Population Survey, Economic Report of the President* 1991, for non-agricultural employment, Table B-43. Years in bold are when the Single Business Tax was in effect.

Michigan taxes are among the most regressive in the country

Today Michigan has the 10th most regressive tax system in the country. The poorest 20 percent pay 13.3 percent of their income in taxes, the middle 60 percent 10.6 percent and the top 1 percent pay 6.9 percent. The poor pay 193 percent of the level of the top 1 percent and the middle pay 154 percent. (Citizens for Tax Justice).

The Single Business Tax did not stimulate manufacturing investment and it did not reverse Michigan's poor economic performance in relation to the rest of the country.

RECOMMENDATIONS FOR A PROGRESSIVE TAX SYSTEM

A good measure of the progressivity of a tax system is the ratio of the effective tax rate of the poorest 20 percent of the families to the top 1 percent, and also of the middle 60 percent to the top 1 percent.

West Virginia's tax burden versus the most progressive states

WEST VIRGINIA AND THE FOUR STATES WITH THE MOST PROGRESSIVE TAX SYSTEMS MARRIED NON-ELDERLY FAMILIES

	Poorest 20%	Middle 60%	Top 1%	Ratio Poor to Top 1%	Ratio Middle to Top 1%	Tax revenue % of WV now
West Virginia	10.6%	8.6%	7.9%	134.2%	109.3%	100%
Delaware	6.3%	6.9%	7.6%	82.9%	91.0%	83%
Montana	7.6%	7.0%	7.7%	98.7%	90.6%	85%
California	12.0%	9.1%	11.6%	103.4%	78.1%	113%
Vermont	9.5%	9.2%	9.6%	99.0%	95.4%	108%

Source: Citizens for Tax Justice, *Who Pay? A Distributional Analysis of the Tax Systems in All 50 States,* June 1996.

The right hand column gives the tax revenue that would come in if West Virginia had the same tax burden for each income bracket as the other four states. If it adopted the California system, it would bring in 13 percent more revenue. If it adopted the Vermont system it would bring in 8 percent more revenue. The Delaware and Montana rates would bring in less taxes than the current West Virginia rate structure.

West Virginia's income per capita and taxes compared to the progressive states

When considering the tax rates of different states, it makes sense to look at the per capita income and the tax revenue per capita that each state brings in. Comparing West Virginia with the four states with the most progressive tax system:

THE RELATIVE POSITIONS OF THE STATES WITH THE MOST PROGRESSIVE TAX SYSTEM

	Revenue per Capita	Income per Capita	Taxes % of Income
Delaware	$ 2,381.47	$28,443	8.4%
Montana	1,432.57	19,704	7.3%
California	1,911.08	26,218	7.3%
Vermont	1,526.59	23,018	6.6%
West Virginia	1,600.19	18,734	8.5%

West Virginia's per capita income is the lowest of the five states considered. Its tax burden as a percent of income is the highest at 8.5 percent, although this is only one tenth of a percent higher than that of Delaware with an 8.4 percent tax burden. West Virginia's state tax revenue per capita is in the middle of the range of the other states.

The type of taxes the progressive states rely upon

The following table shows the different types of taxes these five states use:

TYPE OF TAX

	Delaware	Montana	California	Vermont	West Virginia
Property Taxes	0.0%	16.9%	5.9%	1.1%	0.1%
Sales & Gross Receipts Taxes	14.5%	20.7%	40.9%	45.5%	52.1%
License Taxes, Total	33.2%	11.4%	4.8%	7.5%	5.2%
Individual Income	38.0%	34.5%	37.7%	35.9%	27.1%
Corporation Net Income	9.9%	7.1%	9.4%	5.0%	8.6%
Death & Gift	1.8%	1.2%	1.2%	2.0%	0.6%
Documentary & Stock Transfer	2.5%	0.0%	0.0%	1.5%	0.2%
Severance	0.0%	4.5%	0.1%	0.0%	6.1%
All Other	0.0%	3.9%	0.0%	1.3%	0.0%
	100.0%	100.0%	100.0%	100.0%	100.0%

Source: U.S. Dept. of Commerce, Bureau of the Census, *State Government Tax Collections: Fiscal Year 1996-97.*

West Virginia and Montana both use severance taxes, which are based on the mineral wealth of the states. West Virginia has by far the highest reliance on the sales and gross receipts tax. Its reliance on the individual income tax is the lowest. The share of income coming from the corporate income tax is a little lower than Delaware and Montana. Its revenues from the death and gift taxes and the documentary and stock transfer taxes, which are paid by the wealthiest tax payers, is lower than the four states with progressive taxation.

Possible tax burdens West Virginia could use for progressive taxation

The following table shows four different alternative rate structures that West Virginia could consider:

POSSIBLE TAX RATES TO MAKE A PROGRESSIVE WEST VIRGINIA SYSTEM

	1st Fifth Under $17,000	2nd Fifth $17,000 to $29,000	3rd Fifth $29,000 to $42,000	4th Fifth $42,000 to 58,000	Next 14% $58,000 to $89,000	Next 4% $89,000 to $191,000	Top 1% $191,000 or more	Tax revenue % of WV now
West Virginia Now	10.6%	9.4%	8.6%	8.3%	8.3%	8.1%	7.9%	100%
Delaware	6.3%	6.7%	6.7%	7.2%	7.4%	7.1%	7.6%	83%
California	12.0%	9.2%	8.9%	9.1%	9.4%	9.9%	11.6%	113%
Vermont	9.5%	8.5%	10.0%	8.9%	9.3%	8.7%	9.6%	108%
Mixed	6.3%	6.7%	6.7%	8.3%	9.4%	9.9%	11.6%	100%

As shown above, the California system would bring in 13 percent more than the West Virginia current system does, and the Vermont system would bring in 8 percent more. The mixed rate system uses the three top rates of California, the current rate for the 4th Fifth from West Virginia, and the low rates of Delaware for the bottom three Fifths. This rate system would be revenue neutral, bringing in the same amount as the current system, and be a progressive tax system where higher brackets pay a higher share in taxes.

IMPACT ON PROGRESSIVITY

	Poorest 20%	Middle 60%	Top 1%	Poorest to Top 1%	Middle to Top 1%
Current Taxes	10.6%	8.6%	7.9%	1.34	1.09
Commission Proposal	12.4%	10.7%	8.0%	1.54	1.33
A Progressive Proposal	6.3%	7.4%	11.6%	0.54	0.64

If the state legislature decided it wanted to adopt a progressive tax system it would be possible to figure out what combination of taxes would yield these rates, and at the same time the tax system could be simplified to ease the difficulty many tax payers currently have in figuring out what taxes they have to pay.

APPENDIX

WEST VIRGINIA STATE AND LOCAL TAXES FISCAL YEAR 1994-95
Millions of Dollars

	Total	% of Total	State	% of Total	Local	% of Total	Local % of Total
Taxes	$3,573.6		$2,731.9		$841.7		23.6%
		100.0%		100.0%		100.0%	
Property tax	692.7	19.4%	2.3	0.1%	690.3	82.0%	99.7%
Sales & gross receipts	1,491.5	41.7%	1,460.2	53.4%	31.4	3.7%	2.1%
General sales	793.5	22.2%	793.5	29.0%	0.0	0.0%	0.0%
Selective sales taxes	698.1	19.5%	666.7	24.4%	31.4	3.7%	4.5%
Motor fuel sales	207.5	5.8%	207.5	7.6%	0.0	0.0%	0.0%
Alcoholic beverage sales	12.0	0.3%	7.9	0.3%	4.1	0.5%	33.9%
Tobacco	34.0	1.0%	34.0	1.2%	0.0	0.0%	0.0%
Public utility	230.5	6.4%	209.2	7.7%	21.2	2.5%	9.2%
Other sales	214.1	6.0%	208.1	7.6%	6.1	0.7%	2.8%
Individual income	709.9	19.9%	709.9	26.0%	0.0	0.0%	0.0%
Corporate income	218.7	6.1%	218.7	8.0%	0.0	0.0%	0.0%
Motor vehicle license	85.1	2.4%	84.4	3.1%	0.6	0.1%	0.8%
Other taxes	375.7	10.5%	256.3	9.4%	119.3	14.2%	31.8%

Source: U.S. Dept. of Commerce, Bureau of the Census, *West Virginia State & Local Government Finances by Level of Government: 1994-95.*

RANK OF WEST VIRGINIA IN RELATION TO THE U.S. NOW AND WITH PROPOSAL STATE AND LOCAL TAXES AS A PERCENT OF TOTAL INCOME

	Bottom Fifth	Top 1 Percent	Ratio Bottom 5th to Top 1%	Rank Progressive to Regressive
Delaware	6.3%	7.6%	82.9%	1
Idaho	9.2%	9.4%	97.9%	2
Montana	7.6%	7.7%	98.7%	3
Vermont	9.5%	9.6%	99.0%	4
Minnesota	11.0%	10.8%	101.9%	5
South Carolina	8.1%	7.9%	102.5%	6
California	12.0%	11.6%	103.4%	7
Oregon	10.9%	10.2%	106.9%	8
North Carolina	9.7%	8.7%	111.5%	9
DC	10.5%	9.3%	112.9%	10
Maine	11.6%	10.0%	116.0%	11
Rhode Island	13.0%	10.7%	121.5%	12
Hawaii	11.0%	8.9%	123.6%	13
Nebraska	10.9%	8.8%	123.9%	14
Ohio	11.6%	9.3%	124.7%	15
Kentucky	10.5%	8.2%	128.0%	16
Maryland	11.0%	8.3%	132.5%	17
Massachusetts	11.6%	8.7%	133.3%	18
West Virginia now	10.6%	7.9%	134.2%	**19**
Virginia	9.6%	7.1%	135.2%	20
Kansas	11.0%	8.0%	137.5%	21
Oklahoma	9.9%	7.1%	139.4%	22
Georgia	11.1%	7.9%	140.5%	23
Colorado	10.0%	6.8%	147.1%	24
Iowa	12.4%	8.4%	147.6%	25
Missouri	11.5%	7.6%	151.3%	26
Arkansas	12.0%	7.9%	151.9%	27
Utah	12.0%	7.8%	153.8%	28
Wisconsin	13.7%	8.8%	155.7%	29
Arizona	11.3%	7.2%	156.9%	30
North Dakota	10.6%	6.6%	160.6%	31
New Mexico	15.0%	9.2%	163.0%	32
Connecticut	11.5%	6.8%	169.1%	33
Mississippi	12.1%	7.1%	170.4%	34
New Jersey	15.9%	8.8%	180.7%	35
New York	16.1%	8.9%	180.9%	36
Michigan	13.3%	6.9%	192.8%	37
Indiana	12.6%	6.5%	193.8%	38
Pennsylvania	13.3%	6.1%	218.0%	39
Illinois	13.6%	6.1%	223.0%	40
Louisiana	13.4%	6.0%	223.3%	41
Alabama	11.6%	4.8%	241.7%	42
New Hampshire	9.1%	3.7%	245.9%	43
Wyoming	8.2%	2.8%	292.9%	44
Alaska	6.9%	2.3%	300.0%	45
Texas	13.8%	4.4%	313.6%	46
West Virginia Proposal	11.6%	3.5%	331.4%	
Tennessee	12.3%	3.6%	341.7%	47
Florida	14.0%	3.6%	388.9%	48
South Dakota	11.7%	2.9%	403.4%	49
Washington	17.1%	3.9%	438.5%	50

Nevada	8.9%	1.8%	494.4%	51

Source: Citizens for Tax Justice, Who Pays? A Distribution Analysis of the Tax System in all 50 States, and MCLR for the Commission's West Virginia Proposal.

CAPITAL INVESTMENT IN MANUFACTURING IN WEST VIRGINIA 1996 MILLIONS

	Burton	ASM	Burton-ASM	Burton % Error
Food and Kindred Products	$22	$15	$7	43.8%
Textile Mill Products	5	3	2	51.5%
Apparel and Other Textile Mill Products	3	0.3	3	900.0%
Lumber and Wood Products	32	82	-50	-61.2%
Furniture and Fixtures	2			
Paper and Allied Products	8	1	7	471.4%
Printing and Publishing	14	56	-42	-74.8%
Chemicals	305	451	-146	-32.4%
Petroleum and Coal Products	10			
Rubber and Plastic Products	24	13	11	86.0%
Stone, Clay, and Glass Products	43	32	11	34.4%
Primary Metal Industries	91	138	-47	-34.2%
Fabricated Metal Products	44	52	-8	-15.7%
Industrial Machinery and Equipment	18	5	13	275.0%
Electronic Equipment	18	16	2	11.8%
Transportation Equipment	11			
Instruments and Related Products	12			
Misc. Manufacturing Products	4			
Total	666	882	-216	-24.5%

Source: *Annual Survey of Manufacturing: Geographic Area Statistics* for 1996, which suppressed investment data for Transportation Equipment, Instruments and Related Products and Miscellaneous Manufacturers to avoid disclosing figures for individual firms. The total of $882 million includes the suppressed figures. The total investment for all suppressed industries was $17 million or 1.9 percent of total investment in manufacturing. The *Annual Survey* doesn't provide figures for the Furniture and Fixtures and Petroleum industries.

ESTIMATED INVESTMENT IN WEST VIRGINIA MINING
Thousands

	1992	1993	1994	1995	1996
Coal Mining					
Coal Mining Gross Domestic Product U.S.	$13,600	$12,400	$13,100	$12,000	$12,900
Investment in Coal Mining U.S.	1,644	2,357	3,062	3,467	3,086
West Virginia GSP	2,981	2,413	2,769	2,726	2,630
West Virginia % of GDP	21.9%	19.5%	21.1%	22.7%	20.4%
Investment to GDP U.S.	12.1%	19.0%	23.4%	28.9%	23.9%
West Virginia estimated investment	361	459	647	788	629
Oil & Gas					
Oil & Gas Gross Domestic Product U.S.	65,000	69,100	66,700	70,500	84,300
Investment in Oil and Gas U.S.	17,240	22,091	20,889	22,043	23,645
West Virginia GSP	255	227	229	227	266
West Virginia % of GDP	0.4%	0.3%	0.3%	0.3%	0.3%
Investment to GDP US	26.5%	31.9%	31.3%	31.3%	28.0%
West Virginia estimated investment	67.6	72.5	71.7	71.1	74.6
All Mining and Natural Gas Production					
Coal Mining, Oil & Gas investment WV	428.6	531.5	718.9	859.1	703.8
Coal, Oil & Gas GSP WV	3,236	2,640	2,998	2,953	2,896
All West Virginia Mining GSP	3,283	2,689	3,053	3,039	2,980
WV Coal Mining, Oil & Gas GSP % of Mining	98.6%	98.2%	98.2%	97.2%	97.2%
Estimated Mining Investment in WV	435	541	732	884	724

Source: U.S. Department of Commerce, Bureau of Economic Analysis, "Gross Product by Industry, 1995-97," *Survey of Current Business*, November 1998. Gross State Product Data and Investment data on the Internet at statusa.gov.

THE MICHIGAN SINGLE BUSINESS TAX IN RELATION TO TOTAL STATE TAXES AND PERSONAL INCOME

Tax Year	Percent of State Taxes	Percent of Income
1979	18.37%	1.25%
1980	19.99%	1.29%
1981	17.00%	1.04%
1982	16.44%	1.01%
1983	15.58%	1.14%
1984	16.34%	1.13%
1985	16.78%	1.19%
1986	18.07%	1.12%
1987	17.07%	1.20%
1988	18.25%	1.15%
1989	17.71%	1.08%
1990	16.97%	0.98%
1991	14.93%	0.99%
1992	15.23%	1.00%
1993	15.38%	1.04%
1994	14.79%	1.03%
1995	13.42%	1.01%
1996	12.92%	1.00%

Source: Michigan Office of Revenue and Tax Analysis, "The Michigan Single Business Tax 1993-94".

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[i] In 1995 Employee Compensation was $15.9 billion in the taxable industries, Proprietors Income $2.2 billion and Capital Income including profits, interest and depreciation $8.9 billion for a total of $26 billion. The Department of Tax and Revenue estimates the tax base at $16 billion, based on various exemptions for small business and the experience of Michigan's SBT. The combined Employee Compensation and Proprietors Income is $18.1 billion, so we applied the first year 2.1 percent rate onto to these components of Value Added. If in fact the tax brings in more income than the Department estimated, the burden will be raised proportionately on each income group.