

# Lessons Learned from West Virginia

In 2021, West Virginia joined the **long list of states** which have embarked on an idealistic path to expand the sales tax base broadly to services — only to find this road always leads to failure.





During his 2021 State of the State address, West Virginia Governor Jim Justice (R) [called](#) for the elimination of the state's personal income tax and wanted businesses to make up a significant portion of the lost revenue. After significant delay, Governor Justice released a plan that fell short of his original goal, but which would reduce income taxes by expanding the sales tax base to include professional services such as accounting, legal services, engineering, along with advertising and other services. An amended version of the Governor's plan was **rejected 100-0 by the West Virginia House after narrowly passing the West Virginia Senate.**

The defeat was not a result of partisan differences: both legislative chambers are solidly Republican, the same party as the Governor. As has been the case in every state which has attempted to tax professional services and failed, the plan failed because it was economically unsound, violated fundamental principles of tax policy, and was a political nightmare.

### ***Background***

Tax on services (ToS) proposals are old hat in West Virginia: this latest attempt marked the fourth time in five years (including [2016](#), [2017](#), and [2018](#)) that lawmakers would debate ToS bills. In 2017, lawmakers undertook a major tax system overhaul ([SB 335](#)) that sought to replace the state's income and sales taxes with a new, broader consumption tax. Voters and the business community were united in their opposition. After prolonged debate and several amendments attempting to make it more politically palatable, lawmakers finally rejected the idea.

Despite these failed attempts, House and Senate lawmakers officially introduced Governor Justice's tax plan in March 2021 as [HB 2027](#) and [SB 600](#). Governor Justice then conducted several "virtual town halls" during the legislative session insisting that his tax proposal would: 1) be a net positive for taxpayers; and, 2) lead to significant population growth for the state.



Though the governor assured that taxing professional services would be a net positive for West Virginia, a MultiState analysis based on [data from the Council of State Taxation \(COST\)](#) showed that the governor's proposed sales tax changes alone would cost businesses \$209 million per year.

From the beginning, nearly all businesses opposed the plan to tax professional services. The West Virginia Business and Industry Council [sent](#) a memo to lawmakers laying out its concerns with the proposal, warning that a new tax on professional services could easily drive firms out of the state. The West Virginia Bankers and the state's National Federation of Independent Business (NFIB) chapter joined the West Virginia Chamber of Commerce in [urging](#) lawmakers to reject the current proposal, highlighting the additional paperwork and cost of complying with a new tax on services.

Amid this growing backlash, several Senators, led by Senator Eric Tarr (R), sought to offer amendments that would retain the governor's proposed tax swap, while also addressing the concerns of the business community. Opponents were unconvinced and Governor Justice's marquee proposal was unanimously rejected in the final hours of the session by the House. Commenting after the bill's defeat, Speaker Hanshaw (R) said that the revenue swap offered in HB 3300 was simply not the right way to eliminate the individual income tax.