



BTC Brief

BUDGET & TAX CENTER

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House Tax Plan Paves the Way for Compounding Harm to NC Families, Communities

By **LUIS TOLEDO, POLICY ANALYST** and **ALEXANDRA F. SIROTA, DIRECTOR**

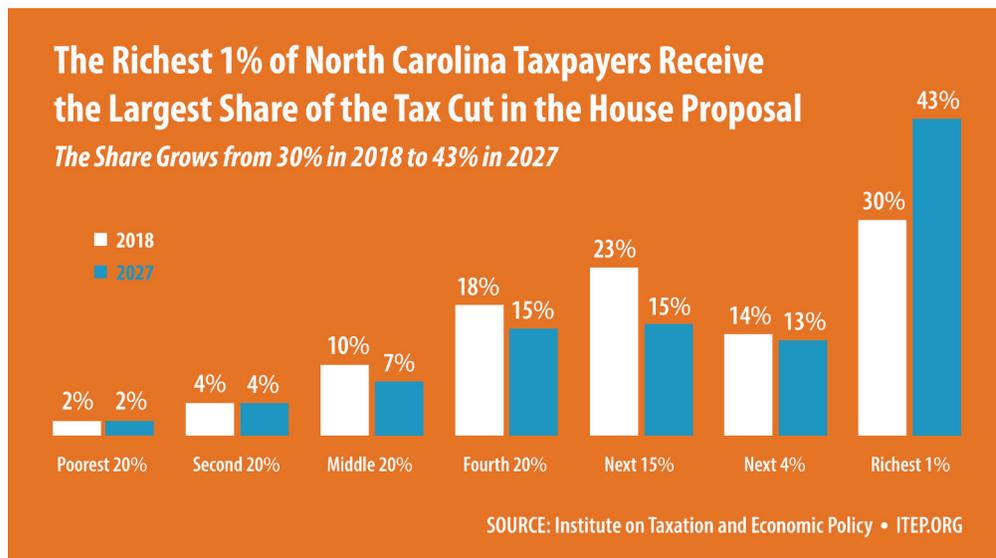
Last week leadership in the U.S. House of Representatives introduced the Tax Cuts and Jobs Act, a lopsided approach to changing our country’s tax code that will benefit wealthy taxpayers and foreign investors while asking more from middle-income taxpayers.

Lawmakers are moving the proposal quickly through the legislative process. If passed, the House’s proposal – with a similar approach from the Senate – would pave the way for deep cuts to many of the programs and services that ensure the economy is functioning efficiently and effectively, and that more people are connected to opportunities.

New analysis from the Institute on Taxation and Economic Policy provides detailed information about the ways in which this tax plan will benefit the richest 1 percent of taxpayers in North Carolina and shareholders of multinational corporations.¹

The House Tax Plan will Deliver the Largest Share of the Tax Cut to the Richest 1 Percent of Taxpayers in North Carolina

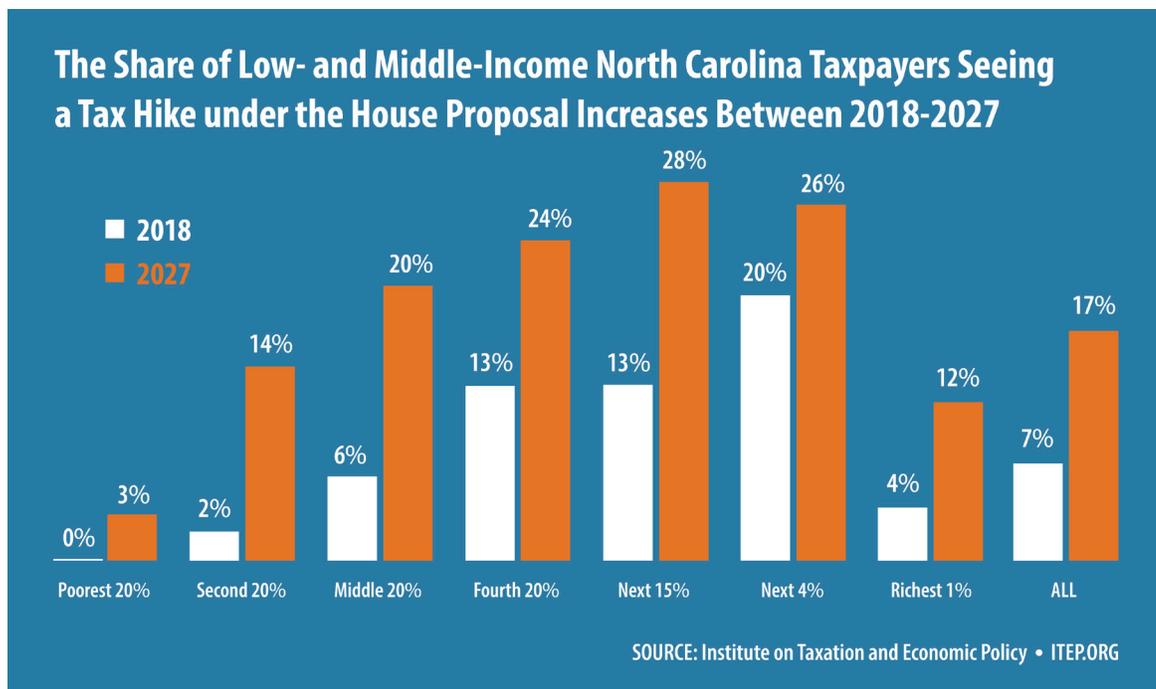
The wealthiest North Carolinians share of state tax cuts would grow over time due to a phase-in of various tax changes that mostly benefit the rich, leading to the



eventual elimination or erosion in value of provisions that benefit low- and middle-income taxpayers. For example, after five years, the bill eliminates a \$300 non-child dependent credit that benefits low- and middle-income families while fully repealing the estate tax in year six for the very large estate subject to the tax.

By 2027, the top 1 percent of North Carolina households' share of tax cut would increase from 30 percent in year one to 43 percent, for an average cut of \$55,030 (2.5 percent of their annual income). Middle-income taxpayers' average tax cut would erode to \$660 (0.6 percent of their annual income) from \$770, with the poorest 20 percent seeing their average tax cut decline from \$220 to \$120 (0.5 percent of their annual income).

The House Tax Plan would increase the tax load for roughly 1 in 5 North Carolina taxpayers. Due to changes that would repeal or limit several tax breaks that benefit the middle-class, the primary increased tax load will be shifted to North Carolina's middle-income taxpayers. Much like the result of the state's tax changes in 2013, the House Tax Plan eliminates the personal exemption and raises the standard deduction. For certain households, the combination of these changes means less income is exempt from federal income tax. Moreover, some of the policies that could deliver benefits to taxpayers with middle and low incomes are not well-targeted and expire after five years, such as the child tax credit. The child tax credit as designed would leave out more than 10 million children in low-income families.



The House Tax Plan delivers \$47 billion in tax cuts to owners of stock in American corporations overseas. The bill includes several corporate income tax changes, including a reduction in the statutory rate paid by corporations from 35 to 20 percent. These tax cuts will flow to the top 20 percent of taxpayers and foreign investors, according to ITEP analysis based academic literature on the distributional effects of corporate tax cuts.²

The House Tax Plan will also require significant cuts to programs and services that all Americans rely on to connect to opportunity and live a healthy life in a stable, thriving community. The \$150 billion revenue loss each year³ could have been used to:

- Double the Pell Grant program, which provides aid to low- and moderate-income college students; AND
- Double cancer research at NIH; AND
- Fund the full backlog of needed maintenance at National Parks; AND
- Provide child care assistance to 6 million children; AND
- Provide opioid addiction treatment to 300,000 people; AND
- Train 3.5 million workers for in-demand jobs.

Roughly one in three public dollars invested in North Carolina comes from the federal government for programs that support community development, classroom education, and professional development for teachers, water, and road infrastructure.⁴ While it is impossible to know at this point the exact distribution of the cuts that will be made by the federal government to pay for this tax plan, the reality is that many of the programs and services that have not received state-level investment in North Carolina will only see further reductions in support from the federal cuts.

North Carolina's Fiscal Footing and Economic Health is Further at Risk with House Tax Plan

North Carolina is investing at 45-year lows in the foundations of a strong economy. Our classrooms are struggling to follow the best evidence for the number of students who can be taught in one classroom, teachers' professional development needs, and the technology and tools required to prepare young people for the future. At the same time, our communities are failing to maintain safe school buildings for children to learn in, provide affordable housing for families that stabilize communities, and maintain thriving Main Streets that generate jobs and commercial activity.⁵

North Carolina's failure to invest due to state-level tax cuts will be made worse with additional federal cuts. Worst yet, there will be few options available to policymakers to absorb the federal cost shift when programs and services are cut to pay for the tax cuts that mainly benefit the richest taxpayers.

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 3. Special data request to Center on Budget & Policy Priorities, November 2017.
 4. Sirota, Alexandra, February 2017. Federal Funding Supports North Carolina Priorities. Prosperity Watch: NC Justice Center, Raleigh, NC. Accessed at: <http://www.ncjustice.org/?q=budget-and-tax/prosperity-watch-issue-70-no-2-federal-funding-supports-north-carolina-priorities>
 5. Sirota, Alexandra, September 2017. Failed Tax-cut Experiment Hurts NC—Don't Let It Hurt the Country. Progressive Pulse, NC Policy Watch. Accessed at: <http://pulse.ncpolicywatch.org/2017/09/23/failed-tax-cut-experiment-hurts-nc-dont-let-hurt-country/#sthash.LTKCCQYY.dpbs>