BTC Brief
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THE MATH DOESN'T ADD UP:

Latest Tax Plan Gives Tax Cuts to the Wealthy, Shifts Tax Load to Bottom 80 Percent of Taxpayers on Average and Jeopardizes Public Investments

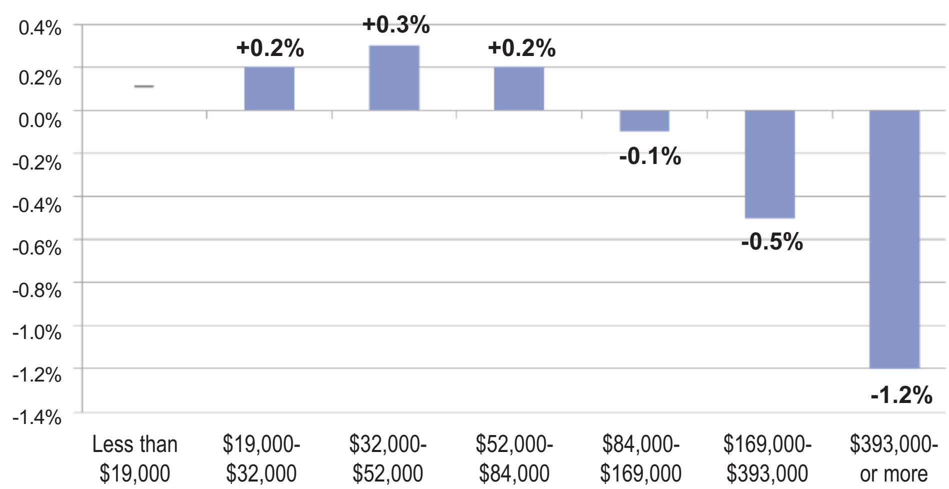
BY ALEXANDRA FORTER SIROTA AND CEDRIC JOHNSON

The latest Senate tax plan continues to provide large tax cuts to the wealthiest taxpayers and profitable corporations, while shifting more of the overall tax load to middle-class families and reducing revenue for schools, health care and other services by nearly $1 billion each year when fully implemented.

While Senators say the new scheme addresses many of the criticisms of their earlier bill, the loss of revenue has remained high. To reduce the loss even slightly, the Senate plan would shift the tax load to the 80 percent of North Carolina taxpayers who earn up to $84,000 and who, on average, will see their taxes increase.[1] This tax shift is inevitable when policymakers try to fund income tax cuts by expanding the sales tax to more goods and services, as the new Senate plan would do. An astonishing 56 percent of the Senate's net tax cut going to in-state residents would go to the richest 1 percent of taxpayers.[2]

FIGURE 1:

Newest Senate Tax Plan Would Raise Taxes for Middle and Lower-Income North Carolina Taxpayers



SOURCE: Special data request to Institute on Taxation and Economic Policy; July 1, 2013

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Senate Tax Plan Raises Taxes on Average for Bottom 80 percent of taxpayers

The Senate plan, which extends the sales tax to more purchases, eliminates the personal income tax exemption, and caps itemized deductions, would raise taxes on average for the bottom 80 percent of taxpayers. As is clear from the graph below, the greatest beneficiaries would be the top 1 percent, who have average incomes of $940,000 and would, on average, see their taxes cut by nearly $11,000. Fifty-six percent of the total net tax cut going to in-state residents would go to the top 1 percent of taxpayers.[3]

Significant loss in annual revenue will harm quality of life in NC and state's competitiveness

North Carolina would lose nearly $962 million in annual revenue when the Senate plan is fully implemented.[4] By reducing the amount of resources we have for education, public safety, health care and other public investments, the Senate tax plan fails to meet the challenges of a changing North Carolina. More students are enrolling in North Carolina schools, from K-12 through college, which will require additional investment in our public schools at all levels. We have already seen the consequences of failing to meet the growing needs of our colleges and universities: Significant cuts in state support for the UNC System in recent years have resulted in significant increases in tuition, which fall on students and their families. At the same time, North Carolina's overall population is aging, bringing a greater need for health care and other services for seniors. Over the next two decades, one in four residents will be in the 60+ age group.[5]

FIGURE 2:

Changes in General Fund Revenue (Senate Plan compared to Current Forecast)

	FY13-14	FY14-15	FY15-16	FY16-17	FY17-18
Total General Fund Revenues Forecast ($ billions)	$20.47	$21.39	$22.31	$23.27	$24.27
Senate Plan PCS to H998	$20.30	$20.91	$21.55	$22.35	$23.30
Difference from Forecast ($ millions)	**($168.50)**	**($480.30)**	**($757.10)**	**($911.50)**	**($962.90)**

SOURCE: Fiscal Research Division, July, 1 2013

Our tax system must change with the state if it is to serve its core mission of funding services that North Carolinians rely on every day. The projected revenue growth under the Senate plan – an average of 3.5 percent a year – is not sufficient to keep up with our growing and changing population.[6]

North Carolina is already at historic lows in spending as a result of the Great Recession.[7] As the economy continues to recover, we should be rebuilding and repairing the damage of past cuts so that we can ensure that our classrooms don't get more crowded, our courts more backlogged and our waiting lists for services longer.

The Senate Tax Plan is not a good strategy for economic growth.

Senate leaders claim that they are trying to put more money in the pockets of all North Carolinians. But the tax cuts would disproportionately benefit wealthy taxpayers and

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profitable corporations. Neither group would create many jobs in North Carolina as a result of the Senate tax plan. Wealthy taxpayers are less likely than lower- and middle-income earners to spend significant portions of their income on taxable goods and services, and their investments are likely to be spread beyond the local economy. Nor are most wealthy individuals in a position to directly hire new workers. Meanwhile, by creating a gaping hole in the state budget, the Senate plan likely would lead to layoffs of workers both in the public sector and in private firms whose business depends on public funds–and that would hurt the economy.

The corporate income tax cut in the Senate plan would largely benefit out-of-state shareholders, who are also unlikely to create jobs in North Carolina. Moreover, state and local taxes only represent around 2 percent or less of total business costs, so there is little reason to believe that cutting corporate income taxes would result in businesses hiring more workers or relocating to North Carolina. Eliminating the corporate income tax and reducing state revenue would harm many of the public investments that matter more to businesses than taxes, like an educated workforce, a sound transportation system and maintaining the safety and quality of life in the communities where they operate.

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1 Based on analysis of newest Senate tax plan by Institute on Taxation and Economic Policy, July 1, 2013

2 Ibid

3 Revenue figure is based on fiscal analysis conducted by Fiscal Research Division and provided with newest version of Senate tax plan at Senate Finance meeting on July 1, 2013.

4 A Profile of People Age 60 and Over, North Carolina, North Carolina Division of Aging and Adult Services, 2012 http://www.ncdhhs.gov/aging/cprofile/2012Profile.pdf

5 The 3.5 percent average revenue growth rate is based on total projected general fund revenues annually under the Senate tax plan for FY 2014-18.

6 Tazra Mitchell, The Governor's FY2013-15 Budget Proposal: Investment Would Fall Short of What Is Needed to Rebuild a Strong Economy, NC Budget and Tax Center, Raleigh, NC, April 2013.

7 Cedric D., Johnson and Alexandra F. Sirota, Cutting Corporate Income Taxes Won't Be an Economic Boon for North Carolina, NC Budget and Tax Center, Raleigh, NC, April 2013.

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