Senate Bill 677:

Corporate Income Tax Cuts Unlikely to Promote Growth

BUDGET & TAX CENTER FACT SHEET

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Senate Bill 677 filed by Senators Rucho and Rabon last week would cut corporate income taxes. The bill would cut the corporate income tax rate to 6 percent from 6.9 percent. It also would change the formula used to determine a multi-state corporation's income tax in North Carolina to a single sales factor formula.

Here are three key concerns with this legislation:

Corporate income tax cuts don't pay for themselves and will put at risk key investments

Due to balanced budget requirements, North Carolina will not reap any short-term benefits from corporate tax cuts. Every dollar given away in a tax cut has to be made up for with a tax increase on another business or individual or with a cut to state services. At best, any benefit from a tax cut will be offset dollar for dollar, and result in no net economic stimulus in the short-term.

If lawmakers cut investments in education, transportation or public safety, all of which are building blocks of a strong economy over the long haul, then North Carolina's economic future could be compromised. Businesses themselves could be directly harmed since a well-educated, highly productive workforce, access to markets and suppliers, sound infrastructure, and high quality of life for employees are more important to corporate leaders than state taxes, according to numerous surveys, studies and popular rankings of "business friendly" states.

A small share of North Carolina's businesses will benefit, and some are based out-of-state

The proposed cut in the corporate income tax rate would mostly benefit a relatively small share of profitable corporations, many of which are multi-state corporations headquartered outside of North Carolina. The more than 70 percent of C corporations filing tax returns in the state with net taxable incomes of zero or less and the much larger share of the state's businesses set up as pass-through entities would not benefit from the corporate income tax cut.

The proposals to change the formula used to determine how much state corporate income tax would also benefit a relatively small share of the state's businesses. While these multi-state corporations may be headquartered in North Carolina, the evidence shows that a single sales factor system would fail to produce growth, be a revenue-loser for the state, and pick winners and losers among businesses.

Corporations are Unlikely to Expand or Relocate Because of State Income Tax Cuts

Regardless of whether a corporation is headquartered in North Carolina or not, there is little reason to believe that cutting corporate income taxes will result in substantial investment in North Carolina or relocation of headquarters to the state. State and local taxes are typically only 2 percent or less of business costs—expenses for labor, property, equipment, and transportation are much more substantial.

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