

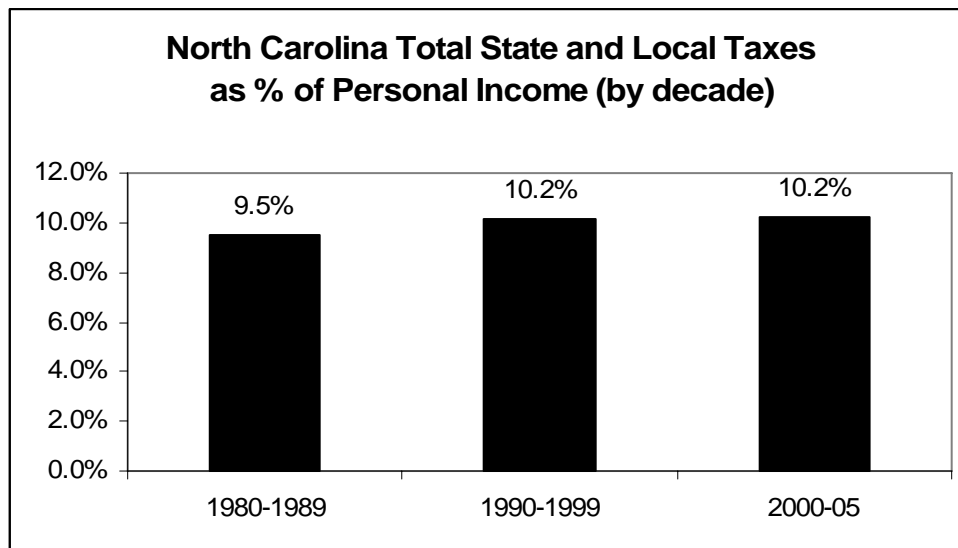
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*Timely, accessible,
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analysis of
state and local
budget and tax
issues*

New Census Data: NC Taxes Moderate and Holding Steady

North Carolina's combined state and local taxes are holding steady and continue to be below the national average, according to data released in May 2007 by the U.S. Census Bureau. In fiscal year 2005, the latest year for which data are available, North Carolina state and local government taxes represented 10.4% of total state personal income, putting North Carolina 35th out of 50 states. In that year, North Carolina's state and local governments combined collected \$3,139 per person in taxes, ranking 33rd out of 50 states.

Critics of government spending often cite changes in total spending, as opposed to more meaningful measures of spending relative to income or population. In addition, they typically cite only state-level data, ignoring local government taxes entirely. When North Carolina's combined state and local tax data are examined and compared with other states, it is clear that North Carolina is maintaining its moderate tax status.



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Census data are the only comprehensive source of combined state and local financial data available on a state-by-state basis. The Tax Foundation, the other source of state comparisons, uses less reliable estimates of local data and often revises previous rankings significantly. The Tax Foundation data also include taxes paid by in-state residents to other states, thereby overestimating taxes paid to their home state.

Tax comparisons by decade						
	1980-1989	1990-1999	2000-05	1980-1989	1990-1999	2000-05
	Taxes as % of Personal Income			Taxes Per Capita		
North Carolina	9.5%	10.2%	10.2%	\$1,114	\$2,131	\$2,863
Rank	36	38	36	40	34	32
National						
High	14.6%	14.4%	14.0%	\$2,253	\$3,862	\$5,055
Average	10.3%	10.8%	10.7%	\$1,416	\$2,468	\$3,343
Low	7.8%	9.2%	8.6%	\$946	\$1,653	\$2,297

Adequacy and fairness should be the goals

In light of this data, short- and long-term tax policy reform should not be driven by the need to “bring down” North Carolina’s taxes. The state’s economic competitiveness relies on striking the right balance between the need for public services, most of which support the state’s economy, and the need to keep taxes in check. State leaders should instead focus on reforming the tax system to fix its two biggest problems:

- 1) Eroding revenues due to the state’s outdated revenue system. North Carolina’s economy has evolved from one based on agriculture and manufacturing to one based on technology and services. However, the revenue system has not been changed to accommodate this new reality, and as a result, much of the state’s economic activity occurs outside of the revenue system.
- 2) A significant lack of tax fairness. The current state and local tax system requires low-income Tar Heels to pay the most in state and local taxes relative to their incomes. According to the Institute on Taxation and Economic Policy, the bottom 20 percent of North Carolina taxpayers pay 10.9 percent of their incomes in state and local taxes compared to 6.3 percent paid by the wealthiest one percent.

In the short term, lawmakers should consider extending both the temporary upper-income tax bracket and quarter-cent sales tax to ensure adequate revenues and promote fairness. Allowing the eight-percent income tax rate on the wealthiest North Carolinians to expire would cost the state \$94 million and would benefit just two percent of taxpayers. A more effective and targeted tax cut, a refundable state Earned Income Tax Credit (EITC), would benefit more than 20 percent of all taxpayers. A refundable state EITC would help offset all kinds of state and local taxes paid by low- and moderate-income taxpayers including sales, excise, gas and income taxes. If set at 5 percent of the federal credit, it would cost \$69 million.

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