

Tax Brief

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Small Business Study Committee Recommendations Miss the Mark

Overview

On April 26, the Joint Select Committee on Small Business Economic Development approved a set of policy recommendations that will be presented to the General Assembly for possible action during this year's "short session." Though no doubt well-intentioned, the Committee's list of proposals appear, upon close examination, to consist of mostly of a laundry list of tax cuts and cash assistance to business that is both fiscally unrealistic and unlikely to provide real long-term growth and economic development. Some of the proposals will not even accomplish what they are purportedly designed to do. Many proposals selectively benefits large corporations at the expense of small businesses and ignores costs to improve the state's infrastructure that are necessary for small businesses to grow. State lawmakers would do well to place a "hold" on the recommendations during the 2004 session while at the same time reconstituting and redirecting the Committee to produce an improved and better balanced set of recommendations for the 2005 session.

The Committee's Recommendations

Rather than targeting the root causes of North Carolina's economic ill-health (a under-trained and under-educated workforce and an inadequate public infrastructure) or even the most acute symptoms (declining wages, widespread lack of health insurance, mushrooming mortgage foreclosures and homelessness), most of the Committee recommendations revolve around finding new ways to transfer public funds to private businesses and wealthy individuals. Of the twelve recommendations supported by the committee, two reduce taxes, two expand the size of government, one amends the Jobs Development Investment Grant program, and the remaining seven recommendations support further studies or bills that will be sponsored by other committees. This tax brief examines the five recommendations that will be submitted as bills by the committee when the short session convenes.

Figure 1: Recommended Bills To Be Submitted by Committee

Recommendation	2004-05 Cost (if effective 1/1/04)	Additional Staffing	
Proposal 1: Reduce the Corporate Tax Burden			
A. Lower Rate from 6.9% to 5.9%	\$222.5 million	-	
B. \$10,000 Tax Exemption	\$28.7 million	-	
C. \$25,000 Tax Exemption	\$54.8 million	-	
D. \$50,000 Tax Exemption	\$83.6 million	-	
E. \$100,000 Tax Exemption	\$129.5 million	-	
F. 4 Graduated Tiers: 4% - 6.9%	\$56.2 million	-	
G. 7 Graduated Tiers: 1% - 6.9%	\$68.3 million	-	
H. 7 Graduated Tiers: 2% - 6.9%	\$18.0 million	-	
Proposal 2: Lower the Top Individual Income Tax Rate	Lower Top Rate from 8.25% to 7.75%	\$46.9 million	-
Proposal 3: Expand the Commerce Business ServiCenter	Expand pilot program state-wide to respond to business inquiries	\$222,968	4
Proposal 4: Expand the Express Review Permitting Program	Establish a voluntary program for businesses to pay a fee for an expedited review of environmental permits.	\$994,907	21
Proposal 5: Amend the Jobs Development Investment Grant	Encourage the use of North Carolina's small businesses.	-	-

Proposal One: Reduce the Corporate Tax Burden.

Contingent on available revenues, the committee recommends the adoption of any of eight varying proposals to reduce the corporate tax burden (see Figure 1). Ranging in cost from \$18 million to \$222.5 million, the proposals include a flat rate reduction, varying tax exemptions, and an overhaul of the corporate tax structure to move to graduated rates based on income levels. These proposals present many problems. First, most small businesses do not pay corporate income tax. Small businesses generally register as other types of business entities, such as partnerships or as LLC's. Therefore, any corporate rate reduction will not benefit most small businesses. Second, to maintain an equitable and broad-based tax structure, policymakers should not exempt any business from paying income tax. Third, the argument that the corporate tax burden is high is false. Numerous loopholes and tax credits may already be claimed to sharply reduce corporate tax liability while aggressive tax planning strategies have further eroded corporate tax liability. Fourth, a graduated tax structure will reduce the tax burden on corporations with lower revenues. While some argue that the tax code unfairly grants higher income-producing corporations tax benefits that cannot be claimed by corporations with less income, reducing the tax liability for corporations with less income is not the answer. Eliminating the loopholes and targeted tax credits and thereby broadening the tax base should be implemented prior to any discussion of further tax cuts.

Proposal Two: Lower the Top Individual Income Tax Rate.

Lowering the top tax rate will only benefit North Carolina's ultra-wealthy, which are the top one-percent of income earners. Therefore, CEOs of large corporations, whose average household income is \$814,000, will receive the tax benefits, not small business owners.

Proposal Three: Expand the Commerce Business ServiCenter.

In contrast to most of the list, the proposed "Business ServiCenter" will directly benefit small businesses by providing a centralized source for information and will help streamline state processes and procedures that impede business productivity.

Proposal Four: Expand the Express Review Environmental Permitting Program.

Expansion of the ill-conceived Express Review Pilot Program will benefit large businesses rather than small businesses. Essentially, businesses that can afford to pay a fee for an expedited review of environmental permits will be shepherded through the system while those businesses that cannot afford the fee will have to wait in line. Such a plan runs directly counter to the notion that all businesses, regardless of their ability to pay, should be treated with the same level of efficient and responsive service.

Proposal Five: Amend the Jobs Development Investment Grant (JDIG) Program.

The amendment seeks to encourage businesses that receive JDIG monies to contract with North Carolina's small businesses. While well-intentioned, this proposal merely props up a badly flawed program. The clear tendency of JDIG to assist businesses located in the most developed areas of the State, along with the cumulative effect of grants in reducing state tax revenues, the absence of any wage standard, and the lack of program oversight make JDIG a poor investment of state dollars.

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