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House’s Flat Income Tax a Windfall for the Wealthy

BY ALEXANDRA FORTER SIROTA, DIRECTOR

The tax plan passed by the North Carolina House of Representatives would create a single income tax rate – known as a flat tax – that will shift taxes from the wealthy onto others. Proponents claim that doing away with the three rates North Carolina currently has, which rise along with income, is fair because everyone would then pay the same rate. The reality is that the adoption of a flat rate will give the wealthiest taxpayers a significant tax cut while creating a substantial loss of income tax revenue. The result is an even more lopsided state and local tax system- low and middle paying more as a share of income and rich paying less.

Flat income tax benefits the richest taxpayers

North Carolina’s richest 1 percent of taxpayers disproportionately benefit from a flat income tax rate. In general, as income rises, the more a taxpayer benefits from a flat income tax rate. Low- and moderate-income taxpayers barely receive any benefit from the elimination of a graduated rate structure. (See Figure 1)

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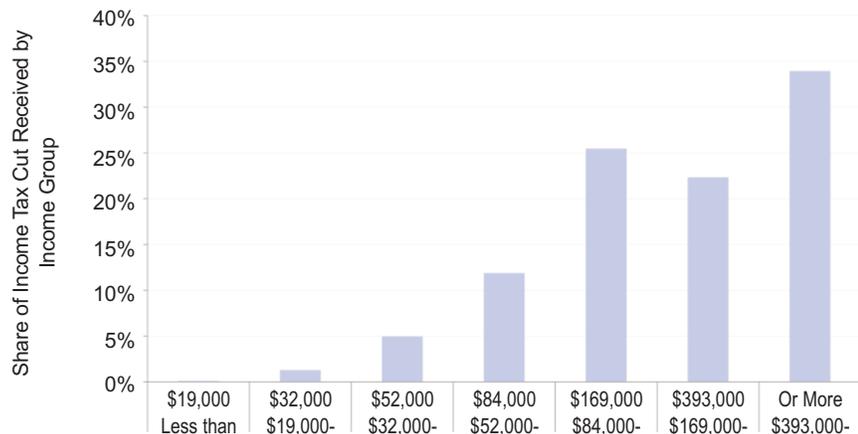
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FIGURE 1: More than a third of the tax cut from the adoption of a flat rate in the House tax plan benefits the top 1%



SOURCE: Special Data Request to ITEP, June 6, 2013

A personal income tax that increases as income goes up is the best way to ensure that the overall tax system is not asking more from low- and middle-income taxpayers. Because all three of these tax plans increase reliance on the sales tax and switch to a flat income tax, they make the tax code less fair. (See Figure 2)

FIGURE 2: Adoption of flat rate in the House tax plan benefits the top 1% of taxpayers

	SHARE OF INCOME TAXCUT GOING TO BOTTOM 20% OF TAXPAYERS	SHARE OF INCOME TAX CUT GOING TO TOP 1% OF TAXPAYERS
HOUSE PLAN	0.02%	34%
SENATE BIPARTISAN PLAN	0.01%	33%
SENATE PLAN	2%	62%

SOURCE: Special Data Request from Institute on Taxation and Economic Policy, June 6, 2013; reflects rate changes only.

Shifting to a flat tax is not how North Carolina will improve its economy or create jobs. All it will do is give the wealthiest among us a large tax break and shift the responsibility of paying taxes onto less well-off households.