BTC Brief

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December 2016

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A FISCALLY RESPONSIBLE APPROACH TO REBUILDING AFTER HURRICANE MATTHEW

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a project of the

north carolina
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State lawmakers should show a clear commitment to help communities affected by Hurricane Matthew rebuild and regain stability during a special legislative session by stopping another corporate income tax cut that is set to go into effect at the beginning of 2017.

Keeping the tax rate for profitable corporations at 4 percent will result in $349 million in additional state revenue for the current fiscal year, as estimated by [state officials](). The additional annual revenue would increase to more than $500 million the following fiscal year, meaning more available resources for recovery efforts in the years ahead and maintenance of core public services across the entire state.

Hurricane Floyd showed us in 1999 that federal assistance is not enough to fully meet the needs of communities after a natural disaster. Already it is clear that the federal commitment of $300 million will not meet the immediate need nor sustain the long-term effort to put Eastern North Carolina on a path to thriving.

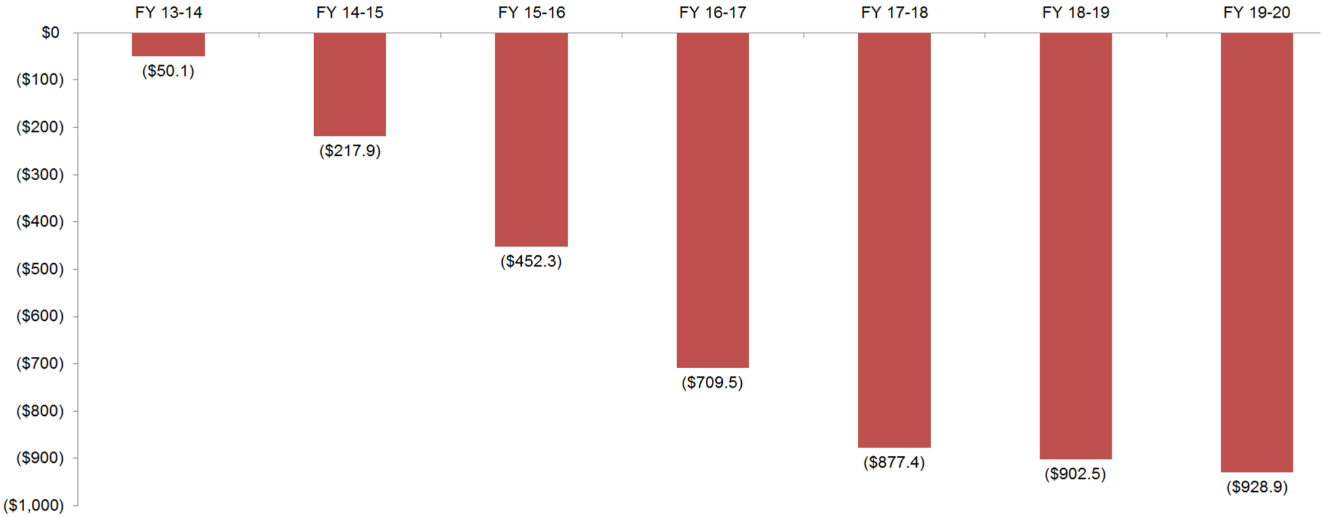
The state must commit to being a partner in the recovery and help ensure that people can get back into safe and affordable homes, return to work and their education, and that resources needed to plan and rebuild are available to all communities. With only [$13.1 million in the state's Emergency Response & Disaster Relief Fund]() as of the end of September of this year, state lawmakers will have to look to other funding sources to provide state-level assistance to local communities disrupted by the recent hurricane, as well as cover any costs incurred from the wildfires currently roaring through the Western part of the state.

What N.C. can do with $349 million

- Help homeowners and displaced renters to repair and rebuild nearly 78,000 homes
- Test water quality in groundwater drinking wells for residents who experienced flooding from hurricane Matthew
- Invest in affordable housing in upland areas to replace repeat-loss owner occupied and rental housing in floodplains, and subsidies to help low-wealth workers afford housing in recovering communities
- Support and provide relief to 30,000 impacted businesses
- Provide legal assistance to individuals denied federal assistance
- Stabilize local governments and school systems who's modest budgets are at risk of serious deficits due to a shifting tax base

Policymakers have pointed to the state's Rainy Day Fund, which currently has [a balance of $1.575 billion](), as a source of dollars. Using the state's Rainy Day Fund as the sole funding source to address the collateral

REVENUE LOSS IN N.C. FROM CORPORATE INCOME TAX RATE CHANGE SINCE 2013



Note: No fiscal impact estimate was given for the subsequent exception of motor vehicle service contracts from sales tax (HB 117) that was passed after the state budget was passed that taxed such contracts.

Source: Cost estimates provided by NCGA Fiscal Research Division for HB 998 (2013 tax changes) and HB 97 (2015 tax changes)

damage of Hurricane Matthew results in one-time spending – meaning once the funds are used, those dollars permanently go away. To restore the Fund's balance, lawmakers will have to forego making public investments in schools, health services for seniors and the poor and public safety. As such, using those one-time dollars conservatively and complementing their use by aligning the state tax code with the needs of communities across the state is a fiscally prudent approach.

The reality is that another economic recession will likely occur at some point in the future, and North Carolina will need to be ready. To rebuild the Eastern region of the state – an area that has struggled with persistently high levels of poverty – our vision should be oriented toward resiliency for the future, which will require a sustained commitment beyond a one-time withdrawal from the Rainy Day Fund.

Keeping the state's corporate income tax rate at its current rate of 4 percent is a fiscally responsible option lawmakers should take. North Carolina's corporate tax rate is the **lowest among neighboring states and among the lowest in the nation**. Keeping the corporate tax rate at 4 percent would keep North Carolina in the position of having the lowest corporate income tax rate amongst neighboring states while still ensuring that revenue is available to help make our state whole. Since 2013, North Carolina's corporate tax rate has fallen to 4 percent from 6.9 percent. The state has lost more than $600 million in annual tax revenue as a result of the tax cut. A reduction in the corporate tax rate to 3 percent would raise that loss to more than $900 million.

Stopping more tax cuts for profitable corporations provides recurring annual revenue to help support struggling communities and to make public investments that ensure all communities can thrive. Without these resources, North Carolina may have to cut core public investments for communities across the state in order to help communities struggling from the disastrous hurricane. Either way, people in North Carolina lose. Maintaining the current corporate income tax rate makes good sense because it would make sure we have enough resources to deal with the added and unexpected costs stemming from Hurricane Matthew and future natural disasters without having to cut spending elsewhere.