



Radical Tax Cap Would Put North Carolina in a Permanent Bind

Analysis of Senate Bill 75

BUDGET & TAX CENTER FACT SHEET

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The N.C. General Assembly has proposed a state Constitutional amendment that would seriously limit our state's ability to meet the needs of its people and respond to crises in the future. **Senate Bill 75** seeks to prevent future lawmakers from ever increasing the state income tax rate. Of the 41 states that have an income tax, only Georgia has taken the drastic step of using its constitution in the present day to lock in arbitrarily low tax rates.

This proposal will have severe consequences for North Carolina's future prosperity and the democratic process.

Proposal Imposes Radical, Permanent Tax Cap

The Constitutional amendment would permanently freeze the state's top personal income tax rate at 5.5 percent at a high cost to North Carolina's communities. With the rate already set to fall to 5.25 percent on January 1, 2019 due to legislative action, the **cap would cut off a vital source of revenue for the future as the state grows**. A two-thirds majority vote of each house in the General Assembly would place the measure in front of North Carolina voters in a statewide referendum in November 2018. If voters approve the measure this year, the amendment would go into effect Jan. 1, 2019.

Annual Tax Breaks for the Wealthiest Taxpayers are Locked In

Instead of investing in prosperity, North Carolina has been changing its tax code to benefit the wealthy and powerful. Constitutionally limiting the income tax rate would put more money into the pockets of the wealthiest households and largest, most profitable corporations – while investment in the common good declines. This radical step would ignore the overwhelming evidence that tax cuts don't create jobs and boost the economy, and would drain the state of the resources to invest in broad prosperity.

Sales Tax and Local Property Taxes Likely to Rise as Result

Arbitrarily limiting the income tax will bring greater reliance on sales and other taxes like the property tax, which asks more of middle-class North Carolinians and those who struggle to get by. North Carolina's current tax system has low-income households paying a greater share of their paycheck than the wealthy on state and local taxes. An income tax limit would make this imbalance even worse, as the state and local governments would be forced to raise sales and property taxes, court fees, and other revenue that cost those struggling a larger share of their income than the wealthy.

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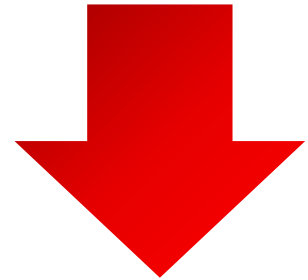
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It Jeopardizes North Carolina's Ability to Meet Current and Future Needs

Income tax cuts passed since 2013 have greatly reduced the funding available to invest in thriving communities. When fully phased in, those income tax cuts will reduce annual revenue by **more than \$3.5 billion**. That's equal to our investments in community colleges, early childhood, and children's health plus affordable housing and economic development combined. Such a loss will take away support for schools, transportation, parks and other vital services. This constitutional tax cap proposal is one more step down the path of eroding North Carolina's quality of life.

**\$3 BILLION
LOSS**



The Bill Would Threaten North Carolina's Democratic Process

We elect our legislators to use their judgment to make North Carolina a stronger, more prosperous state – not to hamstring the ability of our communities and future lawmakers to use *their* judgment to meet needs as they arise. This radical tax cap would limit the state income tax rate to 5.5 percent **no matter the circumstances**. Like other extreme constitutional limits on tax and spending decisions that North Carolina's legislature has considered, this cap wouldn't give lawmakers any power that they don't already have. Policymakers have already cut income taxes for the wealthy and profitable corporations, and limited investments in the common good. This measure would only make lawmakers less accountable to the people who elected them to do what's right to build a thriving state.