House Bill 334:
A costly tax cut during COVID-19 that will hurt rebuilding efforts.

BTC Budget & Tax Center

House Bill 334 shortchanges all of us. We all want to live in a state where our children get a strong education, where our roads and bridges are safe and secure, and we take care of our neighbors in their times of need. We have a once-in-a generation opportunity to invest in our collective well-being and ensure our state can prosper by using federal stimulus funds and money our state held during the pandemic.

Instead, HB 334 would give another round of tax cuts to the wealthy and profitable corporations. The richest 20 percent of North Carolinians will receive 56 percent of the net tax cut from the personal and corporate income tax changes combined.

North Carolina can't afford to miss this chance to build back better after the pandemic.

The major components of HB 334 include:

- **Elimination of the corporate income tax rate by 2028,** paid for by profitable C corporations (C-corps) based on sales only in the state. That means that lowering the corporate income tax rate makes no difference if a state relocates here or not.
- An **increase in the standard deduction** – effectively raising the threshold after which the income tax rate applies for all taxpayers – that doesn't recognize the total taxes paid by North Carolinians and removes people from tax filing, an increasingly important process that connects households to supports.
- A **reduction in the income tax rate** applied for all taxpayers from 5.25 to 4.99 percent, maintaining a flat income tax rate that asks the same of millionaires as it does of workers earning poverty wages.
- An **expansion of the child deduction by $500,** reducing the taxable income of a taxpayer before the income rate is applied and providing an average tax cut of $40, which is insufficient to offset the cost of child care for more than a single day.
- A **change to the calculation of the franchise tax** by adjusting the base subject to the tax and tax rate applied to a business. This would reduce revenue collected from companies with highly valuable real property and does not benefit LLCs, which represents a significant share of locally owned and operated businesses.
- A **decoupling from various federal tax changes**, which would result in North Carolinians paying state taxes on student loan payments and the first $10,000 in Unemployment Insurance income, offsetting very little of the revenue losses in the bill and asking those struggling to pay more.
- A **workaround to the cap of $10,000 for the State and Local Tax (SALT) deduction** that facilitates federal tax avoidance without delivering a significant benefit to the vast majority of North Carolinians. Just 5.1 percent of North Carolinians would see a tax cut from this workaround.

The revenue loss to the state – more than $2.2 billion – will reduce tax collections each year, making it impossible to make up lost ground from years of reductions to investments in schools, early education, environmental protections, and public health.

- These dollars are best spent fortifying the public systems and services that provide a foundation for equitable growth, opportunity, and economic mobility, and would allow North Carolina to:
  - Provide every eligible child with an affordable, high quality early education experience each year, ensuring that children are ready to learn by kindergarten and communities and families are reaping the benefits of healthy, educated children.
  - Provide public schools with the resources to guarantee a sound, basic education to every child in the state regardless of where they live and who they are, supporting the state's goal of educational attainment

For more information and sources, contact: Alexandra Sirota, alexandra@ncjustice.org.

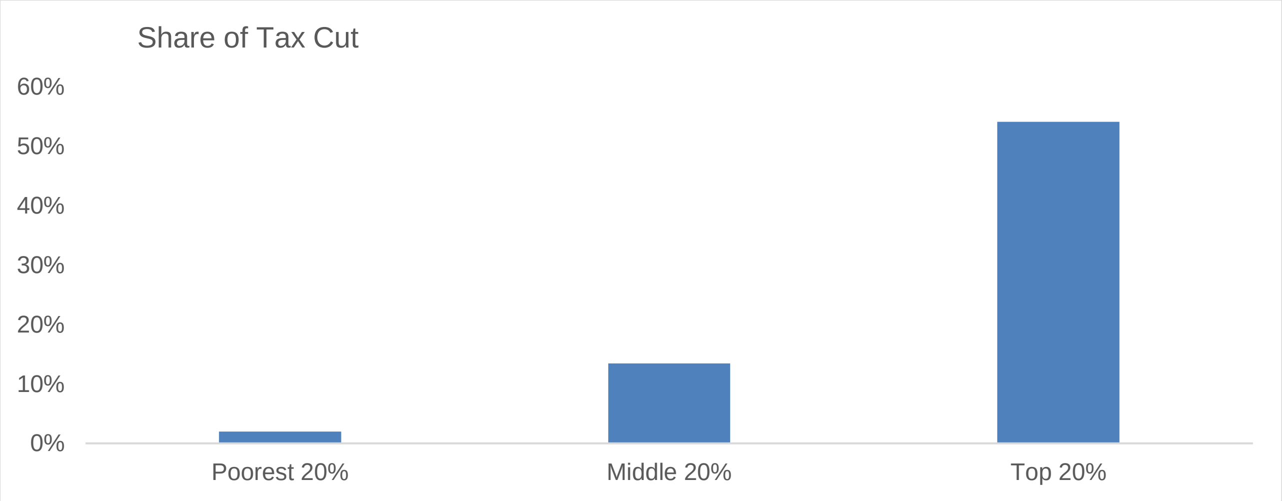
Data on the final economic incidence of this proposal is from a Special Data Request to ITEP, May 2021.

- Address the backlog of capital projects in transportation, public buildings (including schools), and water and sewer infrastructure in the state, and sustain the 21st century infrastructure of broadband and public transit that can make our state a great place to live and do business.
- Build the 190,000 affordable rental units needed to ensure every North Carolinian has a safe and stable home.

The individual income tax changes alone would reduce state revenue by $1.4 billion.

- All taxpayers in the top 5 percent of the income distribution would receive a tax cut, compared to just 25 percent of those in the poorest 20 percent of the income distribution.
- The share of the net tax cut from individual income tax changes disproportionately benefits taxpayers in the top 20 percent, a group that receives 54 percent of the net tax cut while middle-income taxpayers receive just 13 percent and the poorest 20 percent just 2 percent.

Richest receive outsized share of proposed tax cuts.



Source: Special Data Request to ITEP, May 2021

Eliminating the corporate income tax will benefit out-of-state profitable corporations and their shareholders instead of the companies who have struggled during the downturn.

- Corporate income taxes are paid by profitable corporations in North Carolina that elect to organize as C-corps. Just 28,000 C-corps had taxable income in the state in 2018. **A handful of multi-state corporations – valued at more than $25 million – that apportioned less than 25 percent of their income to North Carolina paid 68 percent of all corporate taxes collected**.
- Corporations aren't going to locate to North Carolina because of a corporate income tax change. The state already apportions profits for the purpose of taxation based on sales in the state, meaning that there is no great incentive to move here to get the lower rate.
- Corporations moving to a state account for very little of the state's total job creation. Corporate tax rates also rank 6th, below access to highways, availability of skilled labor, quality of life and construction costs among others, in the effect on decisions about where to locate.
- In addition to the corporate income tax change, the proposal includes a change to the franchise tax base. Companies that are most likely to benefit from this tax change are those whose higher base under prior law was based on real property value or tangible personal property.

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