

Analysis of SB 325: “Billion Dollar Middle Class Tax Cut”ⁱ

NCGA Senate Bill 325 proposes a reduction in the **personal** income tax rate in 2018 from 5.499% to 5.35% (**3%** reduction) and a reduction of the **corporate** income tax rate from 3.0% to 2.75% in 2018 and to 2.5% in 2019 (a total reduction of **17%**). In addition, changes are made in standard and itemized deductions and the child deductions.

- These tax law changes will reduce NC tax revenue by **\$1 billion**, making it impossible to budget responsibly.
 - This is being proposed at the same time that President Trump is proposing significant cuts in federal funding, suggesting that state governments pick up the difference!
 - In addition, the NC Fiscal Research Division has identified \$680 million in budget pressures for 2017-18 and over \$1 billion for 2018-19, including educational and disaster recovery needs
- Nearly **half** of the tax cuts will go to the **top 20%** of taxpayers in NC under this proposal. Those recipients are also more concentrated in urban and suburban counties. Most rural North Carolinians would see little to no change in their tax payments.
- 60% of taxpayers with poverty incomes and low-incomes will not receive an income tax cut under this proposal.
- More than 2/3 of the tax cut on corporate profits will not be directly received by NC residents but instead will go out of state.
- NC is not currently a high-tax state when compared to its neighbors, as demonstrated by the table below.

TAX RATES FOR NORTH CAROLINA AND NEIGHBORING STATES

State	State Sales Tax Rate	Top Marginal Personal Income Tax	Corporate Income Tax
North Carolina	4.75%	5.499%, flat	3.00%
Georgia	4.00%	1 to 6.00%, graduated	6.00%
South Carolina	6.00%	5 to 7.00%, graduated	5.00%
Tennessee	7.00%	6.00%, flat	6.50%
Virginia	5.30%	3 to 5.75%, graduated	6.00%

<http://www.ncjustice.org/?q=budget-and-tax/prosperity-watch-issue-71-no-1-north-carolina%E2%80%99s-tax-rates-are-among-lowest-nation>

ⁱ Source: NC Justice Center BTC Reports “Still Walking the Path to Zero” by Alexandra F. Sirota, Director, Budget & Tax Center: <http://www.ncjustice.org/sites/default/files/BTC%20Reports%20-%20SEN%20TAX%20PLAN--3-2017.pdf>