



# Radical Tax Cap Would Put North Carolina in a Permanent Bind

## Analysis of Senate Bill 817

### BUDGET & TAX CENTER FACT SHEET

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A state constitutional amendment proposed in the North Carolina Senate would seriously limit our state's ability to meet the needs of its people and respond to crises in the future. **Senate Bill 817** would put in the constitution a provision preventing the rate of the state income tax from ever being increased. Of the 41 states that have an income tax, only Georgia has taken the drastic step of using its constitution to thwart any potential rate increase.

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

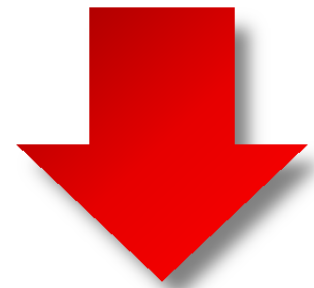
#### Proposal Imposes Radical, Permanent Tax Cap

Senate Bill 817 would permanently freeze the state's 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 5.499 percent on January 1, 2017, the **cap would cut off a vital source of revenue**. 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. If voters approve the measure this year, the amendment would go into effect January 1, 2017.

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

Income tax cuts passed since 2013, giving the wealthiest the biggest benefits, have greatly reduced the revenue available for the public investment it takes for communities to thrive. When fully phased in, those income tax cuts will reduce annual revenue by more than \$2 billion. That's equal to our investments in community colleges, early childhood and children's health 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.

**\$2 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 permanently limit the state income tax rate to 5.5 percent no matter the circumstances. Like other extreme constitutional limits that North Carolina's legislature has considered, this cap wouldn't give lawmakers the power to do anything they can't already do through the legislative process. Already policymakers have cut income taxes for the wealthy and profitable

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corporations and held the current budget proposals to the arbitrary formula of population plus inflation growth. What this measure would do is make lawmakers less accountable to the people that elected them to do what's necessary to build a thriving state or to respond to changing economic conditions and emergencies.

### **The Wealthiest Get the Biggest Tax Breaks**

Instead of investing in the building blocks of prosperity, North Carolina has been changing its tax code to benefit the 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. Against overwhelming evidence that tax cuts don't create jobs and boost the economy, this radical step would drain the state of resources to make public investments that do promote 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, disadvantaging middle-class North Carolinians and those who struggle to get by. In North Carolina today, the lower one's income, the greater share of that income is paid in state and local taxes. This imbalance would worsen under the income tax limit, as the state and local governments would be forced to raise sales and property taxes, court fees, and other revenue sources that cost the wealthiest a smaller share of their income than everyone else would have to pay.