



REVENUE MODERNIZATION IN NC:

What's At Stake for North Carolina & Its Women

January 17, 2013

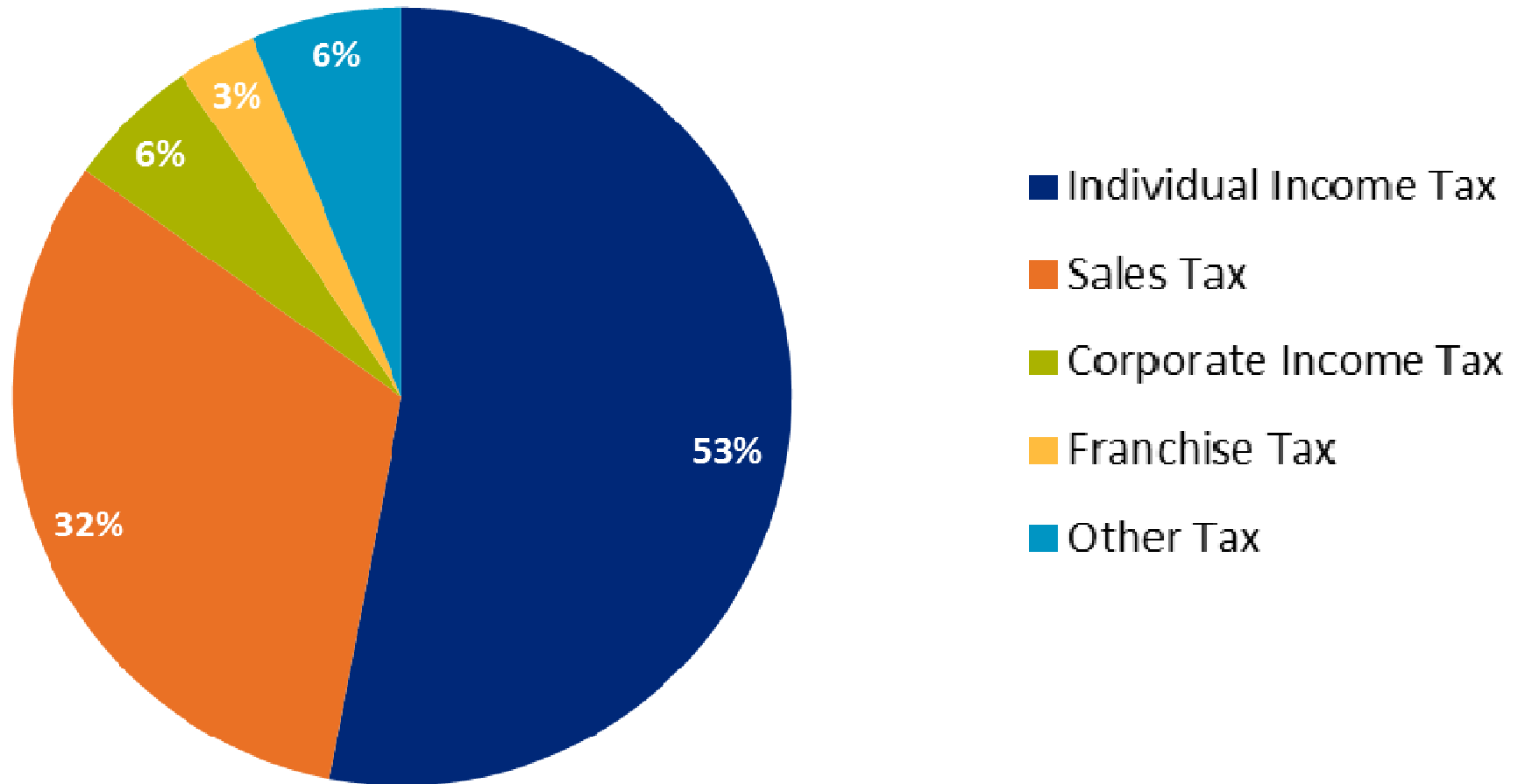


State Tax System Matters





NC's tax system relies on 3 "pillars" for more than 90% of total revenues





Proposals for Revenue “Modernization” in 2013

- **Elimination of the Personal Income Tax**
- **Elimination of the Corporate Income Tax**
- **Expansion of Sales Tax Base to Services**
- **TABOR, or automatic spending limits built into the Constitution**



**Elimination of Personal Income Tax
Would Lead to Loss of \$10 billion plus**

= Entire K-12 and University Budget

**OR if major budget areas received a 53% cut
that would:**

Cut Education by \$6 billion

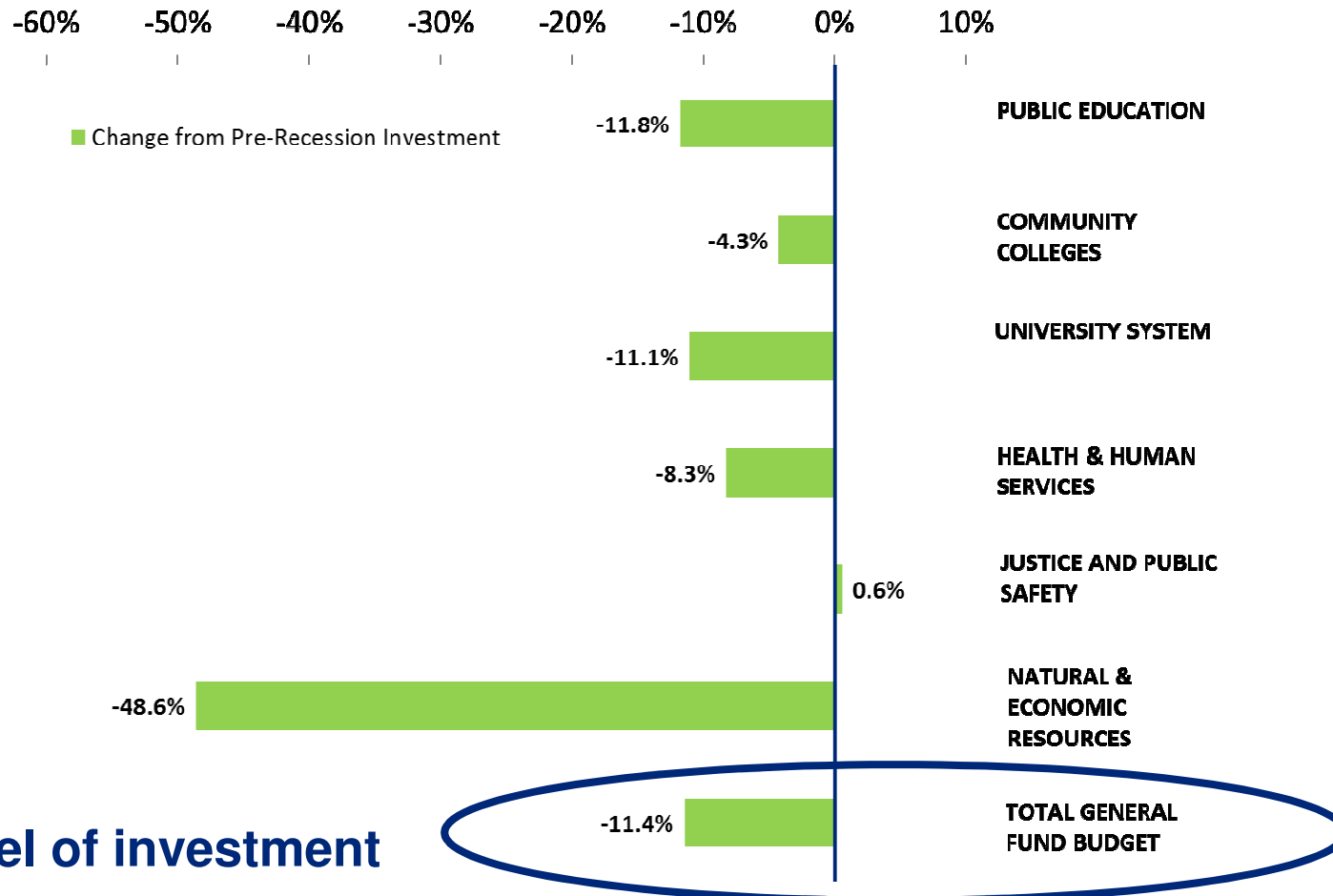
Cut Health and Human Services by \$2.5 billion

Cut Justice and Public Safety by \$1.2 billion





More Budget Cuts Keep Us Further Away from Adequate Funding



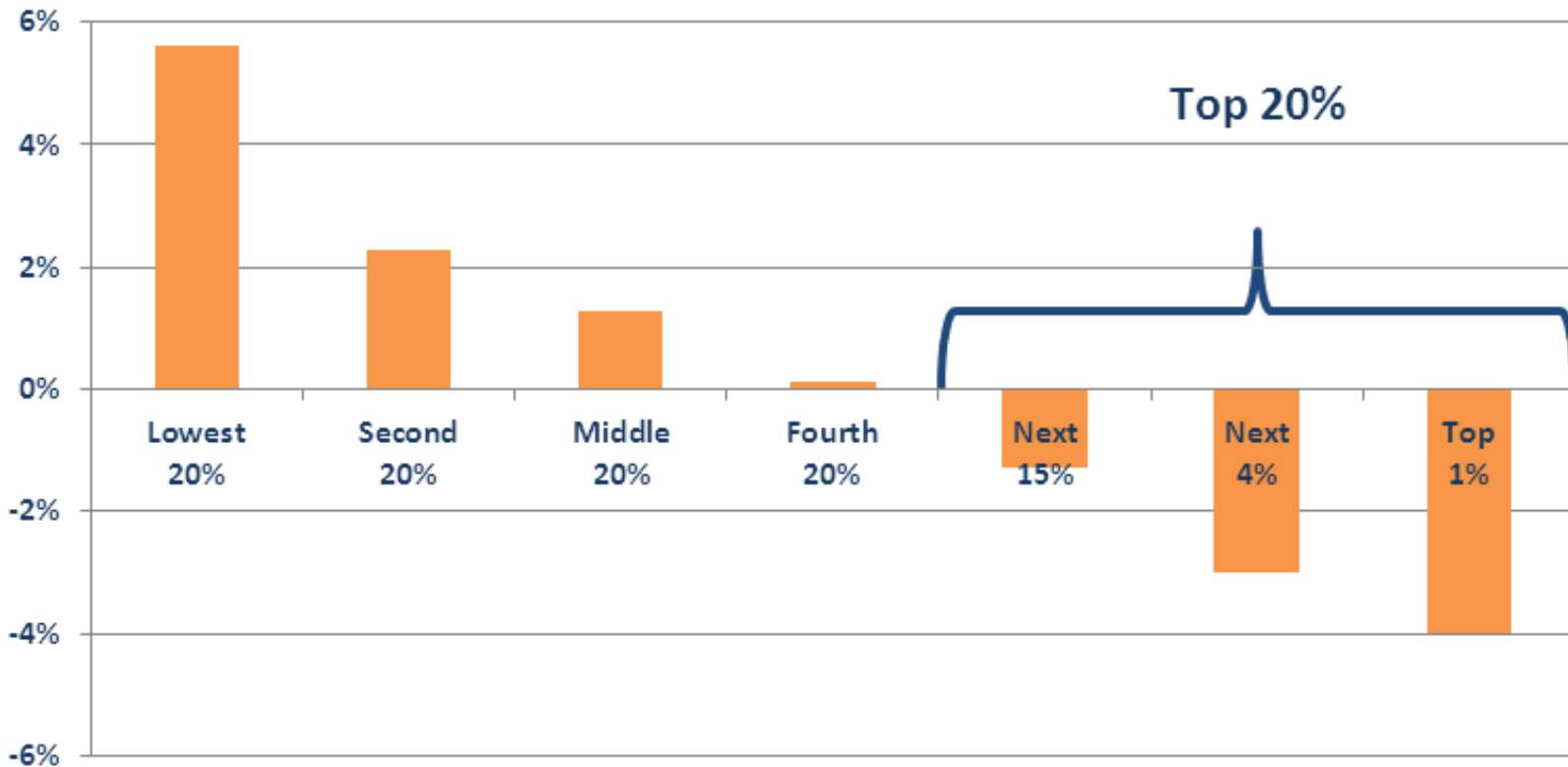
1974 level of investment



Elimination of the Personal Income Tax

Shift to Sales Tax

Tax Change as % of Income

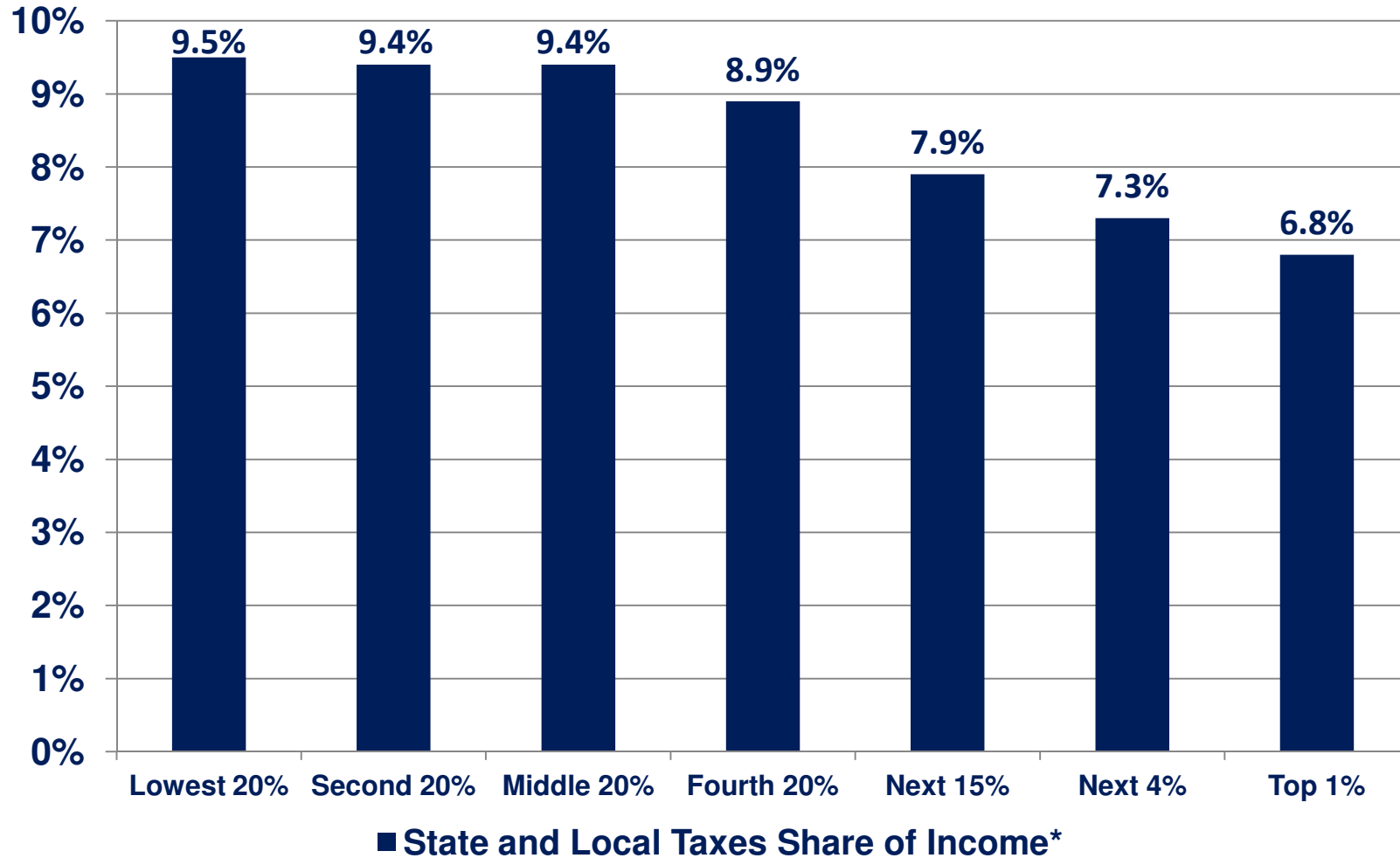


“Tax shift” is defined as the elimination of the state’s personal income tax and a greater reliance on the state’s sales tax.

Source: Special Data Request to Institute on Taxation and Economic Policy, June 2012.



NC's State & Local Tax System Asks More from Low-Income Households.



Source: Institute on Taxation and Economic Policy, 2009.



Other Personal Income Tax Proposals Being Floated

Elimination of the Earned Income Tax Credit

Would be harmful to low- & moderate-income people because it reduces poverty and provides a short-term safety net

Implementation of a No-Tax Floor

Could be set around \$35,000

Shift to a Consumed Income Tax

Would only tax the income that was consumed—and not that saved or invested—in a given year



Elimination of the Corporate Income Tax

Loss of \$1.1 billion

**No evidence to suggest would support job creation
needed in NC to get us out of the jobs deficit**

Benefits profitable businesses

Other Business Tax Proposals

Eliminate incentives

Maintain business tax deduction



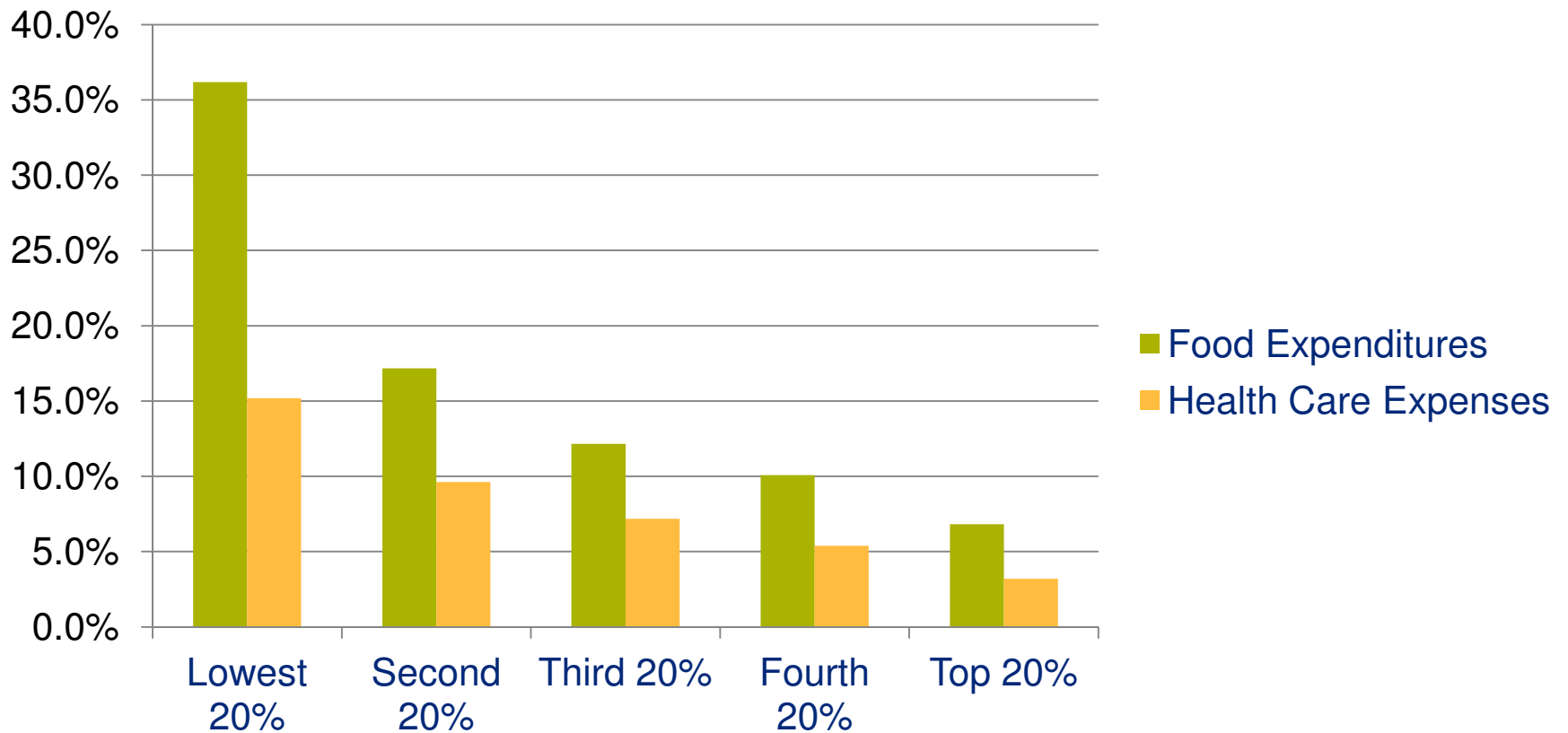
Expansion of Sales Tax Base to Services

- **Likely would be revenue neutral**
- **Could include food and out-of-pocket medical expenses**
- **Could include business to business transactions**



Food & Health Care Costs in the Sales Tax Base

Expenditures as a % of Annual Income Before Taxes



****Including these items in the sales tax base would disproportionately impact lower-income residents*



TABOR May Also Be Proposed

Constitutional Amendment to Cap State Spending

Limits growth in General Fund to three-year average of population growth plus inflation and requires 2/3s vote to *temporarily* exceed cap

Impacts

Lock-in low levels of funding, perpetuate inadequacy of funding

In only state that it has been implemented, Colorado, law suits have documented the unconstitutionality of inadequate funding that has increased educational disparities



All North Carolinians have a stake in revenue modernization...

All North Carolinians pay taxes, whether that be:

INCOME TAX



SALES TAX



PAYROLL TAX



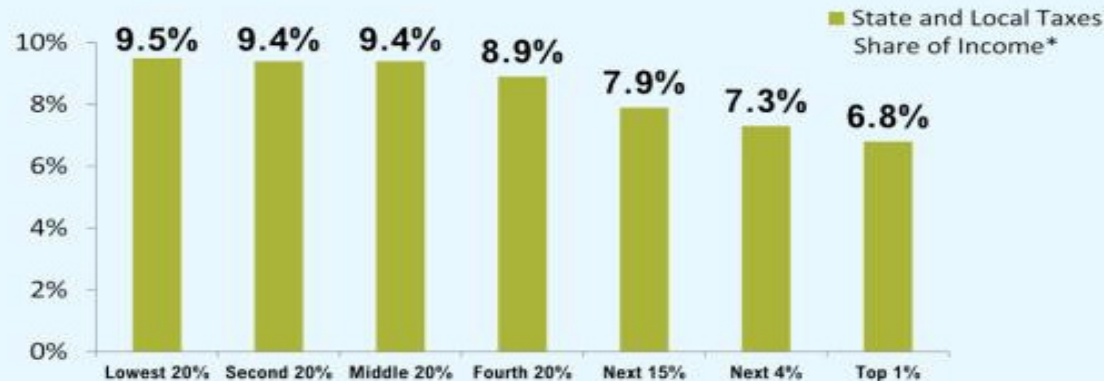
PROPERTY TAX



GAS TAX



In fact, low- and middle-income North Carolinians pay more as a share of their income in total state and local taxes than the wealthiest North Carolinians.



When all federal, state, and local taxes are taken into account, the bottom fifth of households pays about 16 percent of their incomes in taxes, on average.



Why Revenue Reform Matters for NC's Women

- **Women are faring poorly in many areas**
 - **19.2% live in poverty—more than the rate for men (16.4%) and NC (17.9%)**
 - **21% percent aged 18-64 lack health insurance**
 - **4 in 10 are their family's primary bread winner but...**
 - **Still only earn 83% of men's earnings**
 - **Are overrepresented in part-time work, which is more likely to pay lower wages & less likely to offer benefits**



Why Revenue Reform Matters for NC's Women

- **State budget cuts worsened the impact of the economic downturn on women**
 - **Impacted as recipients of programs & providers of services**
 - **Layoffs hit women harder than men because women are overrepresented in these professions**
 - **A range of critical programs that benefit women & their children were hit hard by budget cuts—such as early childhood programs, education, Medicare cuts, prisoner re-entry and treatment programs**



Why Revenue Reform Matters for NC's Women

- **Many women could lose certain income tax credits and pay more in the state's sale tax**
 - **State child tax credit, child care credit, and earned income tax credit could be eliminated alongside the elimination of the state personal income tax**
 - **These tax credits reduces overall tax burden, reduces poverty, & provides short-term safety-net**
 - **Lower-income families would face the largest tax increases under a reform proposal that requires an increased reliance on the regressive sales tax**



How We Modernize our Revenue System Matters

- **We should maintain a diversified revenue system, including income taxes as well as sales taxes**
- **We should make sure the system is based on ability to pay**
- **We should ensure that the system can grow with the economy**



Revenue Modernization in 2013 Presents an Opportunity

- **To talk about our vision and plans for NC**
- **To present the case for the principles of adequacy and fairness in tax policy, especially**
- **To demonstrate the impact of tax policy**



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