

## Tax Relief and Reform a Key Reason Why Carolina is Rising

Tax reform is working for working families in North Carolina. Tax reform means lower sales taxes and income tax rates for everyone. Tax reform, as enacted by Gov. Pat McCrory and the General Assembly, means workers and their families keep more of their hard-earned dollars to spend or save as they choose, and employers keep more of their hard-earned dollars to reinvest to create more jobs and grow the economy.

Our tax code is now simpler, more uniform and fairer for everyone.

Tax reform began in 2011, when the General Assembly reduced the state sales tax rate by 17 percent, from a state rate of 5.75 percent to 4.75 percent. Tax reform continued in 2013, when McCrory and the legislature simplified the personal income tax – taking rates ranging from 6 percent to 7.75 percent to a single flat rate of 5.8 percent. They also passed a higher standard deduction starting in 2014 and a flat personal income tax rate of 5.75 percent in 2015.

As a result of lower personal income tax rates, a higher standard deduction and more accurate payroll withholding tables, most employees will see on average a 20 percent reduction in state taxes withheld from their paychecks. A large sample of over 75,000 state employees in all income ranges saw the average state tax withheld drop from 5.6 percent in 2013 to 4.5 percent in February and January. This is the equivalent to a 1.1 percent more in take-home pay.

Many North Carolina employers pay the “personal” income tax rate on their business income, but others pay “corporate” income taxes. To make North Carolina more competitive and provide more money for all employers to invest, tax reform also reduced the corporate tax rate from 6.9 percent to 6 percent in 2014. It will drop to 5 percent in 2015.

Predictably, North Carolina’s tax reform has been criticized for benefiting those who earn and save more of their income. That’s not favoritism; it’s basic math. Those who earn more and pay a higher tax rate will logically benefit more from a rate reduction than those who paid at a lower rate or who paid no income taxes at all.

Ironically, legislative Republicans have been criticized for essentially raising taxes by ending the state’s Earned Income Tax Credit. That’s inaccurate. The tax credit expired because the Democratic Party’s legislative majority put a sunset on it when it was enacted in 2007. The sunset of the state EITC is not a tax increase anyway because the credit was a transfer payment to those who were already receiving the federal EITC even when they did not owe any state income taxes. And for those who do not pay any income taxes, they will still benefit from the 17 percent lower state sales tax rate.

The truth is, everyone in North Carolina is benefiting from the tax reforms that began in 2011. Sales tax rates are lower, income tax rates are lower and the standard deduction is higher.

Look at your own paycheck. You’ll discover that the state is withholding fewer taxes, so your take home pay is higher. More importantly, there are tens of thousands of more North Carolinians earning paychecks today than there were in January 2013 when McCrory and his administration took office.

The next time you buy clothes for your children, look at the receipt to see how much sales tax is charged and think of what you saved compared with the old state sales tax rate. Think of the long-term benefit in an economy

that is still recovering and of employers, both corporations and mom and pop partnerships, keeping a bit more of the money they earned – money that can be reinvested to create more jobs and grow the economy.

The evidence is clear. Tax reform is working, and nearly every North Carolinian is keeping more of the money earned, which is fundamental to building a stronger economy.

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