

# North Carolina Tax Law Changes 2011 - 2019

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Presented to the  
Arkansas Tax Reform and Tax Relief Task Force  
Tuesday, December 6, 2017

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*North Carolina House Speaker Tim Moore*  
*North Carolina House Majority Leader John Bell*  
*North Carolina House Finance Committee Senior Chairman Bill Brawley*  
*North Carolina House Finance Committee Co-Chairman John Szoka*

# Goals of North Carolina Tax Reform 2011 - 2019

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1. Reduce tax burden on families and businesses
2. Close tax loopholes, eliminate most credits, exemptions and deductions only available to a few taxpayers
3. Broaden tax base & lower rates
4. Encourage economic growth
5. Enact an evolution – not a revolution – of tax policy over time
6. Maintain commitment to long-term reform



# **N.C. Personal Income Tax Changes: 2011-2019**

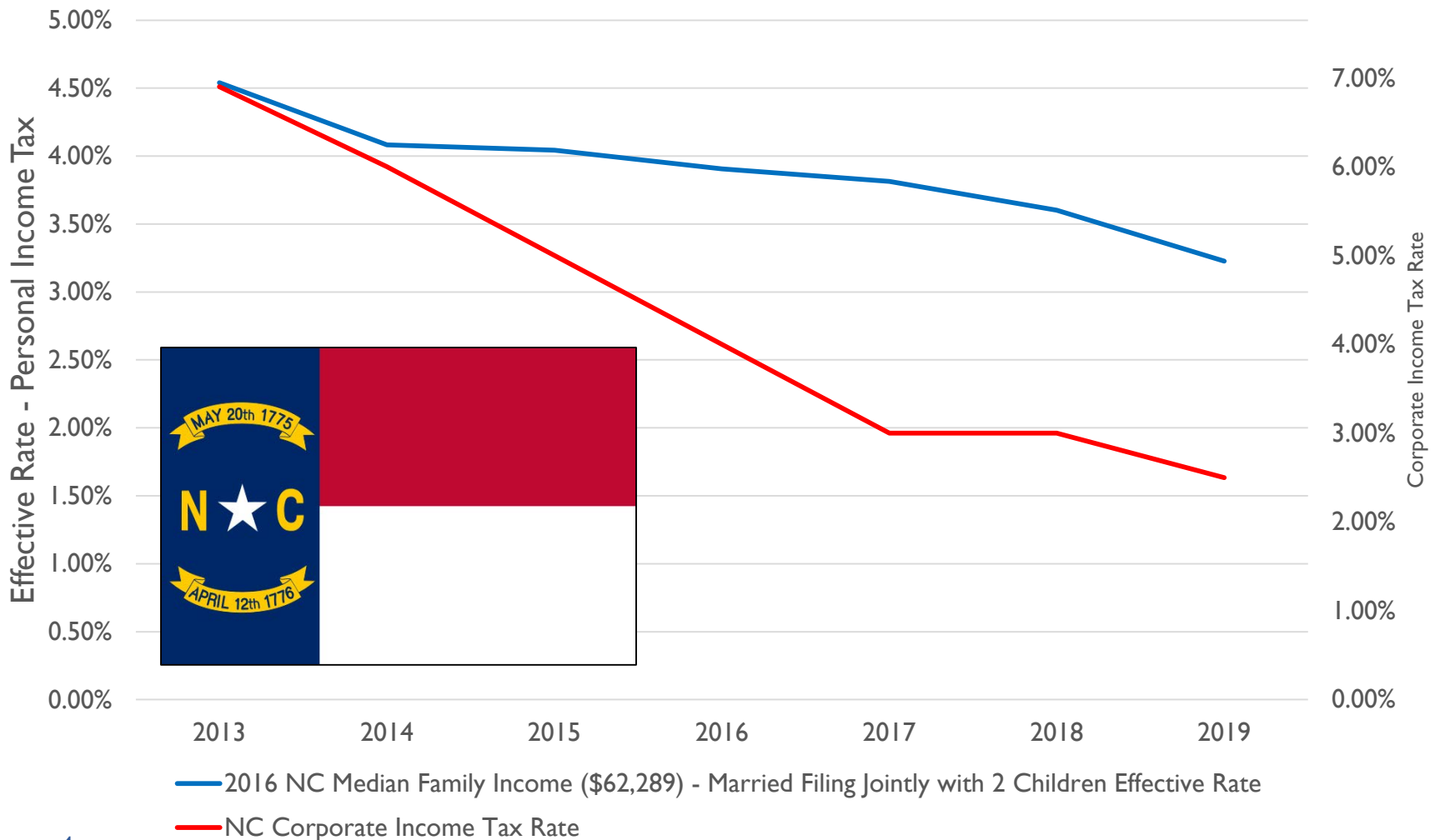
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- ▶ Top personal income tax rate reduced from 7.75% to 5.25%, one of the lowest in the southeast
- ▶ Standard deduction increased from \$6,000 to \$20,000 for married families filing jointly
- ▶ Eliminated special credits, reduced itemized deductions & simplified tax calculation, converted child tax credit to deduction
- ▶ Estimated 354,326 taxpayers removed from the tax rolls by January 2019



# Personal Income Effective Tax Rate Change

Changes in the Effective Rate on a Median Family of 4 and the Corporate Tax Rate



# N.C. Sales Tax Changes 2011-2019

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- ▶ Sales tax rate decreased from 5.75% to 4.75% in 2011
- ▶ Broadening the sales tax base to include repair, maintenance and installation services
- ▶ Sales tax is a more stable & less volatile revenue stream to fund government operations
- ▶ Goal was to create a pro-growth economic model by instituting a consumption based sales tax on goods and services and reduce income tax dependency.



# **N.C. Corporate Tax Changes 2011-2019**

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- ▶ In 2011 North Carolina's corporate tax was 6.9%
- ▶ In 2014 it was reduced to 6% and revenue triggers were implemented to continue lowering the tax based on collections
- ▶ In 2015 it was reduced to 5%, in 2016 it was reduced to 4%, in 2017 it was reduced to 3% based on revenue triggers
- ▶ In 2017 the corporate tax rate was reduced by the N.C. General Assembly again and will fall to 2.5% in 2019, lowest rate in the nation



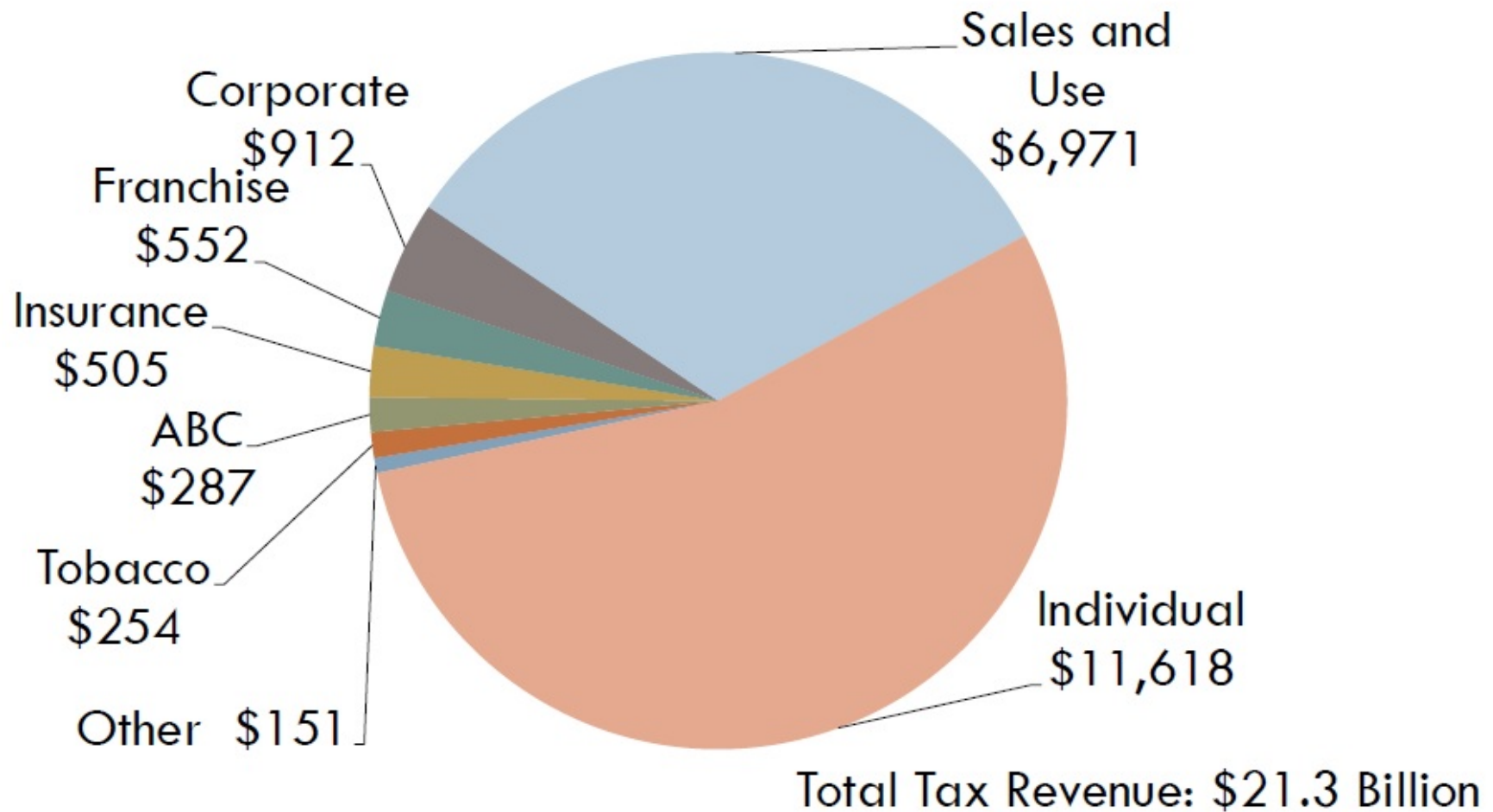
# N.C. Franchise Tax Changes 2011-2019

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- ▶ Lower rate for S corps effective for 2018 tax returns:  
Flat \$200 for first \$1 million of tax base; \$1.50 per \$1,000 of tax base that exceeds \$1 million
- ▶ Increased minimum tax from \$35 to \$200, increased maximum tax on holding companies from \$75k to \$100k
- ▶ Roughly 95% of S-corporations in NC have a net worth < \$1 million
- ▶ Tax base change: Deduction for debt
  - ▶ Repealed, 2015
  - ▶ Re-enacted, 2020
- ▶ Allows tangible property base reduced by amount of debt owed on property

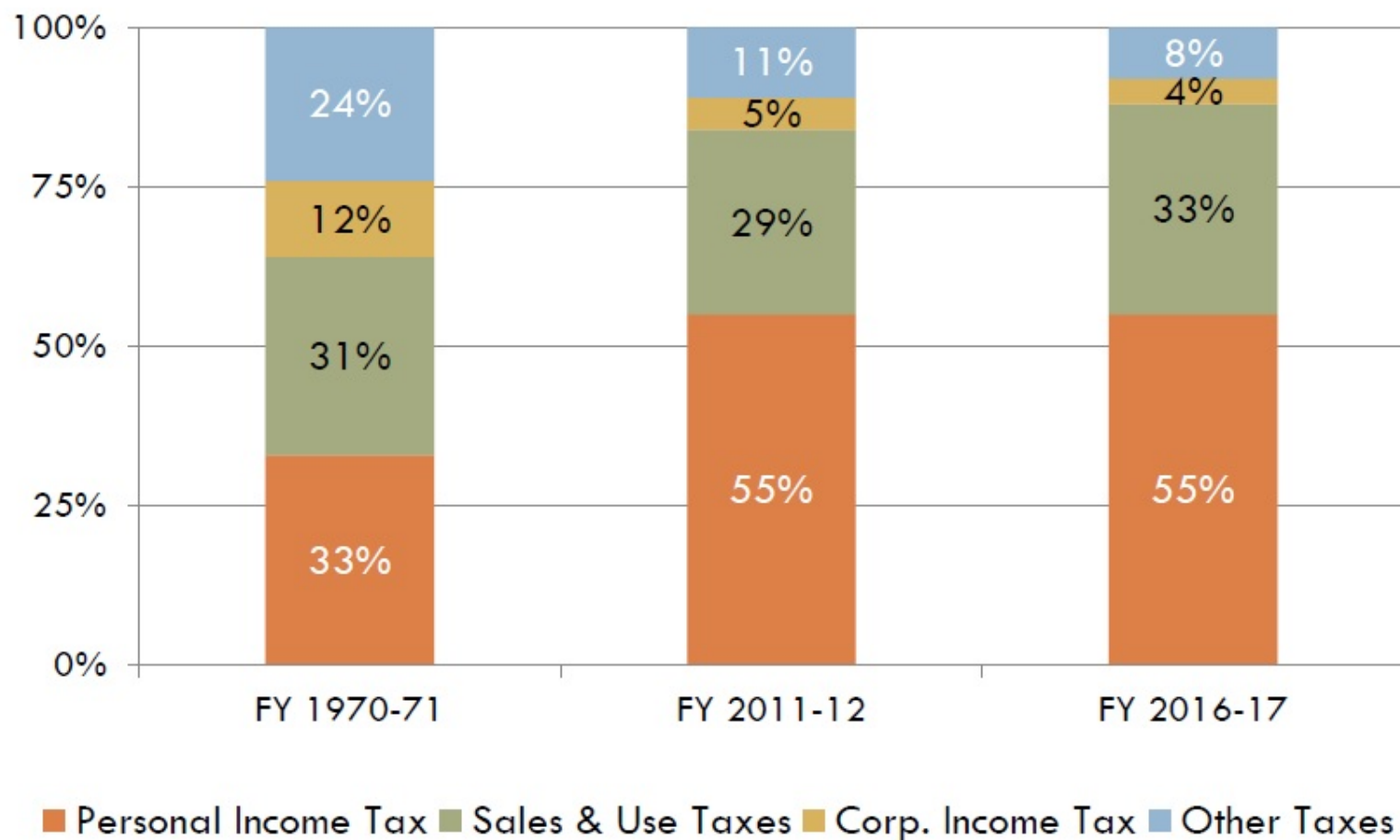


# General Fund Tax Revenue by Source, \$ In Millions, FY 2016-17





# North Carolina's Changing Tax Structure



Source: [North Carolina General Assembly Fiscal Research Division](#)

# Other Key Reforms in North Carolina 2011-2017

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- ▶ Budget reforms controlled spending
- ▶ Regulatory reforms reduced government burden
- ▶ Unemployment insurance reforms reduced debt
- ▶ Strategic Transportation Investments program prioritizes road funding



# Compare North Carolina: 2011 to 2017

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2011

- ▶ \$2.5 billion debt on unemployment insurance
- ▶ 10.4% unemployment rate
- ▶ Tax Foundation Rank: 44
- ▶ 3.8 million people employed

2017

- ▶ \$1.8 billion savings reserve, a state record
- ▶ 4.1% unemployment rate
- ▶ Tax Foundation Rank: 11
- ▶ 4.4 million people employed



# North Carolina Spending Growth 2003 - 2008

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**7.74%** Average Annual Growth in Spending

<b>▶ <u>Fiscal Year</u></b>	<b><u>Authorized Budget</u></b>	<b><u>Y/Y Change</u></b>	<b><u>Actual Revenues (000)</u></b>
▶ 2000-01	14,383,516,932	1.0%	13,451,860
▶ 2001-02	14,863,745,843	3.3%	13,510,005
▶ 2002-03	14,351,822,876	-3.4%	14,246,066
▶ 2003-04	14,914,222,783	3.9%	15,073,342
▶ 2004-05	16,024,170,294	7.4%	16,215,372
▶ 2005-06	17,341,821,310	8.2%	17,774,349
▶ 2006-07	19,102,281,272	10.2%	19,360,944
▶ 2007-08	20,817,042,249	9.0%	19,824,856
▶ Not Sustainable Growth in Annual Spending			

# North Carolina Spending Growth 2011 - 2017

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**2.77%** Average Annual Growth in Spending

<b>▶ <u>Fiscal Year</u></b>	<b><u>Authorized Budget</u></b>	<b><u>Y/Y</u></b>	<b><u>Change Actual Revenues (000)</u></b>
▶ 2008-09	21,437,970,761	3.0%	17,626,702
▶ 2009-10	19,039,174,596	-11.2%	18,636,781
▶ 2010-11	18,985,738,843	-0.3%	19,183,147
▶ 2011-12	19,849,782,946	4.6%	19,534,015
▶ 2012-13	20,532,971,761	3.4%	20,541,576
▶ 2013-14	20,789,434,065	1.2%	20,153,218
▶ 2014-15	21,091,110,145	1.5%	21,445,800
▶ 2015-16	21,884,714,000	3.8%	22,148,900
▶ 2016-17	22,341,437,590	2.1%	22,614,083

**Funding budget priorities, population growth and inflation**

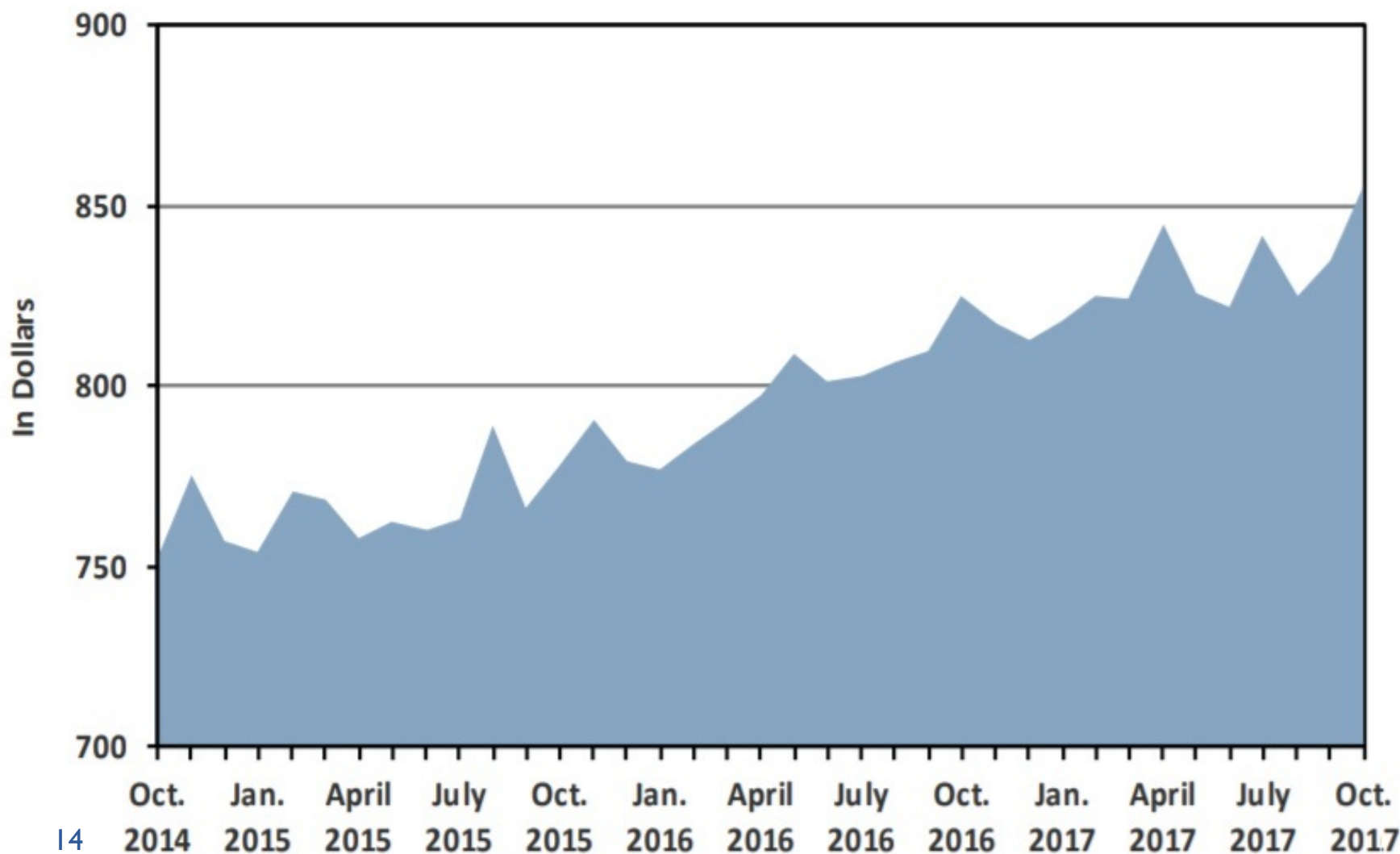
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# Total Private Average Weekly Wage

## October 2014–October 2017

(Not Seasonally Adjusted)



# North Carolina Unemployment Rates

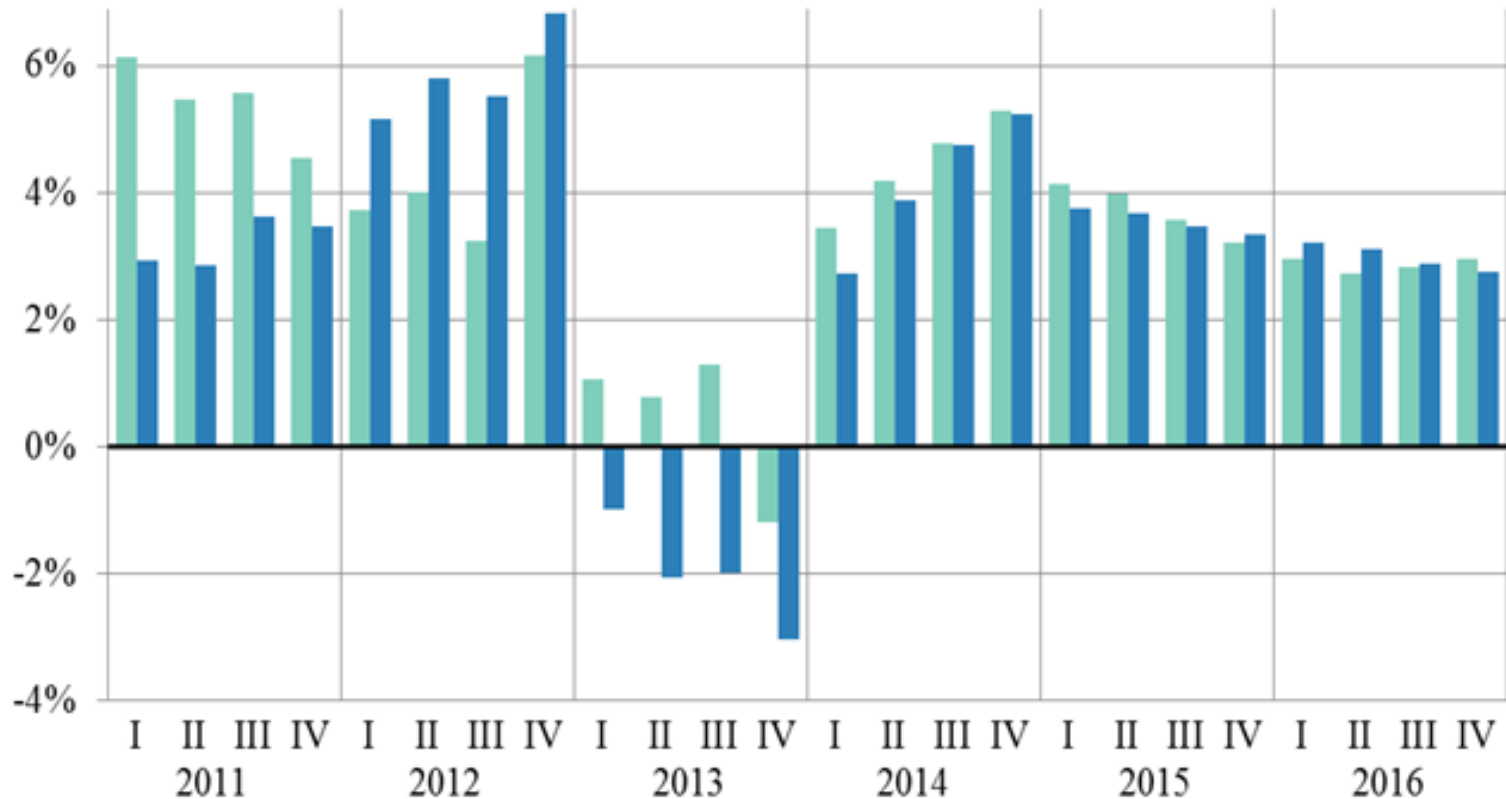


Unemployment Rate Declined 2011- 10.4% to 2017- 4.1%

## Percent Change in Per Capita Personal Income

(current dollars, year-over-year percent change)

■ United States ■ North Carolina



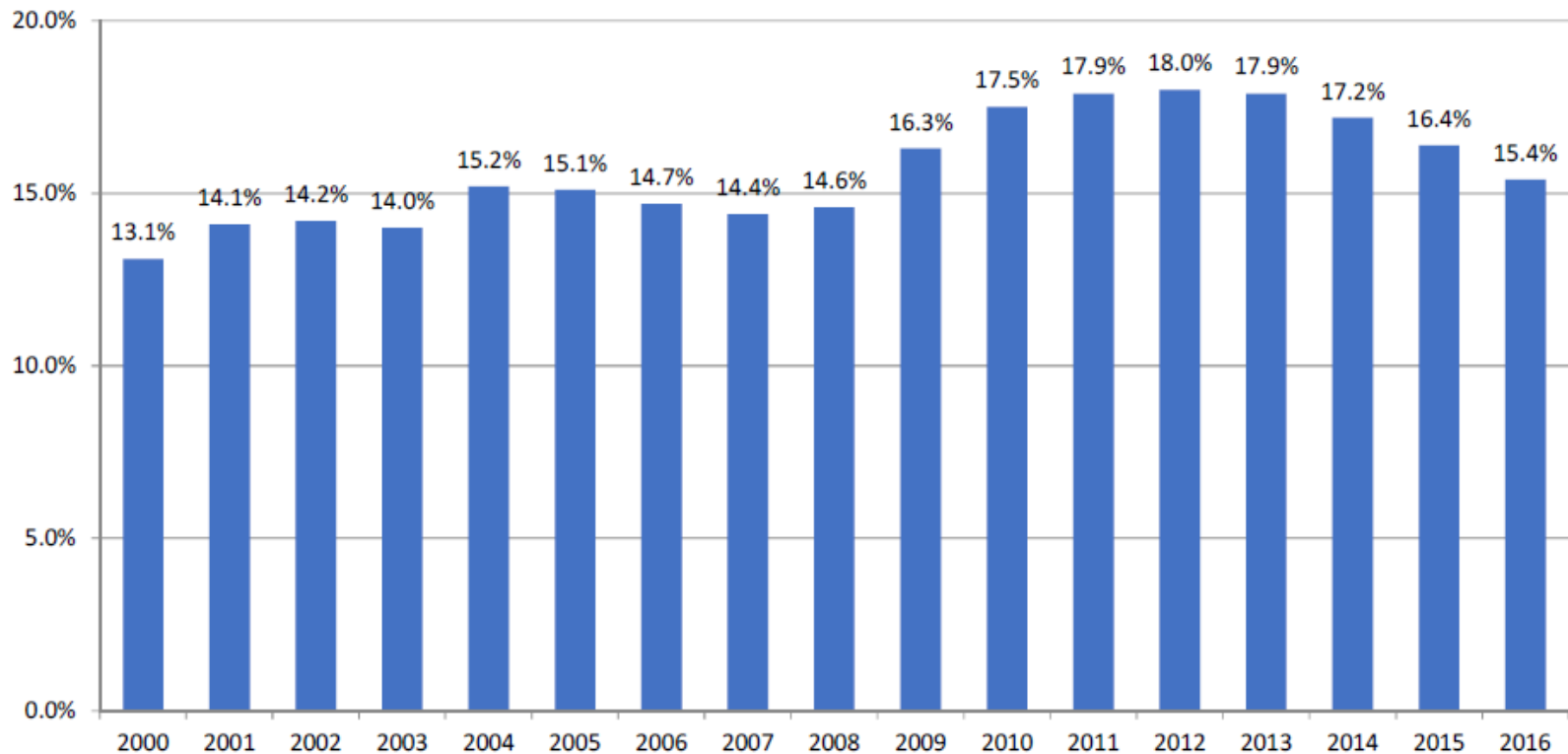
Source: U.S. Bureau of Economic Analysis

**2012-2016 North Carolina MHI growth 10.23% vs US MHI growth 8.99%**



# NC Poverty Rate

2000-2016 NC Poverty Rate



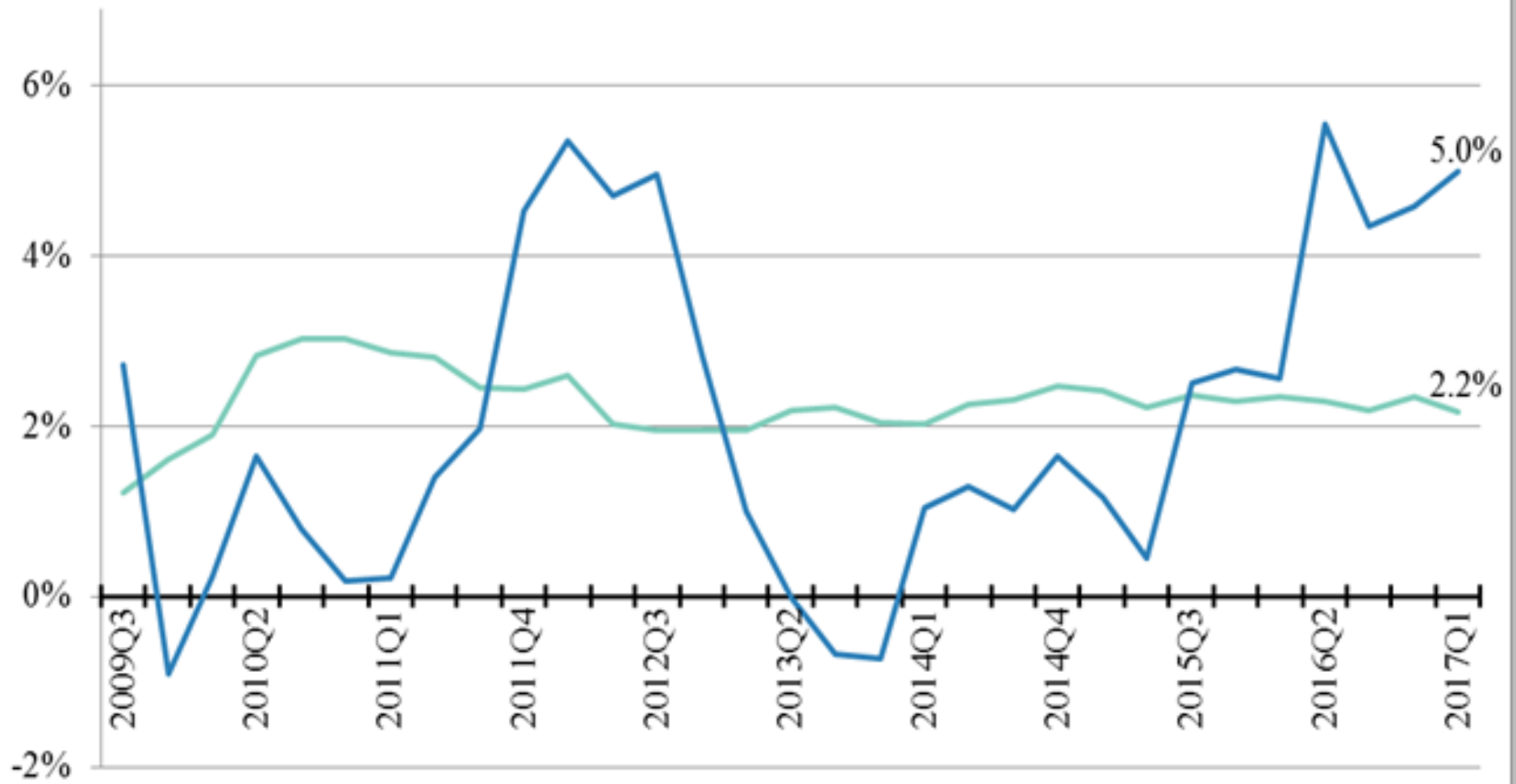
By Statista 2017



## Percent Change in Private Average Weekly Earnings

(current dollars, seasonally adjusted, year-over-year percent change)

— United States — North Carolina



Source: U.S. Bureau of Labor Statistics, Current Employment Statistics (Establishment Survey)

# Economic Success for North Carolina in 2017

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- ▶ North Carolina ranked Best State for Business in Forbes 2017 rankings
- ▶ North Carolina wins 2017 Prosperity Cup by Site Selection Magazine
- ▶ North Carolina among 16 states prepared for economic recession: Moody's
- ▶ North Carolina passes 30 states in 3 years of Tax Foundation rankings
- ▶ North Carolina top-5 for wage growth: U.S. Census Bureau
- ▶ North Carolina is best state for startups: Fit Small Business
- ▶ North Carolina 1 of 12 states with unanimous 'AAA' rating
- ▶ North Carolina #1 for tech job growth in N.C. Technology Association study
- ▶ North Carolina 5<sup>th</sup> best state for business in CNBC rankings
- ▶ North Carolina unemployment 17-year low: Dept. of Commerce



# Thank You from the North Carolina House of Representatives

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