

## NORTH CAROLINA AT A GLANCE:

North Carolina has an income tax system that reflects today's incomes, but needs a refundable earned income tax credit and inflation adjustment. The state also needs to modernize its sales tax base to include more services.

Has the state...	YES	NO	More Work Needed
1. Broadened sales tax base?		<input checked="" type="checkbox"/>	
2. Modernized sales taxes?	<input checked="" type="checkbox"/>		
3. Raised cigarette tax to US average?		<input checked="" type="checkbox"/>	
4. Enacted Earned Income Tax Credit?		<input checked="" type="checkbox"/>	
5. Modernized income tax bracket?	<input checked="" type="checkbox"/>		
6. Dealt with hidden income tax increases?		<input checked="" type="checkbox"/>	
7. Rethought senior tax preferences?		<input checked="" type="checkbox"/>	
8. Eliminated corporate loopholes?	<input checked="" type="checkbox"/>		
9. Linked property taxes and ability to pay?		<input checked="" type="checkbox"/>	
10. Strengthened accountability?	<input checked="" type="checkbox"/>		
11. Conducted a performance review?	<input checked="" type="checkbox"/>		

## A better North Carolina...

**Idea 1: Broaden the sales tax base.** North Carolina should abolish sales tax holidays and review sales tax exemptions to eliminate those that don't meet contemporary economic needs. North Carolina's sales tax holiday cost an estimated \$11 million in 2004.

**Idea 2: Modernize sales taxes for the new economy.** North Carolina should modernize its policy on taxing services. In 2004, it taxed 30 out of 168 possible services.

### Idea 3: Raise cigarette taxes to promote public health.

North Carolina should raise its 35-cent-per-pack cigarette tax (scheduled for July 2006) to the national average of \$0.92 per pack to reduce smoking and promote public health. Research shows that doing so would likely cause 40,700 current adult smokers to quit. Long-term health savings from smoking declines are estimated to be \$1.57 billion.

**Idea 4: Enact a state Earned Income Tax Credit.** North Carolina should enact a refundable earned income tax credit to help to bring working families' incomes above poverty. Some 729,862 North Carolina taxpayers in 2003 claimed the federal earned income tax credit for a total of \$1,344,514,547. A refundable state EITC would cost an estimated \$133 million if set at 10 percent of the federal credit.

**Idea 5: Modernize state income brackets.** North Carolina has the highest income tax rate among the Southern states, 8.25 percent on income of \$120,000 and above for single filers.

**Idea 6: Account for inflation.** North Carolina should enact strategies to adjust taxes for inflation to promote long-term *fairness* and reduce back-door inflationary tax hikes. North Carolina does not index personal exemptions, standard deductions, credits or brackets for inflation. The state did not tax poor households in 2004, but did in 2005 because its income tax system does not automatically adjust for inflation.

**Idea 7: Rethink senior tax preferences.** North Carolina should redesign tax codes to provide fair relief to seniors based on *ability-to-pay* instead of age alone. The state currently provides seniors with a full exemption for Social Security income, a private pension income exemption, an additional deduction/exemption, and property tax preferences. In 2004, pension and Social Security tax preferences cost North Carolina an estimated \$494 million.

**Idea 8: Eliminate corporate tax loopholes.** While North Carolina does not require combined reporting, it does restrict the use of the passive investment company (or Delaware-holding company) loophole. North Carolina does not, however, have a throwback rule.

**Idea 9: Connect property taxes and *ability-to-pay*.** If North Carolina insists on property tax reform, it should use a property tax circuit breaker to shield residents from excessive taxation and connect property taxes with *ability-to-pay*. North Carolina had the 13th lowest property taxes in the nation per capita and the 11th lowest as a percent of personal income in 2002.

**Idea 10: Strengthen accountability.** North Carolina has a tax expenditure report and makes it easily available online.

**Idea 11: Review the performance of government.** Through a Governor's commission, North Carolina conducted a comprehensive performance review in 2002.