

Senate Leadership Proposes \$1 Billion Tax Cut

By Administrator

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The leadership of the North Carolina Senate unveiled a roughly \$1 billion tax cut proposal that would provide relief to the overwhelming majority of North Carolinians – with the most dramatic reductions going to middle class and working families and job-creating small businesses. The \$1 billion cut would accumulate through 2019 and the sponsors say 99 percent of North Carolina taxpayers would enjoy a tax cut.

The Billion Dollar Middle Class Tax Cut Act, sponsored by Sen. Jerry Tillman (R-Randolph), Sen. Tommy Tucker (R-Union) and Sen. Andrew Brock (R-Davie), would continue Republican-led efforts to reform, simplify and cut state taxes – making our tax climate the most competitive in the region and among the most competitive in the nation. Beginning in 2018, the proposal would:

Lower the personal income tax rate – In addition to North Carolina families, hundreds of thousands of small businesses pay income taxes at the personal income rate. Reducing the rate from 5.499 to 5.35 percent would keep North Carolina's personal income tax rate one of the lowest in the Southeast. Before Republican-led tax cuts were passed starting in 2013, the state had the Southeast's highest personal income tax rate at 7.9825 percent.

- Increase the amount of income exempt from income tax – The standard deduction – the amount of money a taxpayer can earn that is exempt from any income tax – is increased for all North Carolina taxpayers:

- Provide additional tax relief for families with children – The existing child tax credit would be converted and expanded into a progressive child tax deduction for families earning less than \$120,000 per year:

- Increase the amount of the mortgage interest and property tax deductions and eliminate the marriage penalty for itemizers – Under the proposal, families who opt to itemize their returns rather than claim the standard deductions would see the amount of mortgage interest and property taxes they could deduct increased to \$22,000 and tiered by filing status like the standard deduction. (The new deduction level for married filers would cover most homes valued up to about \$550,000). Taxpayers who itemize will continue to be able to claim unlimited charitable and medical deductions.

- Simplify and reduce the franchise tax on small businesses – The plan cuts what is effectively a statewide property tax on small business and creates a flat \$200 tax on the first \$1 million of a business's net worth. The change cuts taxes on small businesses organized as S-Corporations by up to \$1,300 per year and brings S-Corporations' tax treatment more in line

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with LLCs (limited liability companies.)

- Reduce the corporate income tax rate – The tax rate on businesses would be reduced from 3 percent to 2.75 percent in 2018 and to 2.5 percent in 2019, continuing the business tax reforms that have helped create more than half a million new jobs since Republicans took control of the state legislature in 2011.

- Move to market-based sourcing – The proposal adopts the N.C. Department of Revenue’s market-based sourcing rules which end tax penalties on service-based businesses for hiring workers and making infrastructure investments in North Carolina. This change provides service-based businesses the same benefits manufacturing businesses received last year through the adoption of single sales factor apportionment.

Under the bill, 99 percent of taxpayers would pay less or pay no state personal income taxes – and the bulk of the tax cut would benefit middle class and working families earning less than \$50,000 per year.

While reducing the total tax bill on 99 percent of taxpayers, the Billion Dollar Middle Class Tax Cut Act shifts more of the overall income tax burden in North Carolina from low- and middle-class taxpayers to high-income earners.

For example, a married couple with two children earning the N.C. median household income of roughly \$47,000 per year receives an additional tax cut of nearly \$200 under the proposal – eliminating close to 14 percent of their total state tax burden. Combined with other major tax reductions enacted by the General Assembly, the same family would pay \$318 less in state income taxes than they paid in 2012.

Because the Billion Dollar Middle Class Tax Cut Act focuses tax cuts on low- and middle-income North Carolina families, the effective income tax rate reduction is greatest in our state’s economically struggling rural areas. For example, the tax cut for a family making the median household income in each county ranges from a high of 39 percent in Bertie County (which has the state’s lowest median income) to 7 percent in Wake County (which has the state’s highest median income.)

This legislation will bring the total annual amount of tax relief provided to North Carolina families and job creators to more than \$4.5 billion per year since Republicans assumed leadership of the state legislature in 2011.