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NC BUDGET & TAX CENTER

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August 2023

Tax triggers are trouble

NC leaders' latest design for tax cuts won't improve our lives

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State Senate President Phil Berger and Speaker of the House Tim Moore have reached an agreement behind closed doors on a tax plan that will use some form of revenue targets, beyond calendar dates, to determine whether personal income tax rates will be lowered.

Revenue collected by the state typically comes from a range of sources that include income and sales taxes, fines, and fees. Income taxes represent the greatest source of dollars for the state to fund public schools and universities, public health, transportation, and they are also the most likely to keep up with costs in delivering services over time and can be best aligned to a persons' ability to pay.

The leadership of the General Assembly has spent a lot of time — not just this summer but for more than a decade — planning to get to zero income tax. Meanwhile they have spent no time planning to get to zero poverty and zero hardship for the people of North Carolina. The latest development around tax triggers is a distraction from the reality that leaders choose time and again to divert our wealth to the richest North Carolinians rather than developing policies that make child care more affordable for working families, ensure every family has a roof over their heads, or reduce hardship.

North Carolina is still on the path to zero income tax

Tax triggers are just the latest convoluted design to distract us from the reality that some NC policymakers are not only failing in their responsibility to serve the people of this state, but they also are making it next to impossible for future policymakers to do any different.

Using so called tax triggers would mean that rates get cut if specific revenue collection levels or growth rates are reached. These triggers are increasingly common as states try to make claims that tax cuts don't undermine the fundamental responsibility of policymakers to meet the priorities of people.

The fact is income tax cuts always reduce the public funds available for schools, communities, infrastructure, and environmental protection. Even when claims to make up the revenue from other sources are made, these never truly come to pass. Proposed revenue raisers in North Carolina, like casinos and sports gambling, are almost always less adequate than income taxes in meeting needs and are less sustainable over time. They also often result in tax shifts that ask North Carolinians with middle and low incomes to carry a greater load.

Income tax cuts scheduled into the future are particularly problematic because they commit future policymakers to tax changes regardless of what the future brings — whether it's a public health crisis or an opportunity to put in place infrastructure that would support growth without displacement.

Examples abound of states that have run into significant problems because of tax triggers under various designs:

- "In Oklahoma, despite a revenue shortfall and budget crunch, the Board of Equalization had to certify a tax rate reduction passed several years ago...."
- "In Virginia, policymakers ducked a tax increase to pay for roads by substituting hypothetical revenue from the pending Marketplace Fairness Act. When Congress (predictably) didn't pass the legislation, the lack of sales tax revenue triggered a gas tax increase."
- "[In Missouri], the $150 million revenue growth needed to trigger the phase-in [of tax cuts] is just 1.7 percent of forecasted fiscal year 2015 revenue. That is highly unlikely to be sufficient to maintain current services. The fiscal note assumed inflation

alone would be 2.3 percent per year during the phase-in period."

The overall lesson is that there is no "good" way to design tax triggers.

Triple trouble for North Carolina with tax triggers on the table

Here are the three major problems with tax triggers that should cause policymakers and the public to reject this latest effort to usher in additional tax cuts for the richest North Carolinians without accountability to the people of our state.

- **Tax triggers avoid balanced budget requirements and allow policymakers to claim credit for tax cuts without being accountable to the people.** Tax triggers are a political tool, not a tool for sound budgeting. Tax triggers make it possible for lawmakers to put in place revenue changes that don't require showing the public how spending will be changed to meet that revenue number.
- **Tax triggers are based on incomplete spending and revenue projection data.** With incomplete information about spending requirements over time, policymakers in North Carolina don't have information about what it will take to maintain current service levels into the future across the range of public programs that people expect the government to provide. With conservative projections about revenue collection a matter of course in North Carolina, policymakers have limited information as well about what revenue levels are likely to be met under various scenarios.
- **NC doesn't have the revenue now for what is needed to meet documented requirements, so tax triggers in North Carolina would build from a diminished baseline.** After a decade of reductions to state revenue, North Carolina is operating at a level of revenue that has meant the state is $11.7 billion below historic spending levels as a share of the economy. This means that any revenue growth from this baseline will take generations to catch up to what we already know is needed for things like our public schools.

Tax triggers have a long track record of failing to create the conditions necessary for fiscally responsible budgeting. They make it easier for policymakers to shirk their responsibility to govern for the good of the people.

> **North Carolinians should demand policymakers do their job of creating a balanced budget each year with the input of the people instead of putting tax cuts for the wealthy on autopilot.**

Importantly, too, triggers always work in one direction: to lower taxes and obscure the reality that raising taxes on the wealthy and on corporations may be necessary to put us all on solid ground.

North Carolinians should demand policymakers do their job of creating a balanced budget each year with the input of the people instead of putting tax cuts for the wealthy on autopilot.