

Lowering the income tax limit in the state constitution would lock future North Carolinians into today's bad tax policy

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The NC General Assembly is considering a constitutional amendment on the ballot that, if approved by voters in a statewide election, would lower the maximum allowable income tax rate to 5 percent. The state constitution already limits the maximum income tax rate, and enshrining a lower income tax limit would be both unnecessary and harmful for the people of North Carolina.

It would have no immediate effect on how much people are paying in taxes, because income tax rates are already under 5 percent: The corporate income tax rate is 2.5 percent and will be completely eliminated by 2030 unless legislators reverse course, and the personal income tax rate is 4.5 percent and is scheduled to fall to 2.5 percent over the next five years. **But this tax cap would immediately lock North Carolina into the status quo of a tax code designed to benefit the rich at the expense of funding essential services and increase the likelihood of future harm to the vast majority of North Carolinians.**

A 5% INCOME TAX LIMIT IN OUR STATE CONSTITUTION WOULD:



Further lock North Carolina into an upside-down tax code that benefits the super-rich and highly profitable corporations

When it comes to state and local taxes, North Carolina already has an upside-down tax code that asks the most from families with the least financial resources. The richest 1 percent of households in our state make well over a million dollars each year on average but pay just 6 percent of their annual income in state and local taxes. Meanwhile, the average household in the bottom 20 percent makes less than \$15,000, but still pays 11 percent in taxes — a portion almost twice as high as the millionaires.

This amendment would prevent lawmakers from passing a graduated personal income tax that could restore a more equitable tax code by taxing people with very high incomes at a rate over 5 percent. When it comes to the corporate income tax, 90 percent of the financial benefit of blocking a tax rate over 5 percent would flow to people — primarily corporate shareholders — who don't live in North Carolina.

Stricter limits on income taxes also mean a greater reliance on more regressive revenue sources like sales taxes, fines, and fees. People with lower incomes spend a far greater share of their earnings on purchases that are subject to sales tax than wealthy people, and these taxes are already a growing share of state revenue. A lower income tax cap will lock in these bad choices.

A 5% INCOME TAX LIMIT IN OUR STATE CONSTITUTION WOULD:



Make it harder for our state to provide adequate public services and jeopardize our credit rating

By lowering the income tax cap from 7 percent to 5 percent, this amendment would block our state from generating nearly \$9 billion in annual public revenue. North Carolina families are already seeing the chaotic impacts of revenue policy that is inadequate to meet community needs: school buses that never arrive, layoffs of school librarians, the elimination of entire academic departments at UNC System schools, and 1,500 child care centers at risk of closure. With an adequate and equitable tax code, our state could address these issues and much more, but a 5 percent income tax cap would make that all but impossible.

When state income tax limits are placed into the constitution, they can also damage a state's credit rating, making it more expensive for governments to borrow money when needed.

Major credit rating agencies in the United States name constitutional limits on taxation as a negative factor when assigning bond ratings because of how severely they constrain government's options for repaying loans taken out for infrastructure and similar projects. Not surprisingly, research has found that more restrictive state tax limitations are associated with lower credit ratings and higher borrowing costs.



Tie lawmakers' hands in the future and prevent them from being accountable to their constituents

If the income tax cap in our state constitution is lowered, it will be extremely difficult to undo if future lawmakers choose to invest in our communities or need to respond to an economic crisis. During recessions in the 2000s, North Carolina lawmakers were able to temporarily raise income taxes on people with very high incomes, taking pressure off local governments and generating millions of dollars in funding to support public schools facing budget shortfalls.

Research has shown that, if the goal is long-term economic health, raising taxes on people with high incomes is a better strategy than spending cuts during a recession.

A lower tax cap would tie lawmakers' hands, limiting their tools to respond to their constituents' needs with public funds generated through wise revenue policies. It would also hamstring future elected leaders' ability to make different policy decisions than the bad ones being made today.



Increase pressure on local governments and property taxes, hitting rural counties the hardest

When state revenue is constrained, researchers have found ripple effects on local revenue as well. **Dozens of North Carolina counties, which are overwhelmingly rural, rely on state funds for over 15 percent of their annual budget. These are the counties that will be hit the hardest when state legislators can't adjust income tax policy to meet funding needs.** Facing limited state support, local governments are likely to have few options beyond raising property taxes or cutting services.