

tax increases and excessive government spending implemented over the decades, by prior administrations, has stifled North Carolina's economic growth. As a result, the Tar Heel State was saddled with the highest taxes in the Southeast and according to the American Tax Foundation, North Carolina was ranked the 44th worst business state in the country. Since 1997, our personal per capita income has declined, despite billions of dollars in government assistance, poverty in our State and government dependency has increased. We still are challenged by the fifth highest unemployment rate in the country.

The best way to break the cycle of poverty is with a good job.

The historic news of this session is that the North Carolina General Assembly has taken corrective action with the passage of HB 998 Tax Simplification & Reduction Act. The new tax plan will lift the Tar Heel State to 17th best business climate in the country. This will result in a NC economy that is highly competitive with more job opportunities for our citizens.

Included in the table below are rankings for individual tax components as well:

	Current Tax Law Ranking	New Tax Plan Ranking
Overall	44	17
Corporate Income	29	17
Individual Income	43	17
Sales	47	47
Unemployment Insurance	5	5
Property	36	27

The lower tax rates will be effective in the 2014 taxable year, and is the first step in bringing comprehensive tax reform to North Carolina. The new tax plan is simpler, more transparent and fairer to all citizens and is designed to put more money back into the pockets of working families and small businesses.

[H 998](#) Tax Simplification & Reduction Act- Plan Highlights

Personal Income Tax:

- Reduces and simplifies the progressive 3-tiered state personal income tax rates from the current maximum rate of 7.75% and minimum rate of 6% to a flat rate of 5.8% in 2014 and 5.75% in 2015.
- Increases the standard deduction for all taxpayers, applied to the:
 - First \$15,000 of income for those married filing jointly
 - First \$12,000 of income for heads of household
 - First \$7,500 of income for married filing single & single filers
- All Charitable contributions allowed under the code
- Mortgage interest + property taxes on real estate, capped at \$20,000
- Retains the state child tax credit and increases it for families making less than \$40,000.

(Married Filing Jointly under \$40,000) increases from \$100 per child to \$125 per child)

- Current law remains the same for all Social Security income from state taxes
- Eliminates North Carolina's death tax

Corporate Income Tax:

- Reduces the corporate income tax from 6.9% to 6% in 2014 and then to 5% in 2015
- Eliminates many special interest incentives and loopholes.
- Preserves the sales tax refund for nonprofits

Other Highlights:

- A two year cap on the motor fuel excise tax at 37.5 cents/gallon starting October 1, 2013 – June 30, 2015

The changes outlined in HB 998, are the first steps in retooling our economy toward Comprehensive Tax Reform.

Our goal is to move away from an income-based tax policy and toward a consumption-based sales tax model. Most economists will say that the income tax produces a volatile revenue stream and makes planning and budgeting very difficult. Also, income taxes have a negative effect on savings, investment, economic growth and job creation that are essential to a growing economy.

A consumption based sales tax model on goods and services offers stability to the government revenue stream and gives the taxpayer the freedom to spend, save or donate to the charity of their choice. This broadened sales tax base along with a move toward a ZERO income tax rate, similar to Texas, Florida and Tennessee, increases disposable income, provides a simple and fair tax system, stimulates economic growth and creates jobs.

Creating a competitive 21st century global economy will take vision, time and the political strength to follow the right course of action. Reform and improvements in education, transportation, regulatory climate, energy policy, and reforming tax policy are critical factors to achieve our strategic mission of opportunity and prosperity for all.

You are welcome to forward this newsletter to your e-mail friends and stay tuned for additional reports on tax reform.

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