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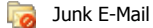
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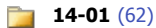
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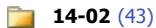
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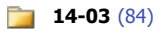
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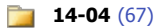
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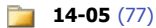
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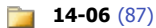
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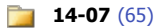
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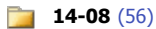
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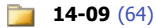
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14-07 (65)



14-08 (56)



14-09 (64)



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Will NC tax Cuts grow NC economy?

Joel Ford [joelford@gmail.com]

Sent: Sunday, October 05, 2014 10:10 AM

<http://www.blueridgenow.com/article/20141005/ARTICLES/410051007>

Will NC tax cuts grow the economy?

As I was browsing through the [July 26](#) edition of the Times-News, the headline of a short Associated Press article caught my eye: "NC income tax collections might fall \$205 million short." The source was a memo from the General Assembly's nonpartisan Fiscal Research Division (FRD), but the headline didn't tell the whole story.

The FRD estimates that North Carolina income tax collections are expected to fall \$205 million short of earlier projections and that the shortfall could be as high as \$680 million for this fiscal year. An Aug. 2 AP article in the Times-News stated that the FRD estimated a possible revenue shortfall of \$5.3 billion over the next five years.

North Carolina revenue shortfalls are similar to what happened in Kansas, where Republican Gov. Sam Brownback cut taxes for the wealthy in 2012 and promised increased economic growth. Unfortunately, the Kansas economic growth hasn't happened, and current projections by the Kansas Division of the Budget are that it will not happen anytime soon. Meanwhile, Moody's has downgraded the Kansas credit rating, due in part to revenue shortfalls.

A September 2012 report by the nonpartisan Congressional Research Service, "Taxes and the Economy: An Economic Analysis of the Top Tax Rates Since 1945," had this to say about top tax rates, the economy and income inequality: "There is not conclusive evidence, however, to substantiate a clear relationship between the 65-year steady reduction in the top tax rates and economic growth. Analysis of such data suggests the reduction in the top tax rates has had little association with saving, investment or productivity growth. However, the top tax rate reductions appear to be associated with the increasing concentration of income at the top of the income distribution."

A study last month by Standard & Poor's Rating Services (S&P), "Income Inequality Weighs on State Tax Revenues," documents how growing income inequality is affecting state tax revenues: "The findings support our view that rising income inequality contributes to weaker tax revenue growth by undermining the rate of overall economic expansion."

The S&P report identified North Carolina as one of the top 10 states most dependent on income tax revenues and found that the negative effect was even stronger in states dependent on sales tax revenues.

Well, North Carolina may be headed for a sales tax-based system. A Sept. 4, 2013, Washington Post article by Reid Wilson, "North Carolina Republicans will aim to ax income tax," stated that state Sen. Bob Rucho, R-Mecklenburg, co-chairman of the Senate Finance Committee, plans to use the 2015 legislative session to push for replacement of the state income tax with a consumption-based sales tax, including on food and medical care.

The Post article quoted Speaker Thom Tillis as saying, "I think moving to a consumption-based model is something we all agree on." But Tillis cautioned: "You have to do this in a way that you can give (businesses) a high degree of confidence."

Give businesses confidence? One has to wonder why North Carolina families aren't Speaker Tillis' primary concern with this legislation.

A consumption-based tax benefits the wealthy and puts the greatest tax burden on those who can least afford it, lower and middle income families. Consumer spending drives 70 percent of the U.S. economy, so Sen. Rucho and Speaker Tillis want to put the tax revenue burden on the largest group of consumers, lower and middle income families? Really?

A [March 25](#) Huffington Post article by Annabel Park, "North Carolina: A Laboratory for Trickle-Down Economics," discussed an interview with North Carolina State University economist Michael Walden. According to the article, Walden is well-respected by Republican lawmakers and is a frequent speaker at conservative events. He testified during the Senate Finance Committee hearing on the 2013 tax reform.

During this interview, Walden stated that research does not show that there is a direct causal connection between tax cuts and economic growth. Rather, Walden emphasized the importance of an educated labor force as a way to stimulate economic growth by attracting new businesses. He said empirical data showed that investment in education was a more reliable path to job creation and economic growth than tax cuts.

So why did Speaker Tillis and the Republican-controlled legislature eliminate the tax deduction for college savings accounts that helped middle-income taxpayers provide a higher education for their children? And what will happen to the already stressed education budget if revenues fall short by a billion dollars next fiscal year, as the FRD estimates?

The 2013 tax reform dramatically cut taxes for the wealthy, and more cuts may be on the way. But nonpartisan studies and the Kansas experiment do not show that cutting taxes for the wealthy creates a booming economy that increases tax revenues. The studies do show that cutting taxes for the wealthy exacerbates the growing income inequality that the recent S&P study predicts will undermine economic expansion and lower state tax revenues.

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Joel Ford

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