

North Carolina Taxes Hit Poor & Middle Class Much Harder than the Wealthy

Low- and middle-income families in North Carolina pay a much higher share of their income in state and local taxes than do the richest North Carolina taxpayers, according to a new study by the Institute on Taxation & Economic Policy.

“State and local governments are being called upon to take on more and more responsibilities,” said Robert S. McIntyre, ITEP’s tax policy director and lead author of the study, titled *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*. “Unfortunately, when it comes to paying for services, North Carolina has an unfair tax system.”

North Carolina’s Tax Code: Tax the Poor & Middle Class More Than the Wealthy

When all North Carolina taxes are totaled up, the study found that:

- The state and local tax rate on the best off one percent of North Carolina families—with average incomes of \$813,000—is 8.9% before accounting for the tax savings from federal itemized deductions. After the federal offset, the effective tax rate is only 6.1%.
- The average tax rate on families in the middle of the income distribution—those earning between \$25,000 and \$39,000—is 10.1% before the federal offset and 10% after, one and a half times the effective rate the richest pay.
- But the tax rate on the poorest North Carolina families—those earning less than \$15,000—is the highest of all. At 10.6%, it is a much higher share than that of the very wealthy.

“North Carolina’s income tax fails to offset the regressivity of its sales and excise taxes, giving the state a regressive tax system,” McIntyre said. “Taxes ought to be based on people’s ability to pay them, which means that the share of income paid in taxes should rise as income grows, not fall as is the case in North Carolina.”

MORE . . .

Tax Regressivity Has Grown Since 1989

The study also examined the impact of changes in the regressivity of North Carolina taxes since 1989, when the last cycle of state government shortfalls began. The study's findings include:

- Exempting groceries from the sales tax, a progressive change, failed to offset rising property and income tax burdens on the poorest families.
- Overall, the lowest-income North Carolina taxpayers saw their taxes go up, while everyone else, especially the best-off people, got a tax cut.

"Low- and middle-income taxpayers in North Carolina continue to shoulder the highest tax burdens in the state," said McIntyre. "As lawmakers consider budget-balancing strategies in 2003, they should remember that their past actions have served to shift a greater share of the tax burden onto low-income taxpayers."

Two pages of tables detailing the North Carolina findings of the study follow

The Institute on Taxation and Economic Policy is a nonpartisan Washington-based research group. The full *Who Pays?* report is available in PDF format at www.itepnet.org. Printed copies can be ordered by calling ITEP at 202-737-4315.

Who Pays? examines the tax systems of all 50 states and the District of Columbia, using the Institute on Taxation & Economic Policy Microsimulation Tax Model. The ITEP Model is similar in methodology and data sources to the elaborate computer models used by the U.S. Treasury and the congressional Joint Committee on Taxation, except that the ITEP Model adds state-by-state estimating capabilities.

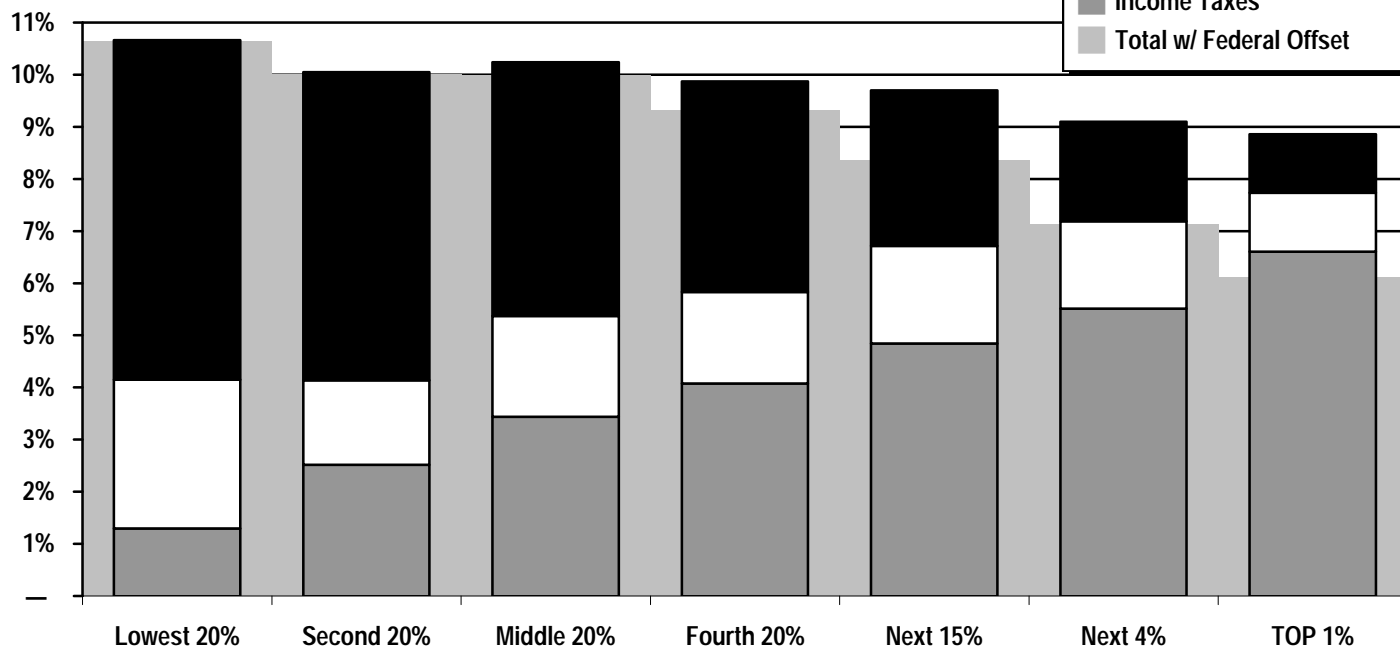
The findings published in the study detail state and local taxes paid by non-elderly couples and individuals. The study includes all major state and local taxes: personal and corporate income taxes, property taxes, and sales and excise taxes.

MORE . . .

North Carolina

State & Local Taxes in 2002

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$15,000	\$15,000 – \$25,000	\$25,000 – \$39,000	\$39,000 – \$64,000	\$64,000 – \$124,000	\$124,000 – \$333,000	\$333,000 or more
Average Income in Group	\$9,100	\$19,700	\$31,300	\$50,100	\$84,800	\$177,000	\$814,000
Sales & Excise Taxes	6.5%	5.9%	4.9%	4.0%	3.0%	1.9%	1.1%
General Sales—Individuals	3.6%	3.3%	2.9%	2.5%	1.9%	1.2%	0.8%
Other Sales & Excise—Ind.	1.3%	1.1%	0.9%	0.7%	0.5%	0.3%	0.1%
Sales & Excise on Business	1.7%	1.5%	1.1%	0.9%	0.7%	0.4%	0.3%
Property Taxes	2.9%	1.6%	1.9%	1.8%	1.9%	1.7%	1.1%
Property Taxes on Families	2.8%	1.6%	1.9%	1.7%	1.8%	1.5%	0.7%
Other Property Taxes	0.0%	0.0%	0.1%	0.1%	0.1%	0.1%	0.4%
Income Taxes	1.3%	2.5%	3.4%	4.1%	4.8%	5.5%	6.6%
Personal Income Tax	1.3%	2.5%	3.4%	4.0%	4.8%	5.4%	6.3%
Corporate Income Tax	0.0%	0.0%	0.1%	0.1%	0.1%	0.1%	0.3%
TOTAL TAXES	10.7%	10.1%	10.2%	9.9%	9.7%	9.1%	8.9%
Federal Deduction Offset	-0.0%	-0.0%	-0.2%	-0.6%	-1.4%	-2.0%	-2.8%
TOTAL AFTER OFFSET	10.6%	10.0%	10.0%	9.3%	8.3%	7.1%	6.1%

Note: Table shows 2002 tax law at 2000 income levels.

North Carolina Tax Trends

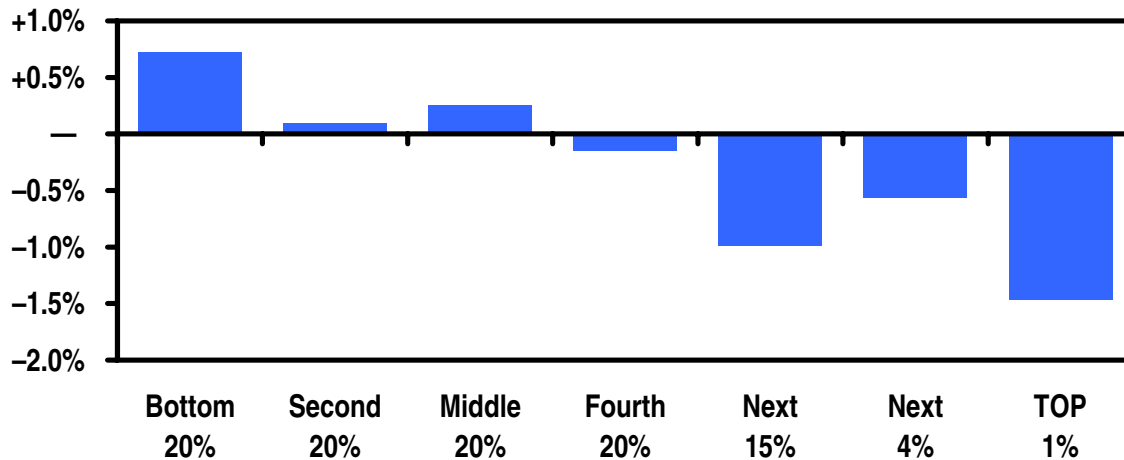
Progressive Features

- ✓ Per-person credit
- ✓ Dependent care credit
- ✓ Groceries exempt from state sales tax

Regressive Features

- ✗ Credits not refundable

Changes in Taxes as Shares of Income, 1989 – 2002

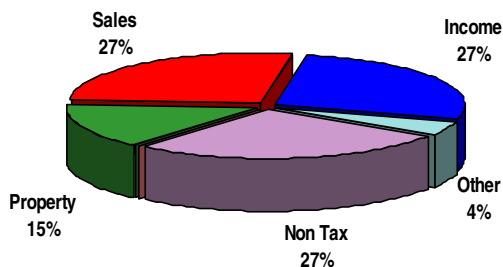


	Bottom 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Sales & Excise	-0.6%	-0.5%	-0.4%	-0.3%	-0.3%	-0.2%	-0.0%
Property	+0.8%	+0.2%	+0.5%	+0.1%	-0.8%	-0.7%	-1.1%
Income	+0.5%	+0.4%	+0.3%	+0.3%	+0.4%	+0.6%	+0.6%
Federal Offset	-0.0%	-0.0%	-0.1%	-0.2%	-0.3%	-0.3%	-0.9%
Overall Change	+0.7%	+0.1%	+0.2%	-0.1%	-1.0%	-0.6%	-1.5%

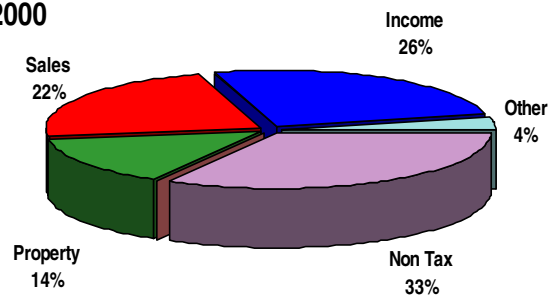
The exemption of groceries from the state sales tax was a progressive cut that offset hikes of 1% in the state sales tax and .5% in most local sales taxes. A new top income tax bracket added in 1991, targeted at those making over \$50,000 (\$100,000 married), was a progressive rate hike, while the lack of indexing of the personal exemption was an implicit regressive tax increase.

Composition of Revenues

1989



2000



Source: Government Finances, US Department of Census