

IEI's Tax Calculator

Income Tax

The income tax, both personal and corporate, is an important source of revenue for the state of North Carolina, with the individual income tax accounting for over one half of total state general fund revenue. It grows with the economy as more people move into higher personal income tax brackets (which are not indexed for inflation). On the other hand, it is a very volatile revenue source, which is made more acute by having an income tax structure with a relatively high top rate. Currently, North Carolina taxes a modified version of federal taxable income. The personal income tax structure is mildly progressive with rates starting at 6 percent and increasing to 8 percent (effective January 1, 2007).

The income tax component of the tax calculator will immediately display the consequences for revenue raising, progressivity and the ability of the tax to grow with the economy. This component of the tax calculator uses 2004 income tax data from the North Carolina Department of Revenue and the Internal Revenue Service.

The following options or choices can be made:

- Broadening the personal income tax base to begin with federal adjusted gross income (AGI) rather than federal taxable income. Federal AGI is calculated before any allowance for itemized deductions, the standard deduction, and personal exemptions. It also may include up to 85 percent of social security benefits.
- The individual income tax rate for five income tax brackets (the current married filing joint brackets):
 - Under \$20,000
 - \$20,000 – \$50,000
 - \$50,000 – \$100,000
 - \$100,000 – \$200,000
 - Over \$200,000
- The size of a personal exemption for each dependent claimed by a taxpayer
- The size of a standard deduction for each tax return filed

With respect to the corporate income tax, the following options or choices can be made:

- The corporate income tax rate
- Whether to allow deductions for charitable deductions
- Whether to allow deductions for economic losses
- Whether to allow special exemptions
- Whether to allow development credits
- The impact of adopting a combined reporting regime

Sales Tax

The second largest source of state revenue is the retail sales tax. This tax has three properties that are important to note. First, it grows more slowly than the economy as a whole. Second, it is relatively stable compared with the income tax, even during economic downturns. Third, while assessed at a flat rate, it tends to be regressive in nature. That is, individuals with higher income spend a smaller percentage of their total income on the sales tax.

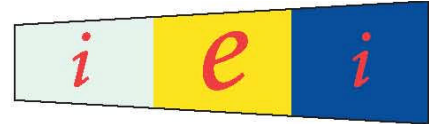
The retail sales tax is levied upon most tangible goods and a few services, and it is imposed and collected by vendors at the point of sale. Unprepared food is exempt from the state portion of the sales tax but not from the local portion.

The current sales tax in North Carolina is composed of two parts, one paid to the state and one paid to local government. State government's share is 4.5 percent, making it the second lowest in the nation. (In the 2006 Short Session, the General Assembly reduced the sales tax from 4.5% to 4.25% to take effect December 1, 2006). Localities have the option of adding up to an additional 2.5 percent (or 3 percent in the case of Charlotte-Mecklenburg).

The sales tax component of the tax calculator uses 2004 sales tax data from the North Carolina Department of Revenue and consumer spending data from the Bureau of Economic Analysis at the Department of Commerce. The following options or choices can be made:

- The sales tax rate
- The types of goods taxed:
 - Health Care
 - Entertainment
 - Unprepared Food
 - Professional Services
 - Construction and rental services
 - All other Exemptions
- Whether or not to tax business-to-business transactions

All combinations of the income and sales tax components can be viewed together in a “state totals” window that will be shown.



Local Taxes

The primary revenue sources for local governments in North Carolina are the property tax and the local portion (2.5 percent) of the retail sales tax.

In general, property tax burdens are low in North Carolina compared to surrounding states. The low property tax burdens are a result of many factors including the fact that North Carolina's state government has assumed the responsibility for paying for roads and a large fraction of K-12 education. In addition, North Carolina's local governments are some of the best managed in the nation.

Nonetheless, local governments face ongoing challenges. The shrinking sales tax base is a problem for them just as it is for state government. Any solution for this problem will require action at the state level. The other challenge is that property tax revenues tend not to keep up with growing needs. These problems take different forms in urban and rural counties.

The local revenue component of the tax calculator allows the user to see options for different counties around the state. The calculator uses 2004 sales tax data from the North Carolina Department of Revenue, consumer spending data from the Bureau of Economic Analysis at the Department of Commerce and Property Tax and other local data from the Treasurer's office. The following options or choices can be made:

- The sales tax rate
- Whether or not to tax groceries
- The property tax rate
- Several additional local revenue options including:
 - An impact fee levied per new home
 - A real estate transfer tax
 - An additional prepared food and beverage tax
 - An additional entertainment admissions tax
 - A county vehicle tag tax
 - Occupancy tax