

KEY EVENTS IN NC STATE AND LOCAL TAX HISTORY

Joint House and Senate Finance, February 2, 2011
Cindy Avrette, Research Division

Panoramic View of NC's Tax System

2

- ❑ Origins and Development of the North Carolina System of Taxation
- ❑ Modernization Issues with the Current Tax Structure
- ❑ Snap Shot of Today's State Revenue Sources
- ❑ Snap Shot of Today's Local Revenue Sources
- ❑ Presentations of the State and Local Taxes
- ❑ General Information on Issues Related to Tax and Finance Matters

Finance Committee Staff

3

Research Division
200 LOB
733-2578

- Cindy Avrette
- Trina Griffin
- Heather Fennell
- Greg Roney
- Judy Collier

Fiscal Research Division
203 and 206 LOB
733-4910

- Martha Walston
- Rodney Bizzell
- Barry Boardman
- Sandra Johnson
- Jonathan Tart
- Brian Slivka

First name.last name@ncleg.net

Panoramic View of NC's Tax System

4

- ❑ Origins and Development of the North Carolina System of Taxation
- ❑ Modernization Issues with the Current Tax Structure
- ❑ Snap Shot of Today's State Revenue Sources
- ❑ Snap Shot of Today's Local Revenue Sources
- ❑ Presentations of the State and Local Taxes
- ❑ General Information on Issues Related to Tax and Finance Matters

Evolution of NC's Tax System

5

↓
**Created Tax
System**

1777

**2nd act of General
Assembly**



Evolution of NC's Tax System

6

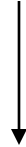
↓
1782

**License taxes
first enacted**



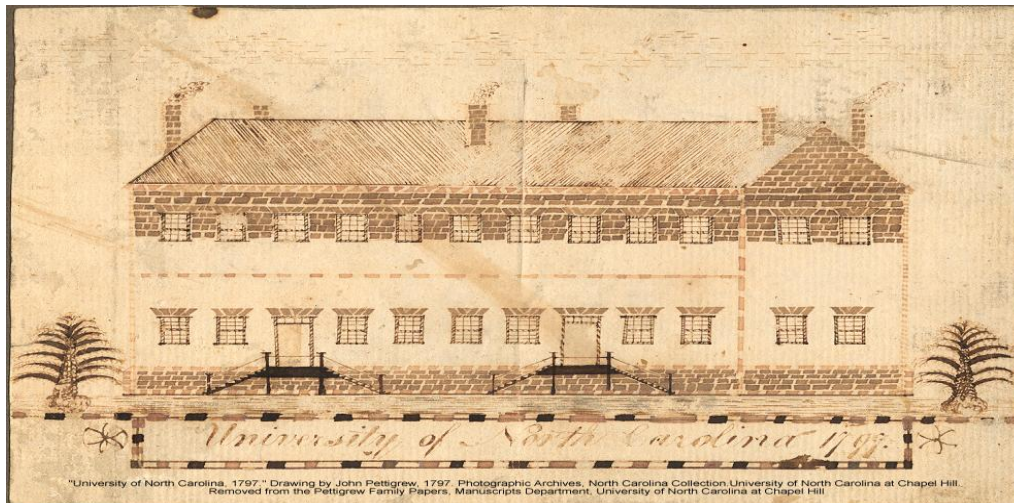
Evolution of NC's Tax System

7



**Corporations taxed on capital stock –
forerunner of franchise tax**

1849



**Free
public
schools in
1839**

Evolution of NC's Tax System

8

Pre-1921 System of Taxation



1868-1900

- **Property tax primary revenue source for State and local governments**
- **Low local assessments led to high rates**
- **Continued pressure to expand school year and build roads**



Evolution of NC's Tax System

9

Revenue Act of 1921



No State tax on property

1921

New taxes:

- **State administered PIT**
- **Corporate income tax**
- **Motor fuel excise tax**



Evolution of NC's Tax System

10

- **Emergency Revenue Act of 1933**
 - **State assumed fiscal responsibility for schools, roads, & prisons**
- ↓

1931-1937

**Temporary
sales tax
of 3% on
TPP
enacted in
1933**



**Permanent
sales tax
enacted in
1939**

11

↓

- **Excise taxes adopted**
- **Local tax sharing programs adopted**

-

Evolution of NC's Tax System

12

Modernization of PIT



1986

**Variable
component of
motor fuel tax
rate**



1989

**Highway
use tax
and Tax
Fairness
Act**



1991

**Budget shortfall
of 8.1%, State
sales tax rate
increased to 4%**

Evolution of NC's Tax System

13

“Bill Lee Act” incentives



**Myriad of exemptions,
refunds, and credits**

1995-1999



Tax Expenditures

14

Exemption

Exclusion

Deduction

Allowance

Credit

Refund

Preferential
rate

- Spending programs implemented through the tax code
- Key differences between tax expenditures and direct spending
 - ▣ Level of scrutiny – Not subject to the annual appropriations process
 - ▣ Appear to be tax cuts –Transfer funds through tax subsidies
- Biennial Tax Expenditure Report (2009)
 - ▣ 300+ tax expenditures
 - ▣ \$5.8+ billion

Evolution of NC's Tax System

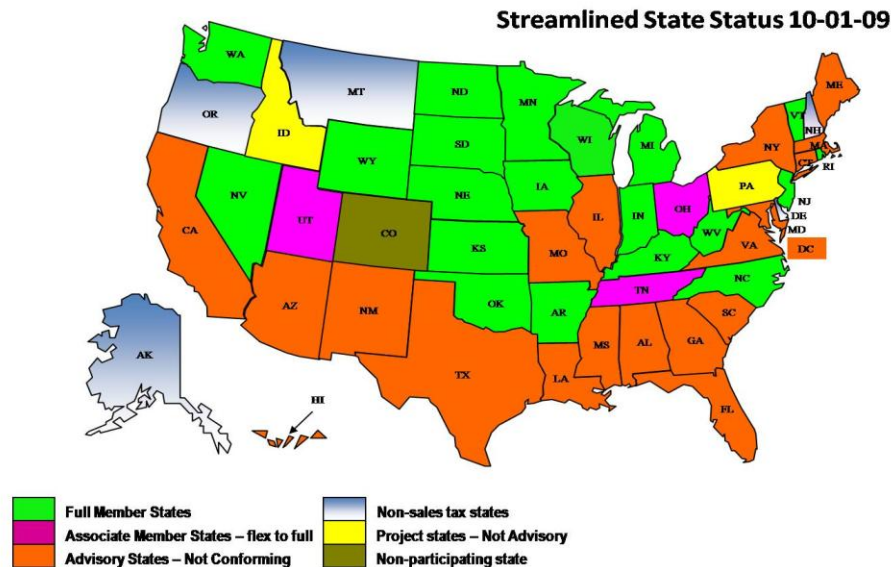
15

Streamlined Sales & Use Tax Agreement

2000

2002

2009

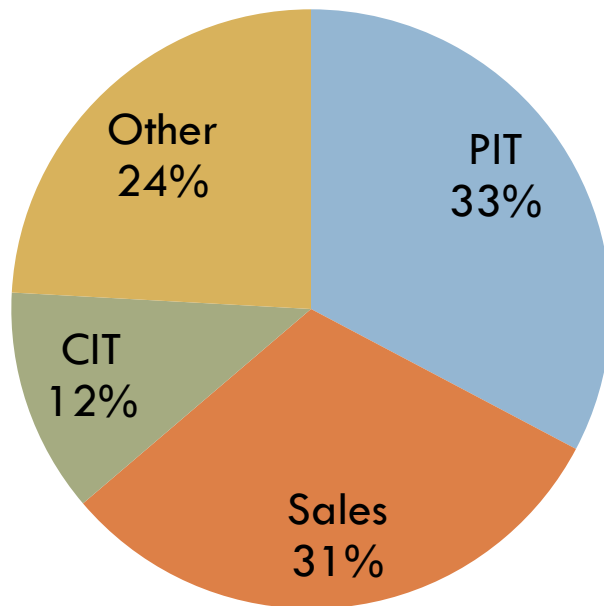


<http://www.streamlinedsalestax.org/>

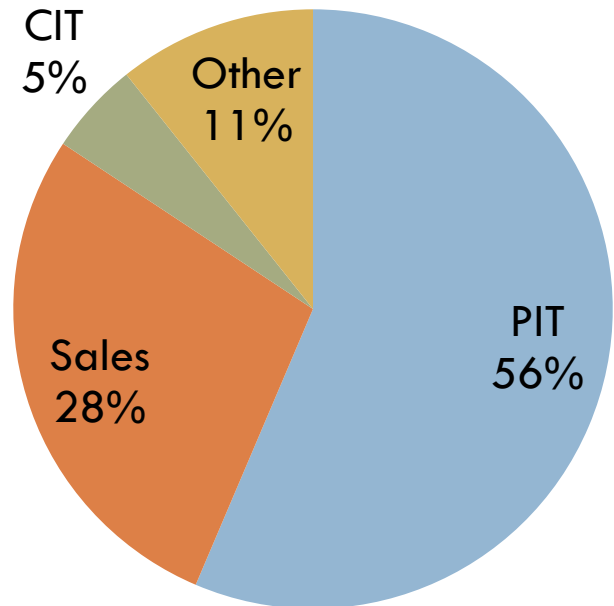
NC's Changing Tax Structure

16

Fiscal Year 1970-71

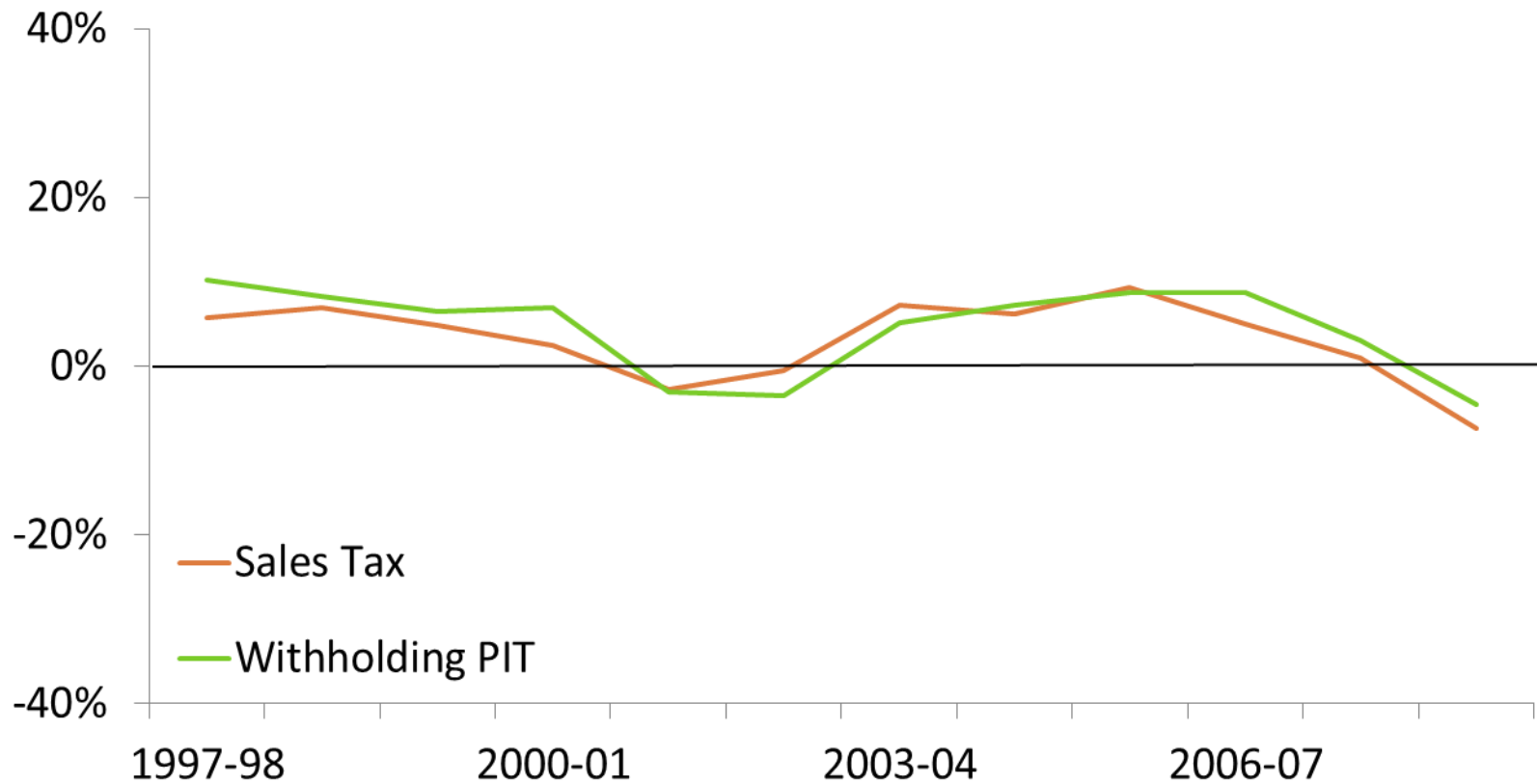


Fiscal Year 2008-09



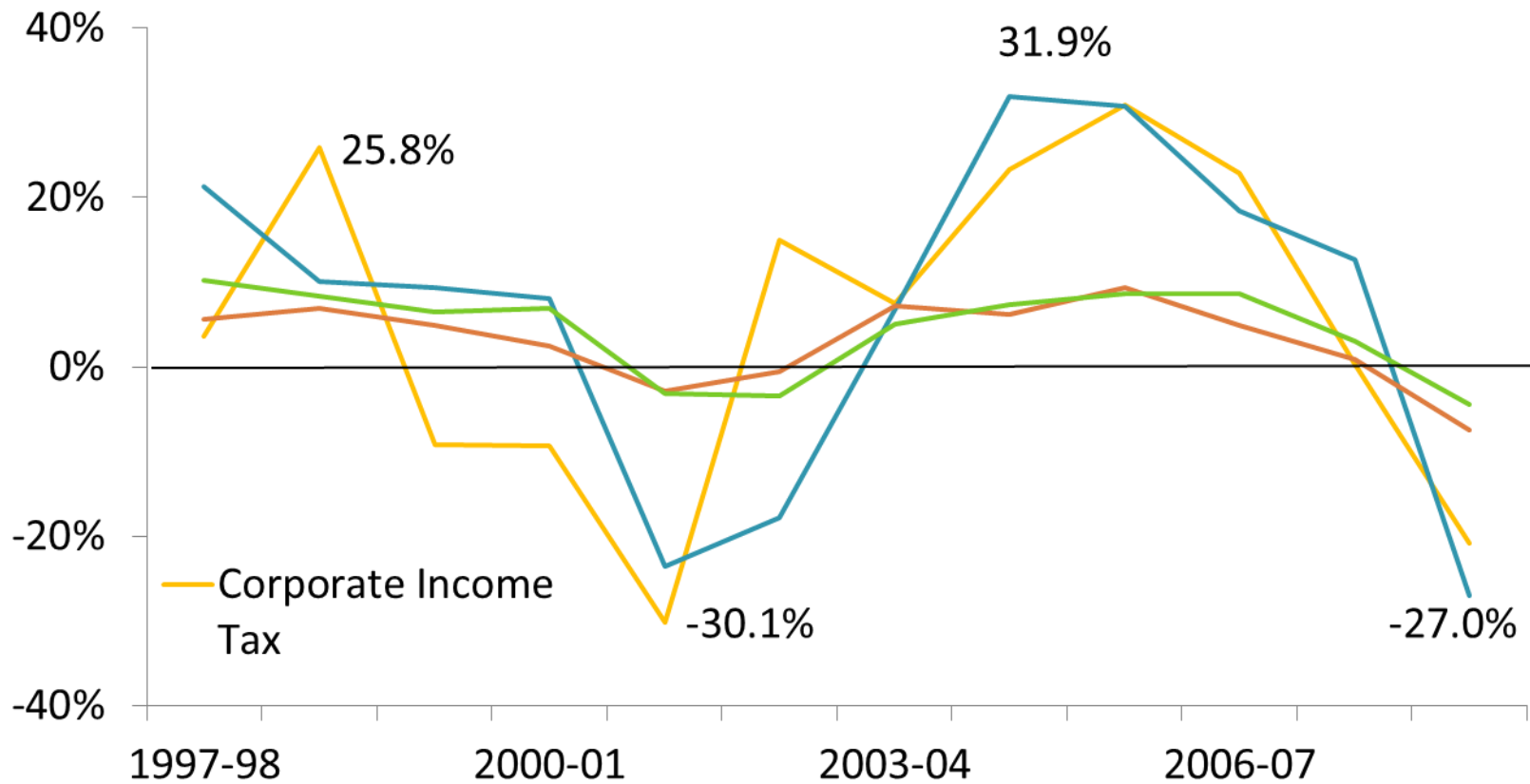
Growth & Stability

17



Growth & Stability

18



Evolution of NC's Tax System

19

Bust

Boom

Bust

Boom

Bust



1991

1995-2000

2001-2005

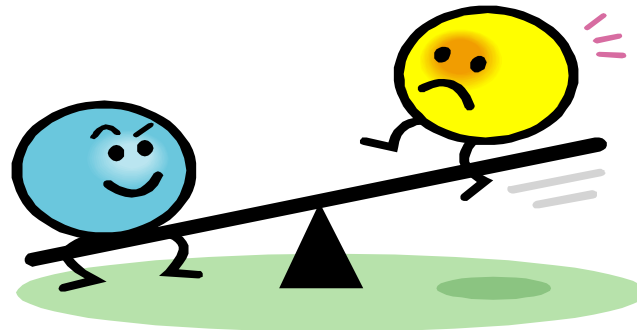
2006-2008

2009-2010

**Sales tax
increase;
tax reform
studies**

**Various tax rates
reduced & tax
expenditures enacted**

**Temporary
tax
increases;
tax reform
studies**



Tax Reform Studies

20

- Fiscal Realities for the 90s
- NC's Tax Policy Commission (2000)
- Governor's Studies in 2001 & 2002
- IEI's Financing the Future (2005-2009)
- State and Local Fiscal Modernization (2006)
- Economic Development Incentives (2009)
- Joint House & Senate Finance Tax Reform Meetings (2009 & 2010)

Message of Tax Reform

21

Findings

- ❑ Tax structure too complicated
 - ▣ Tax bases too narrow
 - ▣ Tax rates too high
- ❑ Tax revenues too volatile
- ❑ Tax structure does not reflect current economic environment

Goals

- ❑ Simplicity
- ❑ Economic development & job growth
- ❑ Revenue stability
- ❑ Tax modernization
 - ▣ Broad bases
 - ▣ Low rates

Questions?

Cindy Avrette

Research Division

Suite 200, LOB

733-2578

Cindy.avrette@ncleg.net