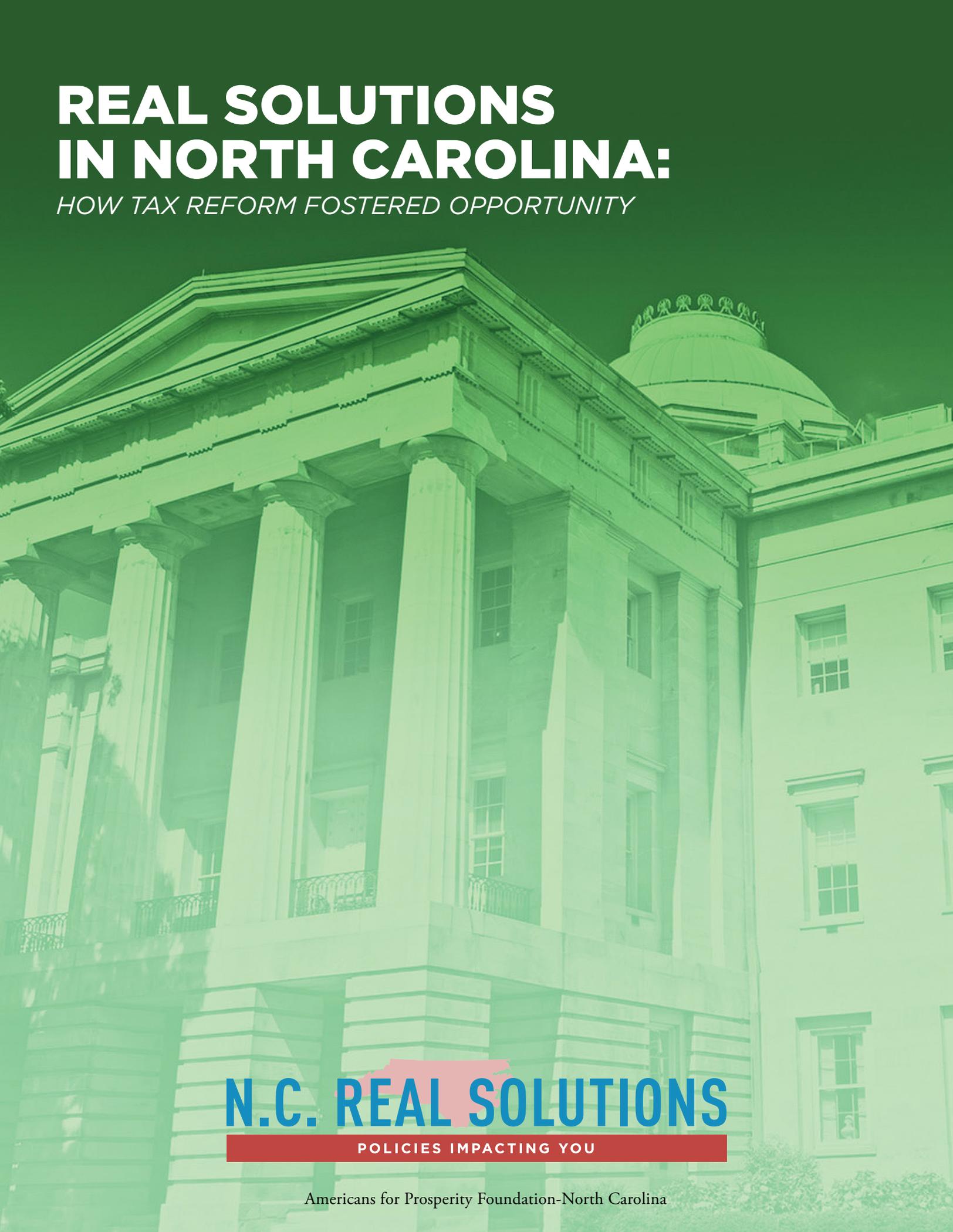


REAL SOLUTIONS IN NORTH CAROLINA:

HOW TAX REFORM FOSTERED OPPORTUNITY



N.C. REAL SOLUTIONS

POLICIES IMPACTING YOU

Americans for Prosperity Foundation-North Carolina

INTRODUCTION

In 2011, North Carolina faced a struggling economy and a daunting \$3.1 billion budget gap. Unemployment levels were higher than the national average - among the top five worst in the country.

Fortunately for North Carolinians, fiscally conservative lawmakers pressured then-Gov. Beverly Perdue to restore responsibility and accountability to the budget process.

Instead of raising taxes to balance the budget, the General Assembly drastically cut spending. Although the economy continued to struggle, that budget returned more than \$2 billion to North Carolina's families and included measures for nearly half a billion dollars in tax relief for small businesses.

SIX YEARS LATER

Today, North Carolinians have many reasons to celebrate.

North Carolina is on the path to a brighter future with a growing population, a thriving economy and a booming jobs market.

Tax reforms passed in the last six years have made North Carolina a better place to live, work and raise a family.

Communities around the state grow each year, and Forbes Magazine rates North Carolina as the second-best state for business, considering factors such as labor costs, energy and taxes.

In 2011, critics said our lawmakers pushed too far and would hurt our state. Big government cronies stood against tax cuts in 2013 and fought lowering the personal and corporate income tax rates.

Both corporate and personal income taxes have decreased, but revenues continue to stream into the state. All said, the corporate income tax rate is set to drop a whole four percentage points, to 2.75 percent, by 2019. North Carolina implemented a flat personal income tax rate that reduced a top marginal rate of 7.75 percent (the lowest tier was 6 percent) at its highest, to 5.49 percent as of January 2017. After 2019, the rate will drop even further to 5.25 percent, meaning workers keep more of their hard-earned wages.

In six years, our state turned the economy around. All because lawmakers stood up to wasteful spending and cut taxes on North Carolinians.

WHAT HAS TURNED AROUND NORTH CAROLINA?

2011

In the spring of 2011, the General Assembly faced a continued budget crisis. Because of the Perdue administration's short-sighted reliance on temporary taxes and federal stimulus funds, General Assembly budget writers faced a \$3.1 billion budget gap for the FY 2011-12 budget.

To fill the budget shortfall, Governor Perdue proposed making a \$1 billion "temporary" sales tax increase permanent, but conservative legislators in the General Assembly opted to let the tax increase end. Instead of raising taxes on North Carolinians, they cut spending and balanced the budget.

2013

In July 2013, the General Assembly passed the Tax Simplification and Reduction Act. This reform package included the largest tax cut in state history. It reduced tax rates on all North Carolina families and workers and made the Tar Heel State more competitive for investment and job creation.

In five years, the Tax Simplification and Reduction Act would result in \$2.44 billion in tax relief for North Carolinians.

The Act also retroactively repealed North Carolina's estate tax – better known as the “death tax.”

2014

Beginning in January 2014, the individual income tax changed from a three-tiered system with a top rate of 7.75 percent to a simplified, single 5.8 percent rate. Income taxes would be cut again to 5.75 percent in January 2015 and to 5.49 percent in January 2017.

A larger standard tax deduction of \$7,500 of income for singles (up from \$3,000) and \$15,000 for married filers (up from \$6,000) was also created. Social Security income is still exempt from the state income tax.

The corporate tax rate – formerly highest in the southeast, at 6.9 percent – was reduced to 6 percent in 2014.

2015

In 2015, the second reduction in income taxes went into effect and the General Assembly delivered take-home-pay relief to families for the second time in three years.

Simultaneously, North Carolina broadened the sales tax base to cover installations, maintenance, and repairs of tangible personal property such as cars and appliances.

Additionally, lawmakers let the Renewable Energy Tax Credit expire on December 31, 2015. According to the NC Department of Revenue, the Renewable Energy Tax Credit would have prevented more than \$1 billion in state revenue collections from energy companies by 2025.

2016

In 2016, the General Assembly passed and Governor Pat McCrory signed into law, the 2016 Appropriations Act. This budget controlled spending and cut additional taxes for working North Carolinians.

The corporate income tax rate decreased to 4 percent.

2017

In January 2017, the standard deduction was increased again to \$8,750 for singles and \$17,500 for those married filing jointly.

In June, the legislature overrode Gov. Roy Cooper's veto of the Appropriations Act of 2017. This budget reduces the tax burden on North Carolina families and small businesses by cutting the personal income tax rate, increasing standard deductions, lowering the corporate income tax rate, simplifying the franchise tax and repealing the mill machinery tax.

The Appropriations Act of 2017 will cut the personal state income tax from 5.499 to 5.25 percent in 2019 and increased standard deductions to \$10,000 for singles and \$20,000 for those married filing jointly. Together, these reforms will account for \$2.83 billion in tax cuts over the next five years.

The budget also lowers the corporate income tax rate from 3 percent to 2.5 percent in 2019. These cuts will account for \$476.4 million in tax cuts over the next five years.

Additionally, the budget simplified the franchise tax on small businesses by cutting what amounted to a statewide property tax on small businesses. The budget creates a flat \$200 tax on the first \$1 million of a business's net worth. These changes will create \$81.3 million in tax cuts for small businesses over the next five years.

Lastly, the budget repealed an early-1900's-era sales tax on mill machinery that hurt the manufacturing industry. This repeal will result in a \$224.2 million tax cut over the next five years.

LOOKING AHEAD

With its dedication to fiscal responsibility and low taxes, North Carolina will continue to grow and offer opportunities to families and businesses.

However, tax reform is not the only way to help more people achieve greater opportunity and prosperity.

Over the last six years, the North Carolina legislature has also passed significant regulatory reforms that have let small businesses grow and education reforms that will give students from working-class families and students with disabilities additional opportunities to succeed. Learn more about these reforms in our Regulatory Reform E-Book and Education Reform E-Book.

There is a direct link between the freedoms people enjoy and their overall quality of life. Controlled spending and tax relief are providing North Carolina families with real solutions. Let's keep moving. For more information, visit www.ncrealsolutions.com.

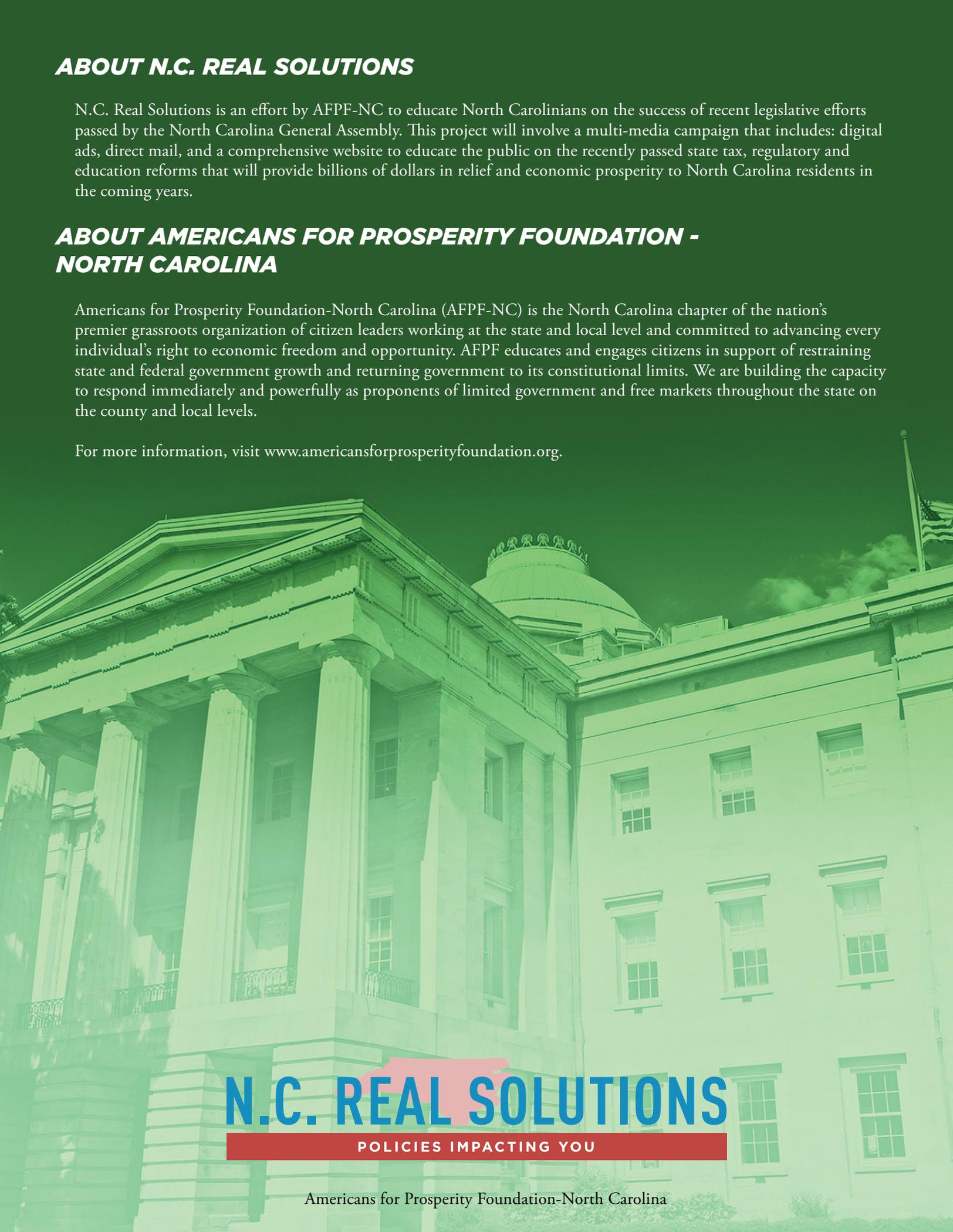
ABOUT N.C. REAL SOLUTIONS

N.C. Real Solutions is an effort by AFPF-NC to educate North Carolinians on the success of recent legislative efforts passed by the North Carolina General Assembly. This project will involve a multi-media campaign that includes: digital ads, direct mail, and a comprehensive website to educate the public on the recently passed state tax, regulatory and education reforms that will provide billions of dollars in relief and economic prosperity to North Carolina residents in the coming years.

ABOUT AMERICANS FOR PROSPERITY FOUNDATION - NORTH CAROLINA

Americans for Prosperity Foundation-North Carolina (AFPF-NC) is the North Carolina chapter of the nation's premier grassroots organization of citizen leaders working at the state and local level and committed to advancing every individual's right to economic freedom and opportunity. AFPF educates and engages citizens in support of restraining state and federal government growth and returning government to its constitutional limits. We are building the capacity to respond immediately and powerfully as proponents of limited government and free markets throughout the state on the county and local levels.

For more information, visit www.americansforprosperityfoundation.org.



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