Selected Comments on the Center's Article on the Business Tax Burden in North Carolina

The N.C. Center for Public Policy Research circulates drafts of articles prior to publication in N.C. Insight *to catch factual errors, to hone our analysis, and to give advance notice of the Center's findings as a courtesy to those affected by them. The review comments on North Carolina's business tax burden aptly demonstrate that you can build an effective argument using the studies summarized in this article to prove your point, whether it be that business taxes in North Carolina are too high or too low. Many of the reviewers also commented on the reliability of the studies we have reviewed, which we thought our readers might find helpful.*

Don Liner, Faculty Member, the Institute of Government

"When all aspects of the corporate income tax (not just the tax rate) and all forms of business taxes are taken into account, North Carolina's taxes on marginal investment ranked lower than 18 of the 21 states in the KPMG Peat Marwick study [discussed on p. 64], and those 18 states included not only other Southern states (excepting Alabama and Virginia) but also many Northern industrial states (excepting New York). Looking at the corporate income tax rate is not just another way of looking at the question. It is an incorrect, invalid way of looking at the question, as the KPMG study shows. (Note that New York's tax rate is much higher than North Carolina's, but its business tax level was lower than North Carolina's in the KPMG study.) Also, business revenues as a percentage of the total and per capita business taxes are fairly meaningless ways of looking at the problem. Only by doing what KPMG did can you get a valid indication of whether a state's business taxes are competitive. . . . The evidence is overwhelming that North Carolina's business tax burden is relatively low."

Rick Carlisle, Former Economic Policy Advisor, Office of the Governor; Now Deputy Secretary, Department of Commerce

"The representative firm approach used by Tannenwald [discussed on p. 58] and the KPMG study is the model preferred by most analysts."

Paul Lawler, Executive Director, North Carolina Economic Developers Association

Paul Lawler comments that the approaches of the tax studies discussed in the article differ. While some ask if the tax burden is competitive, others ask if the tax burden is fair. "Competitiveness and fairness are two different evaluation systems. And two that should not be viewed as mutually exclusive. Clearly a non-competitive tax structure that keeps business out of North Carolina and prohibits North Carolinians from having economic opportunity would not be fair to those who are left out by lack of employment opportunity. It seems the more appropriate question is whether or not the tax system is fair within the constraints of the competitive economy of 1997. There are good business reasons to have what would be viewed as a fair tax system. A tax system taking smaller amounts from more sources is less likely to have extreme highs and lows during economic shifts. There is also a value in our system in having everyone feel that the system, whether we are discussing tax, police, school, or whatever, is fair in its treatment."

Michael Walden, Professor, N.C. State University

"In my opinion, the 'best' way to measure the business tax burden is the work by Tannenwald with the representative firm approach."

Bill Schweke, Analyst, the Corporation for Enterprise Development

"Some of the methodologies . . . are better than others. For instance, I believe that Tannenwald's view of the demerits of most of the customary methods of comparing tax burdens is sound [discussed on p. 58] and that for more purposes (with appropriate caveats) his approach (along with the KPMG Peat Marwick approach) is better. . . . Different experts and constituencies come out differently on these issues, not just because of simple value differences and perspectives and prejudices. They assign different weights to all the goals of tax policy. They also weight probabilities differently. For instance, CFED would count as almost certain many of the tax equity effects, while treating the business climate effects as still quite speculative (unless your state really sticks out in terms of the rankings on tax burdens)."