

To Tax or Not to Tax

Whether to raise taxes may not be the most important policy question lawmakers face as they consider the 1991-93 biennial budget, but it is politically the most dangerous. Anti-tax rhetoric has always struck a popular chord, and lately the no-tax chorus seems to have intensified. A January 1991 *Money* magazine article referring to North Carolina as one of 10 "tax hells" among the 50 states added yet another voice.¹

The magazine ranked North Carolina 10th in the nation for its annual state tax bite on the typical household, and lumped the state among 13 others it categorized as sure bets to raise taxes in the coming year. But is North Carolina really a tax hell? Not according to Charles D. Liner, a tax expert at the University of North Carolina at Chapel Hill's Institute of Government.

Liner called the state's ranking a "farce" in an appearance before the Senate Finance Committee. "The fallacy of that was it only looked at state taxes," Liner said.² North Carolina has a more central form of government than many states where local government plays a larger role.

An example is public education. Public education is almost totally the financial responsibility of local governments in many states. In North Carolina, however, state government contributes a substantial share. The same is true of highways, the court system, prisons, and the community college system; they are financed largely by the state.

Most analysts would place North Carolina closer to the middle when combined state and local tax burdens are considered. David Crotts, the legislature's revenue analyst, says the U.S. Census Bureau ranked North Carolina 26th in the nation for the 1988-89 fiscal year in combined state and local taxes as a percentage of personal income.³ He says when severance taxes are included, North Carolina ranks even lower. North Carolina ranks 8th in income taxes and 25th in state and local sales and excise taxes, but 37th in property taxes, according

to the Census Bureau.

Liner says North Carolina is still a low-tax state for business, though "fairly high" for individuals. "We're pretty low on businesses," says Liner. "Businesses get the benefits of lower property taxes."⁴

Not everyone agrees with this analysis. John Hood of the John Locke Foundation in Raleigh says high state taxes make up for low property taxes in North Carolina. The combined state and local tax burden per person, when adjusted for per capita income, is second highest in the South, he says.⁵

North Carolina indeed ranked second highest in state and local taxes among 12 Southeastern states using 1987-88 fiscal year data, but fell to fourth for the 1988-89 fiscal year.⁶ When states are ranked according to total revenues collected—which includes taxes and user fees—North Carolina falls to seventh in the Southeast.

Still, the *Money* article created a stir in the legislature. House members got a copy of it on their desks, and conservative lawmakers added it to their arsenal of anti-tax arguments. The resulting rhetoric added to anti-tax sentiments that appear to be building in North Carolina. Opponents of a tax hike point to neighboring Virginia as an example of how a budget gap can be closed by cutting spending instead of raising taxes.

FOOTNOTES

¹John Sims, "Is Your State a Haven or Hell?" *Money*, January 1991, pp. 87-90.

²Joe Dew, "'Tax Hell' Status Debunked," *The News and Observer* of Raleigh, Feb. 21, 1991, p. 1C.

³*Government Finances: 1988-89 (Preliminary Report)*, U.S. Department of Commerce, Bureau of the Census, September 1990, pp. 1-52.

⁴Bill Krueger and Stephen Hoar, "Tax Issue Dogs Legislators in Efforts to Adopt Budget," *The News and Observer* of Raleigh, June 24, 1990, p. 1C.

⁵John Hood, "Talking Points on N.C. Budget," *Executive Memo*, Jan. 14, 1990, p. 1.

⁶*State Government Finances in 1989*, U.S. Department of Commerce, Bureau of the Census, August 1990, p. 54.