

Proposed Tax-Cut Plan Violates First Rule of Holes

Post on June 2, 2011 by [Ed McLenaghan](#)



When in a hole, the first response should be to stop digging.

The tax-cut plan passed Tuesday [by the House](#) and included in the Senate budget, however, responds to the \$2.4 billion state revenue shortfall by digging the hole even deeper.

Although the version of the Senate budget released on Monday night no longer includes the quarter-percentage point cut in personal income tax rates, it eliminates the cap of \$825,000 in annual receipts for the proposed \$50,000 business tax exemption. The House [passed](#) the same provision in a stand-alone bill. Under the new provision, the tax exemption would apply to “[pass-through](#)” business income where the taxpayer meets the IRS guidelines for [active participation](#).

The cost of this business tax cut package totals more than \$450 million over the course of the biennium: \$131 million in the first year of the biennium and \$336 million in the second year. And according to analysis by the [Institute on Taxation and Economic Policy](#), more than three in five dollars of the tax cut will benefit the wealthiest one-fifth (20 percent) of North Carolina households.

Yet because every dollar of tax cuts must be paid for with cuts to vital public investments in education, health, public safety, and clean air and water, the proposed business tax cut – like [other proposed tax cuts](#) - [will not create jobs](#).

Receiving a tax cut adds little incentive for businesses to hire: businesses will hire new workers only when they expect additional demand for their products and services and when they have [access to the capital](#) necessary to invest in hiring.

Financing these tax cuts by laying off teachers and other public employees and cutting back on needed health services for the elderly, those with disabilities, and the indigent will not only harm North Carolina by undermining the productivity and health of the people of this state, it will also result in fewer customers and lower sales for the businesses of this state.

Instead of pursuing irresponsible tax cuts, state policymakers should focus on ensuring adequate resources for the public investments necessary to pave the way to long-term prosperity for North Carolina.