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Warning to Maryland: Tax Cuts Won't Drive Growth

North Carolina's Tax Breaks Aren't Producing Economic Gains

Those urging Maryland to follow North Carolina's lead in radically cutting taxes for corporations and the wealthy need to be warned that the policy isn't producing economic gains. In fact, North Carolina's recently announced budget surplus masks the reality of less state support for excellent public schools; affordable, high-quality state universities; a good transportation network; and other services that truly drive economic growth.

Here are three things Maryland lawmakers should know before they consider following North Carolina:

Having more money than you expected doesn't mean you have more than you need. North Carolina's uptick in revenue (amounting to about 2 percent of the state budget), while helpful, still falls far short of what the state needs to invest in its communities. For example, the North Carolina Budget and Tax Center found[1] this money won't cover the costs of enrollment growth next year in North Carolina's public schools, university system, and health care services.

It is worth noting that, if the state had not lowered tax rates, it would have had significantly more resources to meet growing needs. Before the tax plan was enacted, the state's fiscal agency estimated revenues to come in at about $400 million above what the state actually received, even after accounting for the higher-than-expected revenues.

North Carolina's "surplus" isn't from cutting taxes. Almost all states with broad-based income taxes, including Maryland, saw revenues come in higher than were forecast. That's largely because of growth in investment income coupled with very cautious revenue predictions after years of overestimating receipts in the recession's wake. This one-time phenomenon - not growth in the economy - is causing the revenue increase, a review by the North Carolina Budget and Tax Center revealed.[2]

North Carolinians who can least afford it are now paying more in taxes. At the same time North Carolina gave large tax breaks to profitable corporations and the state's wealthiest residents, the lowest-paid families actually got tax increases. The wealthiest 1 percent of North Carolinians saw average reductions in their tax bills of more than $1,800, while people earning less than $20,000 per year saw their taxes go up slightly. This is, in part, because the state did away with its Earned Income Tax Credit, which is a proven tool for encouraging work and helping families meet basic needs that leads to such long-term benefits as improving kids' school achievement.

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[1] North Carolina Budget and Tax Center. Revenue surplus won't solve state budget woes. May 2015. http://pulse.ncpolicywatch.org/2015/05/15/revenue-surplus-wont-solve-states-budget-woes/

[2] North Carolina Budget and Tax Center. National Economy, Stock Market Drive Better Than Expected Tax Collections. June 2015 http://pulse.ncpolicywatch.org/2015/06/18/national-economy-stock-market-drive-better-than-expected-income-tax-collections-not-tax-cuts/

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