



AMERICANS for TAX REFORM

July 28, 2009

Dear Members of the North Carolina General Assembly,

As you continue efforts to pass an FY 09-10 budget, I urge that you reject all tax increases that have been floated by the House, Senate, and Governor Perdue. When taxes went up during the recession of 2001 UNC-Chapel Hill economist James Smith stated that raising taxes in a recession is “one of the all-time stupidest things done by a legislature anywhere. You don’t raise taxes in a recession, or even in a dismal economic environment.” History has supported Smith’s assertion and serves as a lesson as to why lawmakers should reject all tax increases in the current economic downturn.

Following the 2001 tax hikes, unemployment in North Carolina surpassed the national average and has remained there ever since. North Carolina’s unemployment rate recently climbed past 11%. Raising taxes again in such an environment will only serve to exacerbate this deleterious trend and prolong the current downturn.

To make matters worse, the proposed tax increases are not likely to quell the state’s fiscal woes. Increases in income, alcohol, and tobacco taxes have been proposed by legislators and the governor. However evidence from states that have recently raised such taxes suggests that they are unlikely to meet revenue goals.

Kentucky passed a tax increase on alcohol in February of this year by applying the state’s 6% sales tax. By April, tax revenue derived from distilled spirits dropped by over \$1.7 million and was 55% below last year’s revenue. Taxes from wine consumption dropped by more than \$75,000.

Lawmakers that wish to take a bigger bite out of everyone’s wallet with an income tax increase should look at what happened when Maryland raised their top personal income tax rate beginning in 2008 from 5.75% to 6.25%. In 2008, there was a one-third decline in the number of high-income (\$1 million-plus) tax returns filed in the state. The state predicted \$106 million in new revenue from the higher tax, but instead experienced a net loss of \$100 million in taxes collected from millionaires. North Carolina is already home to the highest marginal income tax rate in the southeast. An income increase will only put the state at a greater disadvantage with regional competitors.

Finally, tobacco tax increases, which many legislators favor, have a long history of not meeting revenue projections. Arkansas just passed a 56-cent tax hike on cigarettes in February. On the heels of the federal cigarette tax increase, the bill was estimated to bring in \$86 million, but the projection was lowered to \$72 million just one month after passage. New Jersey raised the cigarette tax 17.5 cents in 2007. The Garden State ended up bringing in \$52 million less than they had projected and \$22 million below what they collected before the tax hike.

Families and employers across the Old North State are cutting back, prioritizing, and making tough decisions to live within reduced means. The state government must do likewise. For this and the aforementioned reasons, I urge you to oppose all tax hikes this session. As you continue to weigh options to rectify the state’s overspending problem, I urge you to keep in mind the heavy burden already borne by North Carolina taxpayers. If you have any questions, please contact Patrick Gleason, North Carolina state affairs manager, at pgleason@atr.org or (202) 785-0266.

Onward,

Grover G. Norquist

CC: Governor Beverly Perdue

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