

## Transfer Tax, “Temporary” Sales Tax Hit Poor the Hardest

As part of the “Medicaid Swap” plan the budget conference committee is reportedly considering, the General Assembly would give counties the authority, with voter approval, to triple the land transfer tax from 0.2 percent to 0.6 percent. Alternatively, counties would have the option of increasing their local sales tax rate by ¼ cent. At the same time, legislative leaders hope to make the “temporary” sales tax increase of ¼ cent permanent. The choice, then, would be between a tax increase on selling a home or a tax increase on consumer goods. Either way, North Carolina’s poorest citizens will suffer most.

### A Potential Tax Increase of \$1.08 Billion

**\$544 Million Tax Increase:** Under the current budget plan, legislative leaders have agreed to make permanent the temporary sale tax rate passed in 2001. The result will be a tax increase of roughly **\$544 million** over the next two years. This money could have been utilized in the private market to create thousands of jobs benefiting the state’s poorest citizens.

**Another \$544 Million Tax Increase:** The budget plan also permits counties to raise their local option sales tax by ¼ cent. The result will be another \$544 million tax increase over the next two years if all counties approve the new tax. The end result will be a potential **tax increase in excess of \$1.08 billion** over the next two years.

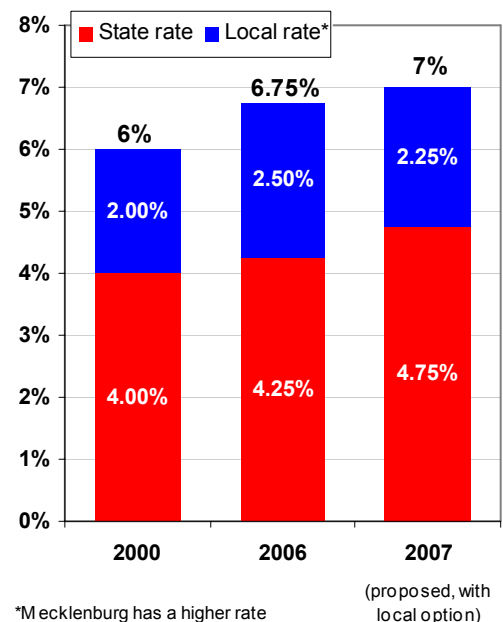
**Highest Sales Tax in the Southeast:** Under the reported compromise budget, North Carolina’s sales tax rate would hit 7 percent. This rate would be 16.7 percent higher than it was in 2000 – the year before the “temporary” sales and income taxes were instituted by Governor Easley (D). At 7 percent, North Carolina will have the **8<sup>th</sup> highest sales tax in the nation**, with a rate 40 percent higher than neighboring Virginia.

**A Tax on the Poor:** Economists agree that sales taxes are highly regressive. As a recent report by the left-leaning NC Justice Center notes, “The impact of the sales tax on low- and moderate-income taxpayers is much greater than the income tax and hits them disproportionately hard compared to wealthier taxpayers.”

**A Tax on Business:** North Carolina also imposes its sales tax on business inputs for manufacturing equipment, utilities and farm equipment – the only state in the Southeast to tax all three types of inputs (other states provide exemptions). These higher input costs are passed along in the sale price, making many necessary items more expensive to buy – thus also **hurting the poor disproportionately**.

**Border Counties Will Suffer:** Keeping –and increasing – North Carolina’s high sales tax rate encourages shoppers to cross state lines to buy products at a lower sales tax rate. 28.4 percent of North Carolina’s population lives in the 33 counties that border South Carolina and Virginia. These areas can expect to continue to **lose significant retail business** to neighboring states due to high tax rates, resulting in stunted economic growth and **fewer jobs**.

**The Sales Tax Continues to Climb**



## **State EITC Provides Little or No Relief from Heavy Taxation**

***Two Happy Meals a Month:*** A 5 percent refundable state EITC would result in a payout that averages \$6.75 a month for each recipient. This is barely enough to pay for two Happy Meals at McDonalds – or better yet, 6 lottery tickets – let alone lift anyone out of poverty.

***Unfair to the Poor:*** A one-time annual EITC payout will also not make up for the fact that poor families will be forced to pay the higher sales tax throughout the entire year.

## **Increase in Transfer Tax Hurts Poor and Minorities**

***Keeping the Poor... Poor:*** Building financial equity is one of the most important means available for helping families lift themselves from poverty. As the U.S. Department of Housing and Urban Development (HUD) observes, “Homeownership is a vehicle to building wealth and assets, which in turn become instruments for homeownership opportunities for the next generation of family members.” Taking more hard-earned equity from the poor simply helps keep them poor.

***Less Affordable Housing for Minorities:*** Many sellers will try to make up for the added transfer tax by raising the price of their home. This will help make housing less affordable – a trend that will disproportionately hurt the home ownership rate of minorities, who are at the margins of the real estate market. Nationwide, roughly 73 percent of whites own homes, compared to blacks and Hispanics who come in just under 50 percent. Indeed, according to HUD, “Down payment costs – including closing costs – remain the most significant single barrier to homeownership, especially for low- to moderate-income households.” Yet, as HUD notes, “Minority families lack the accumulated wealth for down payment and closing costs.” Likewise, HUD concedes that government regulations and fees disproportionately impact potential minority homebuyers.

***An Unreliable Source of Revenue:*** Because it is directly tied to the volatile real estate market, the transfer tax is a very unpredictable revenue source. North Carolinians can learn a lesson from the state lottery to see the chaotic effects of relying on unpredictable revenue streams. If the state can’t come close to predicting lottery proceeds, how can we expect budget makers to accurately predict what the real estate market will do? When the revenue projections fall short, expect legislators to call for an additional tax increase.

***Increasing Rate of Foreclosures:*** According to the North Carolina Association of County Commissioners, North Carolina has seen a 174 percent increase in the number of foreclosure applications since 1998. Now is not a good time to make home ownership even more expensive, raising the risk of more foreclosures.

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