

spotlight

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\$1 BILLION MORE—FOR TAXPAYERS

Better priorities for the budget surplus

S U M M A R Y : Gov. Mike Easley's proposed \$18.9 billion budget does not provide enough relief to taxpayers who made it possible. The governor could have returned the \$1.1 billion in overcollections to taxpayers without jeopardizing future fiscal health. This would include ending the half-cent sales tax and 8.25 percent income tax rate set to expire in 2007, and providing a temporary quarter-cent sales tax refund. Removing the county burden for Medicaid would also ease the fiscal pressure local governments face to raise taxes to pay for schools and roads.

Gov. Mike Easley released his proposed budget for fiscal year 2006-07. The \$18.85 billion request includes \$1.45 billion of net new spending compared to the original amount approved for the year and \$1.65 billion more than the FY 2005-06 budget. The 9.6 percent increase is far higher than the 5.6 percent spending cap based on personal income growth.

The proposal provides modest relief from the sales and personal income tax increases originally passed in 2001 and now set to expire on July 1, 2007. Instead of rolling back both taxes, the governor only offers a quarter-cent reduction in the sales tax rate.

With different priorities, Gov. Easley could have provided more tax relief to North Carolinians.

The first step would be to end the extra half-cent sales tax and repeal the top 8.25 percent marginal income tax rate. Combined, these two would return \$442 million to North Carolinians this fiscal year. Both are already set to expire in the next fiscal year, so this can be done with nonrecurring funds.

Going further, the governor could have offered a temporary quarter-cent sales tax refund until July 1, 2007. This would return another \$197 million to taxpayers.

Real fiscal responsibility would end the transfer of \$253 million from the Highway Trust Fund to the General Fund. When the General Assembly created the Trust Fund in 1989, it expected the road projects paid by the Fund to be completed by 2003. They are not and the money should be dedicated to that purpose.

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A final step to help taxpayers would be to relieve counties of their share of Medicaid costs. Although not direct tax relief, county budgets are stretched by Medicaid and school construction, with demands for transportation spending also on the rise. Removing the burden of Medicaid would make it easier for counties to meet other responsibilities without raising taxes, as many local governments are already contemplating. The House Select Committee on Health Care recommended taking a small step toward Medicaid relief. With the surplus available, the state could absorb the entire \$459 million counties will pay this fiscal year.

All of these steps could be taken while providing raises of five percent to all teachers and state employees.

This is by no means an ideal budget proposal. Spending would still grow 6.7 percent under this plan – still higher than the 5.6 percent cap. It is intended simply to show how the surplus could be used to provide tax relief to North Carolinians given the governor’s assumptions. The John Locke Foundation’s Freedom Budget provides more proposals that would yield additional budget savings and tax relief.

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JLF Taxpayer Relief Proposal FY2006-07

Beginning Credit Balance	\$1,310,486,988
Recommended Budgeted Revenue	\$18,504,513,009
Total Availability Before Adjustments	\$19,814,999,997
<i>1 / 2-cent Sales Tax Relief from October 1, 2006</i>	<i>(\$393,000,000)</i>
<i>Income Tax Relief Effective Jan. 1, 2007</i>	<i>(\$49,200,000)</i>
<i>Cap Gas Tax Effective July 1, 2006</i>	<i>(\$23,550,300)</i>
<i>End Highway Trust Fund Transfer</i>	<i>(\$252,663,009)</i>
<i>1 / 4-cent Sales Tax Refund from October 1, 2006</i>	<i>(\$196,500,000)</i>
<i>Credits to Saving Reserve and Repair and Renovation Reserve</i>	<i>(\$524,000,000)</i>
<i>Sales Tax Changes (Research and Development and Component Parts)</i>	<i>(\$7,230,000)</i>
<i>Adoption Tax Credit (50% of Federal Tax Credit)</i>	<i>(\$3,000,000)</i>
Final Availability	\$18,365,856,688
Original Certified Budget	\$17,396,304,791
<i>County Medicaid Relief</i>	<i>\$459,036,910</i>
<i>5% Across the Board Pay Increase</i>	<i>\$500,000,000</i>
Total Appropriations	\$18,355,341,701
Ending Unreserved Balance	\$10,514,987

Governor’s Recommended Budget FY2006-07

Beginning Credit Balance	\$1,310,486,988
Recommended Budgeted Revenue	\$18,504,513,009
Total Availability Before Adjustments	\$19,814,999,997
<i>Reduce Sales Tax Rate by 1 / 4 cent on October 1, 2006</i>	<i>(\$196,500,000)</i>
<i>Cap Gas Tax Effective July 1, 2006</i>	<i>(\$23,550,300)</i>
<i>Reduce Highway Trust Fund Transfer</i>	<i>(\$195,176,407)</i>
<i>Emergency Appropriation for Department of Correction</i>	<i>(\$15,000,000)</i>
<i>Credits to Saving Reserve and Repair and Renovation Reserve</i>	<i>(\$524,000,000)</i>
<i>Sales Tax Changes (Research and Development and Component Parts)</i>	<i>(\$7,230,000)</i>
<i>Adoption Tax Credit (50% of Federal Tax Credit)</i>	<i>(\$3,000,000)</i>
Final Availability	\$18,850,543,290
Original Certified Budget	\$17,396,304,791
<i>Reductions</i>	<i>(\$461,230,315)</i>
<i>Expansion Items</i>	<i>\$1,915,468,814</i>
Total Appropriations	\$18,850,543,290
Ending Unreserved Balance	\$0