

North Carolina  
Budget, Tax, and Economic  
**HIGHLIGHTS**

— 2024 —





# **North Carolina Budget, Tax, and Economic Highlights: 2024**

John Locke Foundation

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# Executive Summary

The purpose of the North Carolina Budget, Tax, and Economic Highlights guide is to equip the legislator, as well as the layman, with updated data to better understand state fiscal policy issues and economic trends in North Carolina.

Toward this end, this guide features four sections, highlighting taxes, the state budget, state debt and unfunded liabilities, and state economic data. This guide is chock full of useful data, informative historic trends, and answers to important questions about North Carolina fiscal policy and economic trends.

At \$30 billion per year, the stakes for the state's General Fund budget have never been higher. Adding in spending financed through various receipts, primarily federal funds, along with transportation spending, the true total state budget comes to around \$65 billion. All told, total state spending amounts to just over \$6,100 per person, or nearly \$25,000 per family of four.

As for taxes, North Carolina for decades had been a high-tax state in a low-tax region. Prior to the historic reforms in 2013, North Carolina imposed the highest top personal income tax rate in the Southeast, and among the top ten such rates in the nation. The 2013 tax cuts, followed by subsequent reductions, dropped our state's personal income tax rate to second lowest in the region – behind only Tennessee who has no personal income tax.

This book also highlights how state debt has changed over the years. After ballooning from \$2.8 billion in 2001 to \$6.5 billion in 2012, General Fund supported debt fell back down to \$3.9 billion by 2021. Conservative

**"The state employee pension fund faces a \$14.8 billion liability, while health benefits for state retirees have accumulated nearly \$24 billion in promised benefits."**

leadership wisely retired 40 percent of state debt in less than a decade.

Unfortunately, unfunded liabilities still remain a significant budgetary concern. The state employee pension fund faces a \$14.8 billion liability, while health benefits for state retirees have accumulated nearly \$24 billion in promised benefits.

Finally, North Carolina boasts the 11th largest state economy in the country, with a diverse workforce ranging from hog farmers to bioscience. Our economy has enjoyed strong growth since tax reforms and conservative fiscal policy became the norm in Raleigh a decade ago. Data from recent years are skewed due to the Covid-19 lockdowns, but North Carolina has recovered well and has positioned itself on sound fiscal footing in advance of the next economic recession.

North Carolina's budget, tax, and economic history is filled with twists and turns, but we have much to celebrate. The Tar Heel State is a leader in many ways. With constant, honest attention to our fiscal situation, we can continue to lead for years to come.



# SECTION 1: TAXES

# Q&A: Historic Tax Reforms of 2013, and Beyond: What Were They and What Were the Results?

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In 2013, North Carolina passed historic reforms to its tax code. Many labeled the reforms as the largest tax cuts in state history, and national groups likewise recognized the significance of the changes.

Forbes referred to the legislation as “one of the most impressive tax reform packages in any state in years.” Americans for Tax Reform declared that “North Carolina, with a 25 percent reduction in the top (income tax) rate, pretty much blew the other states away.”

## Why was tax reform needed in North Carolina?

North Carolina was once a growth champion of the national economy. Between 1981 and 1999, North Carolina’s average personal income growth was the 4th fastest in the nation. After 2000, however, North Carolina’s personal income growth premium, relative to the national average, significantly slowed. Average personal income growth dropped to 26th fastest in the nation between 2000 and 2011.

**Table 1: North Carolina Major Tax Rates, 2023**

Personal Income	4.75%
Corporate Income	2.50%
State Sales and Use Tax	4.75%
State Plus Local	51 counties add 2% for a total 6.75% rate 45 counties add 2.25% for a total of 7% rate 2 counties add 2.5% for a total of 7.25% rate 2 counties add 2.75% for a total of 7.5% rate
State Gas Tax	40.5 cents per gallon

**Table 2: Income Tax Rate Compared with Neighbors**

	Top Marginal Tax Rate for 2012	Rank Among Neighbors	Rank Among Nation	Top Marginal Tax Rate for 2023	Rank Among Neighbors	Rank Among Nation
NC	7.75%	5	43	4.75%	2	17
GA	6%	4	40	5.75%	3	35
SC	7%	3	39	6.50%	5	28
TN	0%	1	8	0.00%	1	6
VA	5.75%	2	37	5.75%	3	34

SOURCE: TAX FOUNDATION, ANNUAL STATE FACTS & FIGURES PUBLICATIONS

North Carolina’s tax policy had been an important contributing factor to the state’s economic slowdown. Taxes in the Tar Heel state had never been optimal, but had worsened over time. For instance, North Carolina’s tax burden was lower than the average state and local tax burden during the 1980s and 1990s when North Carolina’s economic growth rate was substantially faster than the nation’s. The reverse is true during the 2000s, when North Carolina’s economy fell behind national and regional growth rates.

With a Depression-era tax code featuring some of the nation’s highest tax penalties on work and investment, North Carolina’s unemployment rate had been above the national average for 13 straight years, and among the five highest for the few years prior to reform.

Implementing the 2013, pro-growth tax reform helped reinvigorate North Carolina's economy once again. Sound economic theory, as well as empirical evidence, strongly suggests that state income taxes are the most harmful to state economic growth, and consumption-based taxes least harmful. State legislators were right to lower rates on the harmful income taxes.

## How did the 2013 reform change North Carolina's state taxes?

The reform package included the largest tax cut in state history, reduced tax rates on all North Carolina families and workers, and made the Tar Heel State far more competitive for investment and job creation. The reforms immediately vaulted North Carolina's business tax climate ranking from 7th worst in the nation to 17th best, according to the Tax Foundation's Index. North Carolina has since climbed to the 10th best by 2023.<sup>1</sup>

By implementing a flat income tax, the reforms also simplified income taxes while eliminating some special tax breaks for select special interests.

Most importantly, however, was that the 2013 reforms were estimated to cut taxes on net by roughly \$700 million per year, with a projected net tax cut of roughly \$2.4 billion over the following five years.

The major provisions of the 2013 tax reform law included:

- ▶ Reducing the personal income tax rate from a progressive rate topping out at 7.75 percent to a flat rate of 5.75 percent by 2015
- ▶ Increasing the standard deduction to \$7,500 of income for singles and \$15,000 for married filers
- ▶ Eliminating the \$50,000 income deduction for small businesses effective in 2014

- ▶ Keeping Social Security income fully exempt from income taxes
- ▶ Allowing taxpayers to take the greater of the standard deduction or itemized deductions, with itemized deductions limited to unlimited charitable contributions plus mortgage interest deductions and property taxes capped at \$20,000
- ▶ Repealing the state estate tax
- ▶ Reducing corporate income tax rate to 5 percent from 6.9 percent by 2015
- ▶ Decreasing to 4 percent in 2016 and 3 percent in 2017 the corporate rate, if certain revenue targets are met
- ▶ Keeping the state sales tax rate of 4.75 percent and local rate of 2 percent unchanged; preserving the combined rate of 6.75 percent for most counties
- ▶ Adding service contracts on tangible goods to the sales tax base, along with most attractions (like movies, fairs) for which admission is charged to the sales tax base
- ▶ Placing a cap of \$45 million on the sales tax refund nonprofit entities (including most large hospitals) can claim. This cap would not impact any nonprofit organizations at the time of the bill's passage.

# Continued Tax Reforms

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While historic in nature, the 2013 tax reform legislation wasn't the end of improvements to North Carolina's tax code. By 2023, the continued reforms resulted in:

- ▶ A flat personal income tax rate of 4.75 percent, which is scheduled to reduce to 3.99 percent by 2026
- ▶ Standard deductions for single filers of \$13,850 and \$27,700 for married filers
- ▶ A corporate income tax rate of 2.5 percent, the lowest of any state that has such a tax in the nation, which is scheduled to be completely phased out by 2030
- ▶ Holding the statewide sales tax rate at 4.75 percent

## What Were the Results of the Reforms?

In the years following the 2013 tax reform, North Carolina's economic performance compared favorably to its regional neighbors and national averages. From the fourth quarter of 2013 until the end of 2019, North Carolina's Gross Domestic Product rose by 28 percent, better than the national average rate of 27 percent.<sup>2</sup> This growth is from data observed until the end of 2019 because COVID-19 and ensuing shutdowns cratered the economy in 2020.

In May 2020, North Carolina experienced unemployment rates above the national average of 13.3 percent (this is a high average due to the pandemic and related shutdowns). However, just one month later, North Carolina's unemployment rate fell rapidly to 8.8 percent, compared to the 11.1 percent national average. That trend continued, as a year later, North Carolina's rate had fallen to 4.8 percent while the national average fell to only 5.8 percent. North Carolina was able to recover better than most states in part due to our competitive tax climate.

These tax cuts transformed North Carolina's business climate. At the time of the tax reforms, North Carolina was relegated to the 7th worst state business tax climate. Immediately after the 2013 reforms, that ranking shot up to 17th best,<sup>3</sup> and now stands at 10th best.<sup>4</sup>

In the first five years following the tax reform, North Carolina's median household income grew by 29.5 percent (from 2013 to 2018), significantly outpacing the national average of 21.6 percent and the southeast region's average of 23.1 percent.<sup>5</sup>

Compare such favorable economic news to North Carolina's sub-par economic performances of the decades preceding the tax reform, and the changes are striking. Granted, this is a relatively small sample size, but the inflection point in performance is noteworthy.

More recently, North Carolina's vastly improved tax climate enabled a more robust recovery from the COVID-19 shutdowns. Personal income growth in the first quarter of 2021 increased by 67.9 percent since Q4 2020 – higher than the national growth average of 59.7 percent.<sup>6</sup>

Moreover, the revenue shortfalls predicted by critics never materialized. Indeed, state government revenues far exceeded expectations. Prior budget years each saw budget surpluses exceeding \$400 million, enabling legislators to wisely build up the state's Rainy Day Fund to more than \$1.8 billion at the close of FY 2018-19. After helping to pay for hurricane damage, the Rainy Day Fund still stood in excess of \$1 billion as the coronavirus pandemic prompted Gov. Roy Cooper to shutdown the state's economy. Thanks to this fiscal prudence, North Carolina was better prepared for the coronavirus economic shutdowns. The FY 2021-22 budget sent \$2 billion to the Rainy Day Fund.

The strong economic performance continues, as personal income growth in the first quarter of 2023 increased by 5.9 percent since Q4 2022 – higher than the national growth average of 5.1 percent.<sup>7</sup> In addition, the FY 2022-23 budget sent \$1.6 billion to the Rainy Day Fund.<sup>8</sup>

**Table 3: Significant Tax Changes Since 1985**

SALES AND USE TAX CHANGES			
	Significant Tax Changes Since 1985	Year	Session Law
↓	Repeal of sales tax on food purchased with food stamps	1985	S.L. 1985-656
↑	Authorize local governments to raise sales tax an additional 0.5% with some restrictions on the use of the money; mostly designated for public school capital needs (estimated revenue \$198 million)	1986	S.L. 1986-906
↓	Exempt DOT from state and local sales tax	1986	S.L. 1986-982
↑	Repeal provision allowing merchants to retain 3% of retail sales tax collected	1987	S.L. 1987-622, 1987-813
↑	Enact new excise tax of 5¢ on each 30-dozen case of eggs sold for consumption	1987	S.L. 1987-1402
↑	Expand the Sales and Use Tax Act: the state may require out-of-state retailers to collect sales and use taxes on mail order sales to N.C. customers if the retailer has purposefully or systematically exploited the market in N.C. through solicitation by mail or advertising	1988	S.L. 1988-1096
↑	Increase sales tax rate from 3% to 4%	1991	S.L. 1991-689
↓	Reduce tax on soft drinks by 25%	1995	S.L. 1995-474
↓	Reduce state sales tax on food from 4% to 3% (effective January 1, 1997)	1996	S.L. 1996-13es2
↓	Phase out soft drink tax over 3 years	1996	S.L. 1996-13es2
↓	Reduce state sales tax on food from 3% to 2% (effective July 1, 1998)	1997	S.L. 1997-475
↑	E-911 fee established (80¢ per month)	1998	S.L. 1998-158
↓	Repeal 2% state sales tax on food	1998	S.L. 1998-212



SALES AND USE TAX CHANGES			
	Significant Tax Changes Since 1985	Year	Session Law
↓	Sales tax/fee changes: exemptions or reductions (for new business registration, loan agencies, prescription drugs, medical equipment, local airports)	1999	S.L. 1999-438
↑	Sales tax/fee changes (increases for check cashing, pawnbrokers, used equipment, shoppers' guides)	1999	S.L. 1999-438
↑	Repeal sunset on 3% tax on white goods (counties receive 72% of this revenue)	2000	S.L. 2000-109
↑	Streamlined sales tax system (first step to creating remote collection system for Internet and catalog sales)	2000	S.L. 2000-120
↑	Increase state sales tax rate from 4.0% to 4.5% for October 16, 2001 to July 1, 2003	2001	S.L. 2001-424
↑	Impose 5% sales tax on satellite television service	2001	S.L. 2001-424
↓	Create sales tax holiday (loss of less than \$9 million state, \$6 million local)	2001	S.L. 2001-424
↑	Tax all telecommunications at 6.0% [S.L. 2001-430, as amended by S.L. 2001 424]; previous tax rate varied from 0.0% on interstate calls to 6.5% on intrastate calls	2001	S.L. 2001-424
↑	Impose 5% sales tax on satellite television service	2001	S.L. 2001-424
↑	Authorize additional 1/2¢ local sales tax (effective July 1, 2003)	2001	S.L. 2001-424
↑	Accelerate the 1/2¢ local sales tax option	2002	S.L. 2002-123
↑	Maintain 4.5% state sales tax rate	2003	S.L. 2003-284
↑	Conform to streamline sales tax provision for soft drinks, prepared food, and modified software (net revenue increase)	2003	S.L. 2003-284
↓	Tax soft drinks in vending machines at 50% of general rate	2003	S.L. 2003-284
↓	Expand number and type of sales tax refunds & exemptions	2004	S.L. 2004-124
↑	Increase tax on telecommunications from 6% to 7%	2005	S.L. 2005-276

SALES AND USE TAX CHANGES			
	Significant Tax Changes Since 1985	Year	Session Law
↑	Increase tax on home satellite television services from 5% to 7%	2005	S.L. 2005-276
↓	Exempt from sales tax, items ranging from horses to laundry machinery (previously 1% tax)	2005	S.L. 2005-276
↑	Maintain 4.5% state sales tax rate	2005	S.L. 2005-276
↑	Apply uniform sales tax to candy	2005	S.L. 2005-276
↑	Apply general sales tax rate (7%) to cable (was only a local tax, up to 5%)	2005	S.L. 2005-276
↑	Extend telecommunications tax to voicemail	2005	S.L. 2005-276
↑	Extend sales tax to satellite radio	2005	S.L. 2005-276
↓	A portion of the "temporary" sales tax is allowed to sunset. The state sales tax will drop by ¼ cent as of Dec. 1, 2006. (most local governments add another 2.5 cents)	2006	S.L. 2006-66
↓	Reduce the sales tax from 2.83% to 2.6% on electricity sold to manufacturers	2006	S.L. 2006-66
↑	Make permanent the remaining ¼ cent of the "temporary" sales tax rate	2007	S.L. 2007-323
↓	Expand the sales and use tax refund for certain aircraft manufacturers	2007	S.L. 2007-323
↓	Enact a sales tax holiday for energy efficient appliances for the first weekend in November	2008	S.L. 2008-107
↓	Grant an exemption for an "eligible internet data center" (Google) on sales taxes paid on electricity; total amount of exemption is estimated at \$2.25 million	2006	S.L. 2006-66
↑	Increase the statewide sales tax by a penny, from 4.75% to 5.75%. Is scheduled to expire on June 30, 2011	2009	S.L. 2009-451
↑	Extend sales tax to online click-through sales and digital products	2009	S.L. 2009-451
↑	Sales tax on manufactured homes raised 2.75% to the state rate of 4.75%	2013	S.L. 2013-316

SALES AND USE TAX CHANGES			
	Significant Tax Changes Since 1985	Year	Session Law
↑	Repeal “back-to-school” sales tax holiday, and Energy Star appliance sales tax holiday	2013	S.L. 2013-316
↑	Repeal state franchise tax on electricity and sales of piped natural gas, those items now subject to general state sales tax rate	2013	S.L. 2013-316
↑	Privilege tax on admission to live entertainment, movies, and amusements replaced by the general sales tax rate	2013	S.L. 2013-316
↑	Service contracts and warranties on tangible goods added to the sales tax base	2013	S.L. 2013-316
↓	Exempt 50% of the sale price of a modular home from the sales tax	2014	S.L. 2014-100
↑	The sales tax base is broadened to include some services such as repair, maintenance and installation services to tangible property, such as autos	2015	S.L. 2015-241
↑	Expand sales tax base to include repair, maintenance and Installation services to tangible property, like autos	2016	S.L. 2015-241
↑	Expand sales tax to apply to sale price “derived from repair, maintenance and installation services to tangible personal property,” as well as digital property	2018	S.L. 2018-5
↓	Reduce sales tax by 50% and 25%, respectively, on “modified risk tobacco products” classified as “risk modification” and “exposure modification”	2018	S.L. 2018-5
↑	Impose sales tax on “marketplace facilitators,” i.e. people selling goods on online platforms like Amazon or eBay, or renters via AirBnB.	2019	S.L. 2019-246
↓	“Exempts sales tax on “[s]ales of breast pumps, including repair and replacement parts, breast pump kits, and breast pump collection and storage supplies””	2023	S.L. 2023-134

INCOME TAX CHANGES			
	Significant Tax Changes Since 1985	Year	Session Law
↓	Tax credits to people with low and moderate incomes	1985	S.L. 1985-656
↑	Increase corporate income tax rate from 6% to 7%	1987	S.L. 1987-622, 1987-813
↑	Close loopholes that allow higher-income taxpayers to claim the low-income tax credit	1988	S.L. 1988-1039
↓	Increase individual income tax exclusions for federal civil service retirement pay and military retirement pay from \$3,000 to \$4,000	1988	S.L.1988-936
↑	Create North Carolina Enterprise Corporations. Income and franchise tax credits for 25% of the amount of an investment in such a corporation	1988	S.L.1988-882
↔	Establish the North Carolina Candidates Financing Fund. Any taxpayer entitled to an income tax refund may contribute all or part of the refund to the Fund.	1988	S.L.1988-1063
↑	Changes to the individual income tax status of retirement benefits	1989	S.L. 1989-792
↓	Tax savings of \$85 million due to a change in the state income tax statutes allowing S-Corps to be taxed as if they were partnerships	1989	S.L.1989-728
↔	Tax Fairness Act: base the state individual income tax on a percentage of federal income tax liability	1989	S.L.1989-728
↑	Increase corporate income tax from 7% to 7.75% and levy a scaled surtax from 4% in 1991 to 1% in 1994	1991	S.L. 1991-689
↑	Add a 7.75% personal income tax rate for income above \$100,000	1991	S.L. 1991-689
↓	Update state income tax conformity to 1990 federal tax changes	1991	S.L. 1991-922
↓	Increase income tax personal exemption from \$2,000 to \$2,250 for 1995 and to \$2,500 for 1996	1995	S.L. 1995-42
↓	Establish tax credit of \$60 for each dependent child	1995	S.L. 1995-42

INCOME TAX CHANGES			
	Significant Tax Changes Since 1985	Year	Session Law
↓	Reduce corporate income tax rate from 7.75% to 6.90% over four years	1996	S.L. 1996-13es2
↓	Repeal income tax on retired government employees (Bailey case)	1998	S.L. 1998-212
↓	Increase non-itemizer charity tax credit	1998	S.L. 1998-183
↓	Establish long-term care insurance credit	1998	S.L. 1998-212
↓	Increase limit for conservation tax credit	1998	S.L. 1998-212
↑	Impose 1% gross receipts tax on movie admissions	1998	S.L. 1998-95
↓	Child health insurance tax credit	1998	S.L. 1998-1es
↔	Pension tax withholding (no estimate of impact)	1999	S.L. 1999-414
↑	Create new 8.25% income tax bracket for highest-income households (sunset after 2003 tax year)	2001	S.L. 2001-424
↓	Increase standard deduction for married filing jointly from \$5,000 to \$5,500 in tax year 2002 and to \$6,000 in 2003	2001	S.L. 2001-424
↑	Increase tax credit for children from \$60 to \$75 in tax year 2002 and to \$100 in 2003	2001	S.L. 2001-424
↑	Repeal children's health Insurance tax credit (effective tax year 2001)	2001	S.L. 2001-424
↑	Delay 2001 tax breaks: standard deduction/marriage penalty (increase in child tax credit)	2002	S.L. 2002-126
↑	Broaden definition of business income	2002	S.L. 2002-126
↑	Close loophole in LLC franchise tax	2002	S.L. 2002-126
↑	Maintain 8.25% income tax for top income tax bracket	2003	S.L. 2003-284
↑	Conform to federal definition of "child" for state child tax credit	2003	S.L. 2003-284
↓	Qualified business investment tax credit	2004	S.L. 2004-124

INCOME TAX CHANGES			
	Significant Tax Changes Since 1985	Year	Session Law
↓	Research and development tax credit	2004	S.L. 2004-124
↓	Extend sunset on low-income housing credit	2004	S.L. 2004-110
↓	Renewable fuel tax credits	2004	S.L. 2004-153
↑	Extend 8.25% individual income tax rate for two more years	2005	S.L. 2005-276
↓	The highest marginal income tax rate falls ¼ percentage point to 8%, effective taxable year beginning January 1, 2007	2006	S.L. 2006-66
↓	Establish a state-level Earned Income Tax Credit (EITC) set at 3.5% of the federal credit	2007	S.L. 2007-323
↓	Increase the amount of the EITC to 5% of the federal amount	2008	S.L. 2008-107
↑	Create a tax “surcharge” on upper-level income earners. A two percent extra charge is levied against the tax liability of single filers earning over \$60,000 and married filers earning above \$100,000. The extra charge increases to 3 % for single filers earning above \$150,000 and married filers earning above \$250,000. Is scheduled to expire at the beginning of the 2011 tax year	2009	S.L. 2009-451
↑	Create a 3% tax surcharge on corporate income. Is scheduled to expire at the beginning of the 2011 tax year	2009	S.L. 2009-451
↓	Tiered individual income tax structure with rates as high as 7.75% eliminated and replaced with a flat 5.8% tax for 2014, and 5.75% for 2015. A larger standard deduction of \$7,500 of income for singles and \$15,000 for married filers is created, while eliminating some itemized deductions.	2013	S.L. 2013-316
↔	Social Security income remains fully exempt from state income tax	2013	S.L. 2013-316

INCOME TAX CHANGES			
	Significant Tax Changes Since 1985	Year	Session Law
↓	Drops state personal income tax rate to 5.49% by 2017, down from the current 5.75 %. The standard deduction will be increased slightly (for example from \$15,000 to \$15,500 to married filing jointly), and the tax credit for medical expenses is reinstated	2015	S.L. 2015-241
↓	Increased standard deduction by \$2,000 for married filers and \$1,000 for single filers	2016	S.L. 2016-94
↓	Reduce rate from 5.499% to 5.25%, effective 2019	2017	S.L. 2017-57
↓	Increase standard deduction from \$17,500 to \$20,000 for married filers, and \$8,750 to \$10,000 for single filers, to be effective in 2019	2017	S.L. 2017-57
↔	Change child tax credit to a standard deduction per child, based on income level. Deduction ranges from \$2,500 for lower-income earners to \$500 for upper earners; and filers with income above \$120,000 receive no deduction. Scheduled to take effect in 2019.	2017	S.L. 2017-57
↓	Increase the standard deduction in the personal income tax code, from \$20,000 to \$21,500 for joint filers and \$10,000 to \$10,750 for single filers; effective the 2020 tax year	2019	S.L. 2019-246
↓	Decrease the personal income tax rate to 3.99% after 2026. In 2022 the personal income tax would decrease to 4.99% from 5.25%; In 2023 the personal income tax would decrease to 4.75%; 4.6% in 2024; 4.5% in 2025; 4.25% in 2026, and 3.99% after 2026	2022	S.L. 2021-180
↓	Increase the standard deduction in the personal income tax code, from \$21,500 to \$25,500 for joint filers; \$10,750 to \$12,750 for single filers; \$16,125 to \$19,125 for heads of household; and \$10,750 to \$12,750 for married, filing separately.	2022	S.L. 2021-180

INCOME TAX CHANGES			
	Significant Tax Changes Since 1985	Year	Session Law
↓	Increase the child tax credit deduction by \$500 per child. New deduction will range from \$3,000 for lower-income earners filing jointly to \$500 for those making between \$120,000 and \$140,000. Joint filers with income above \$140,000 receive no deduction. Scheduled to take effect in 2022. Similar increases are in place for heads of household, single, and separate filers	2022	S.L. 2021-180
↓	Eliminates the taxes on military pension income	2022	S.L. 2021-180
↓	Accelerates planned tax cuts: For 2024, the individual income tax rate reduces to 4.5%, in 2025 it goes to 4.25%, and after 2025, it goes to 3.99%. But there are certain state revenue collection thresholds that can reduce it to 2.49% between 2027 and 2034.	2023	S.L. 2023-134

BUSINESS-RELATED TAX CHANGES			
	Significant Tax Changes Since 1985	Year	Session Law
↓	Lower employment security contribution (payroll tax) rate for employers from 2.70% to 2.25% of wages	1987	S.L. 1987-17
↓	New income tax credit for businesses that create jobs in "severely distressed" counties	1987	S.L. 1987-568
↓	Tax credits for certain business investments	1987	S.L. 1987-852
↓	Reduce unemployment tax for employers by 23%	1995	S.L. 1995-4
↓	Expand jobs tax credit; create new credits	1996	S.L. 1996-13es2
↓	Provide a tax credit up to \$250 per employee for small businesses that subsidize employee health insurance premiums	2006	S.L. 2006-66
↓	Offer tax credits of up to a maximum of \$500,000 for biodiesel providers	2006	S.L. 2006-66
↓	Provide \$2.3 million tax credit for constructing renewable fuels facilities	2007	S.L. 2007-323



<b>BUSINESS-RELATED TAX CHANGES</b>			
	<b>Significant Tax Changes Since 1985</b>	<b>Year</b>	<b>Session Law</b>
↑	Close corporate tax loophole by implementing “combined reporting” method for business tax filing	2007	S.L. 2007-323
↓	Extend sunset for a number of targeted tax credits, including rehabilitation projects, interstate passenger air carrier, aviation fuel for motor sports events	2010	S.L. 2010-31
↓	Create a temporary credit for small businesses – equal to 25% of the companies’ unemployment insurance tax liability.	2010	S.L. 2010-31
↓	Corporate income tax reduced to 6% (from 6.9%) in 2014 and 5% in 2015 (rate scheduled to fall to 4% in 2015 and 3% in 2016 if certain revenue targets met)	2013	S.L. 2013-316
↑	Eliminates the \$50,000 business income deduction	2013	S.L. 2013-316
↓	Changes corporate tax formula to a “single sales factor,” estimated to save businesses on net tens of millions in taxes	2015	S.L. 2015-241
↓	Introduces a new tax credit for improvements to historic buildings, a previous credit program had expired in 2014	2015	S.L. 2015-241
↓	Corporate tax rate scheduled to be reduced from 3% to 2.5% in 2019	2017	S.L. 2017-57
↓	Simplification and reduction of the state franchise tax by replacing current tax with a flat \$200 assessment on the first \$1 million of the businesses’ net worth; effective in 2019	2017	S.L. 2017-57
↓	Repeal of the sales tax on mill machinery, effective 2019	2017	S.L. 2017-57
↓	Extend the sunset for the tax exemption for building rehab facilities until 2020	2018	S.L. 2018-5
↓	Extend until 2024 the sunset for targeted tax exemptions, specifically: historic building rehabilitation, aviation fuel, sale of parts to professional motorsports teams	2019	S.L. 2019-237

<b>BUSINESS-RELATED TAX CHANGES</b>			
	<b>Significant Tax Changes Since 1985</b>	<b>Year</b>	<b>Session Law</b>
↓	Corporate income tax to be phased out to 0% after 2029. Beginning in 2025 the corporate rate would decrease from 2.5% to 2.25%; decrease to 2% in 2026; to 1% in 2028; and to 0% after 2029	2021	S.L. 2021-180
↓	Simplify and reduce the franchise tax reported on 2022 and later corporate income tax returns by simplifying the corporation's tax base and creates a cap on total amount owed.	2022	S.L. 2021-180
↔	Conforms to federal tax treatment for PPP loans by exempting such loans from taxes	2022	S.L. 2021-180
↓	Allows certain pass-through businesses to elect to pay taxes at the entity level, thus reducing the impact of the federal SALT cap	2022	S.L. 2021-180
↔	Creates a separate net operating loss calculation for individual income tax purposes	2022	S.L. 2021-180
↔	C Corporation franchise tax is imposed at \$500 for the first \$1m of tax base, and \$1.50 per \$1,000 in excess of \$1m. Previously, C Corporations were taxed at \$1.50 for ever \$1,000, without a floor.	2023	S.L. 2023-134
↓	Expands what entities are eligible for the pass-through entity tax election to include entities that are owned by trusts and estates	2023	S.L. 2023-134
↑	Creates new excise tax for transportation services, such as Uber and Lyft. 1.5% for exclusive rides and 1% for shared rides	2023	S.L. 2023-134

DEATH-RELATED TAX CHANGES			
	Significant Tax Changes Since 1985	Year	Session Law
↑	Repeal certain inheritance tax exemptions	1991	S.L. 1991-454
↓	Repeal state inheritance tax; retain estate tax	1998	S.L. 1998-212
↑	Conform to Internal Revenue Code changes (pensions and education, estate tax credit, accelerated depreciation)	2002	S.L. 2002-126
↑	Extend sunset on partial conformity to federal estate tax	2003	S.L. 2003-284
↑	Conform estate tax to federal sunset	2005	S.L. 2005-144
↓	Temporarily allow the state's estate tax to lapse	2010	S.L. 2010-31
↓	Repeals the state estate tax (aka the death tax) for deaths after January 1st 2013	2013	S.L. 2013-316

MOTOR FUEL TAX CHANGES			
	Significant Tax Changes Since 1985	Year	Session Law
↑	Gas tax increase 2¢ per gallon plus 3% sales tax on the wholesale price; raise Powell Bill distribution from 13/8¢ to 13/4¢	1986	S.L. 1986-982
↓	Increase the per gallon credit for motor carriers' purchases of fuels from 12¢ to 14¢ per gallon	1987	S.L. 1987-315
↑	Highway Fund: motor fuel tax increased by 1/2¢ to be divided equally between the Commercial Leaking Petroleum Underground Storage Tank Fund and the Groundwater Protection Loan Fund (1/4¢ increase schedule to expire January 1, 1995 and other 1/4¢ set to expire January 1, 1999)	1991	S.L.1991-538
↑	Remove \$1,500 cap on highway use tax for most noncommercial vehicles; money goes to General Fund (gain less than \$3 million)	2001	S.L. 2001-424
↓	Cap the variable wholesale component of the motor fuels tax so that the total state gas tax cannot exceed 29.9 cents per gallon until June 30, 2009	2007	S.L. 2007-323

<b>MOTOR FUEL TAX CHANGES</b>			
	<b>Significant Tax Changes Since 1985</b>	<b>Year</b>	<b>Session Law</b>
↑	S.L. 2009-108 changes the state gas tax ceiling into a floor. The state gas tax can now no longer drop below 29.9 cents per gallon	2009	S.L. 2009-451
↑	Sets the previously adjustable state gas tax at a rate of 35 cents per gallon for Jan. 1 2016 – June 30, 2016, then 34 cents for the following six months. Low gas prices mean that without this law, gas prices would have dropped significantly lower than these set rates. After 2017, gas prices will increase annually by a rate tied to inflation and population growth	2015	S.L. 2015-2
↔	Freezes the motor fuels tax rate to 36.1 cents per gallon from January 1, 2021 until December 31, 2021. Beginning January 1, 2022, the motor fuel tax rate shall be calculated pursuant to the formula set out in G.S. 105-499.80(a) using the amount for the preceding calendar year.	2020	S.L. 2020 - 91

<b>“SIN” TAX CHANGES</b>			
	<b>Significant Tax Changes Since 1985</b>	<b>Year</b>	<b>Session Law</b>
↑	Increase excise tax on liquor from 22.5% to 28.0%	1987	S.L. 1987-832
↑	Increase some liquor surcharges and ABC permit fees	1991	S.L. 1991-689
↑	Increase cigarette tax from 2¢ per pack to 5¢ and levies a 2.0% of wholesale price on other tobacco products	1991	S.L. 1991-689
↑	Taxes on spirituous liquor (net gain): → Impose 6% state sales tax on spirituous liquor (December 1, 2001) → Reduce excise tax on spirituous liquor from 28% to 25% (February 1, 2002)	2001	S.L. 2001-424
↑	Reduce alcohol and tobacco tax discount for wholesalers (Budget Bill eliminates 4% tax discount)	2004	S.L. 2004-124
↑	In return, S.L. 2004-84 reinstates the discount at 2%	2004	S.L. 2004-84
↓	Increase tax on liquor from 6% to 7% (no local share by law)	2005	S.L. 2005-276

"SIN" TAX CHANGES			
	Significant Tax Changes Since 1985	Year	Session Law
↑	Tobacco tax rate changes (increase from 5¢ to 30¢ per pack through June 30, 2006 and increase to 35¢ per pack July 1, 2006)	2005	S.L. 2005-276
↑	Increase tax on beer, wine and liquor	2009	S.L. 2009-451
↑	Increase tax on cigarettes and tobacco products	2009	S.L. 2009-451
↑	Creates a new tax on e-cigarettes and vapor products at the rate of 5 cents per milliliter of the liquid used in such products	2014	S.L. 2014-3
↑	Expands the 12.8% excise tax on "other tobacco products" to include all cigars shipped to North Carolina residents from out of state sellers. Also creates a tax cap of 30 cents per cigar on the sale of all cigars, whether sold in person or online	2022	S.L. 2021-180
↑	Alters method of taxing snuff products to now being based on \$.40/ounce, and the base of products is expanded to include alternative nicotine products (not including tobacco or vapor products)	2023	S.L. 2023-134

OTHER TAX CHANGES			
	Significant Tax Changes Since 1985	Year	Session Law
↓	Partial repeal of the intangibles tax	1985	S.L. 1985-656
↓	Restructure insurance premiums tax system with a uniform rate; complete system repeal in 1988	1986	S.L. 1986-1031
↓	Repeal of local government property tax on household personal property	1986	S.L. 1986-982
↑	Raise insurance tax from 1.750% of gross premiums to 1.875% for 1991 and to 1.900% beginning with 1992	1991	S.L. 1991-689
↑	Establish a 6.5% charge against gross premiums tax liability (except HMOs and BCBS) for a special trust designed to eliminate General Fund support for Department of Insurance and allow a 20% credit against premium tax for Guaranty Fund assessments	1991	S.L. 1991-689

OTHER TAX CHANGES			
	Significant Tax Changes Since 1985	Year	Session Law
↓	Repeal intangibles tax and reimburse local governments	1995	S.L. 1995-41
↓	Exempt rental cars from property tax (impact local revenues)	2000	S.L. 2000-2
↑	Taxes on HMOs: → New tax on HMOs of 1.1% in 2003 and 1.0% in later years; exempts HMOs from corporate income and franchise taxes → Increase tax on medical service companies from 0.5% to 1.1% in 2003 and 1.0% in later years; these companies do not pay corporate or franchise tax	2001	S.L. 2001-424 (as amended by S.L. 2001-748)
↓	Allow five percent of the purchase price of a manufactured home community to be deducted from state and federal taxable income	2008	S.L. 2008-107
↓	Places a cap of \$45 million on the sales tax refund nonprofit entities (including most large hospitals) can claim. This cap would not impact any nonprofit organizations at the time of its passage	2013	S.L. 2013-316
↓	Expand and extend credits for rehabilitation of income-producing historic structures	2021	S.L. 2021-180
↓	Limit gross premiums tax on surety bonds	2021	S.L. 2021-180
↓	Property set apart for commercial burial services is exempt from taxation	2021	S.L. 2021-180
↓	Repeals privilege taxes for lawyers, accountants, physicians, engineers, real estate agents, and other professionals effective July 1, 2024	2023	S.L. 2023-134

# **SECTION 2: THE STATE BUDGET**

# Q&A: How Much Do We Spend and Where Does the Money Come From?

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While the majority of discussion centers on the state's annual "General Fund" budget, there is far more to total state spending than that. Indeed, as of FY 2023-24 the General Fund accounted for less than half of total state spending.

At \$27.9 billion in FY 2022-23<sup>9</sup>, the General Fund is typically supplied by revenue from a wide variety of taxes and fees, as well as money from court fees, disproportionate share receipts, investment earnings and bonds, and often transfers from various state funds.

Transportation funding for state-level projects comes from the Highway Trust Fund and the Highway Fund, which combined in FY 2023-23 for roughly \$4.8 billion in spending, with its revenues largely coming from the gas tax and vehicle licensing fees.<sup>10</sup>

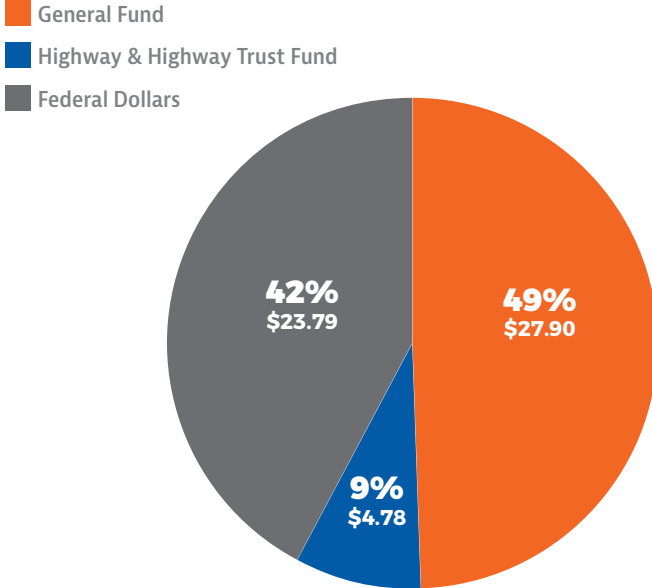
**“When all revenue sources are considered, the state of North Carolina now spends nearly \$55 billion annually.”**

Another \$23.8 billion in spending comes from federal government dollars. The majority of federal funds go to subsidizing Medicaid, education, and transportation spending.

When all revenue sources are considered, the state of North Carolina now spends nearly \$55 billion annually.<sup>11</sup>



### Graph 1: Total State Budget by Source of Funds, FY 2022-23 (in Billions)



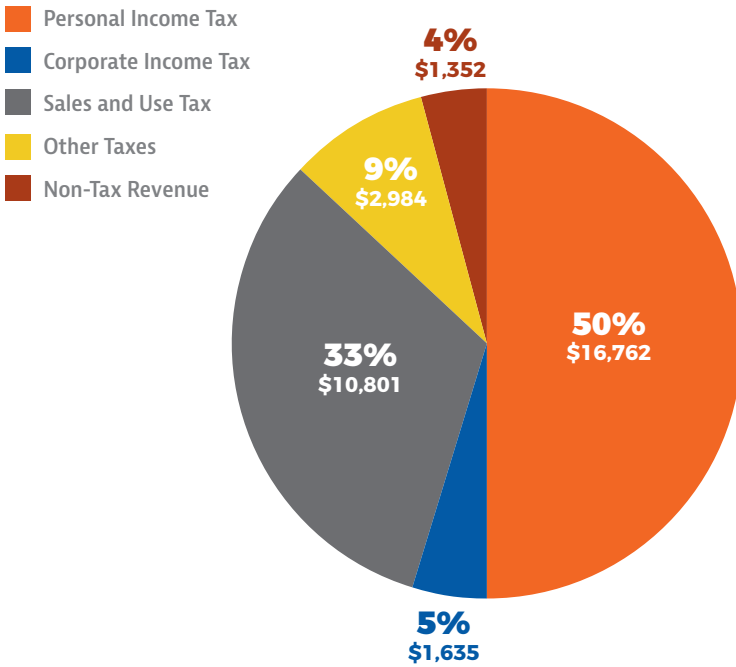
**Total: \$55.22 Billion**

**SOURCE:** GENERAL FUND, HIGHWAY FUND AND HIGHWAY TRUST FUND FROM JOINT CONFERENCE COMMITTEE REPORT, 2022 BUDGET, FEDERAL DOLLARS FROM NATIONAL ASSOCIATION OF STATE BUDGET OFFICERS, 2023 STATE EXPENDITURE REPORT:

# General Fund

Because state legislators have the greatest control over the state General Fund, and it receives the greatest amount of debate and public scrutiny, the following information focuses exclusively on the General Fund.

**Graph 2: FY 2022-23 General Fund Revenue Sources (in Millions)**

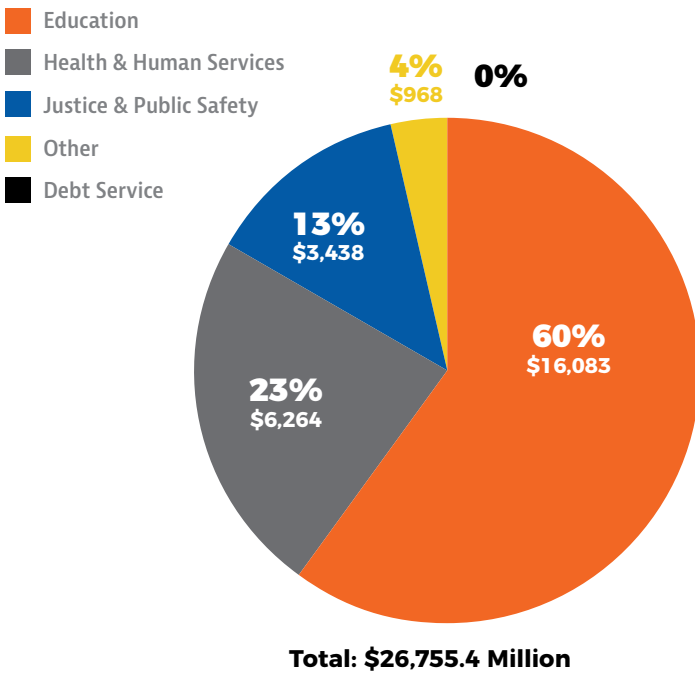


**Total: \$33,535 Million**

**SOURCE:** OFFICE OF STATE CONTROLLER, GENERAL FUND MONTHLY REPORT, JUNE 2023. [HTTPS://WWW.OSC.NC.GOV/JUNE-2023-GENERAL-FUND-MONTHLY-REPORT/OPEN](https://www.osc.nc.gov/june-2023-general-fund-monthly-report/open)

From the nearby chart, you can see that half (50 percent) of General Fund revenue comes from the state personal income tax. Nearly one-third (33 percent) of revenue comes from the statewide sales and use tax, while the corporate income tax accounts for roughly 5 percent (4.9 percent) of General Fund revenue. "Other" taxes include: insurance taxes, the franchise tax, taxes on tobacco and beverages, and the privilege license tax. The largest non-tax revenue sources include judicial fees and the Master Settlement Agreement funds (from the nationwide 1988 legal settlement between states and the major tobacco manufacturers). So, where does that money go? The chart that follows shows a breakdown of General Fund expenditures.

### Graph 3: FY 2022-23 General Fund Expenditures (in Millions)



**SOURCE:** STATE OF NORTH CAROLINA OFFICE OF THE STATE CONTROLLER, GENERAL FUND MONTHLY REPORT, JUNE 2023, [HTTPS://WWW.OSC.NC.GOV/JUNE-2023-GENERAL-FUND-MONTHLY-REPORT/OPEN](https://www.osc.nc.gov/june-2023-general-fund-monthly-report/open)

About 60 percent of the General Fund appropriations are dedicated to education. The more than \$16 billion of education spending in FY 2022-23 can be broken down into three categories: K-12 (\$10.9 billion), UNC System (\$3.8 billion), and Community Colleges (\$1.4 billion).<sup>12</sup>

It is important to note that state K-12 education spending is supplemented by local and federal dollars. Local governments kick in about another \$3.3 billion, with the feds supplying roughly \$3.3 billion in additional funds for the 2021-22 school year (latest data available); bringing total spending on K-12 education to nearly \$16.8 billion annually.<sup>13</sup>

The second largest portion of the state budget goes to the state Health and Human Services (HHS) department. Of the roughly \$6.3 billion in state funding devoted to HHS, about \$4.6 billion in state dollars goes to the state's growing Medicaid program.<sup>14</sup> Similar to K-12 education, however, the state share of Medicaid expenses tells only part of the story. With the feds paying about 70 percent of the total costs, Washington sends nearly \$17 billion annually to help pay for the program.<sup>15</sup>

"Other" expenditures include General Government, Agriculture and Natural and Economic Resources, and Economic Development.

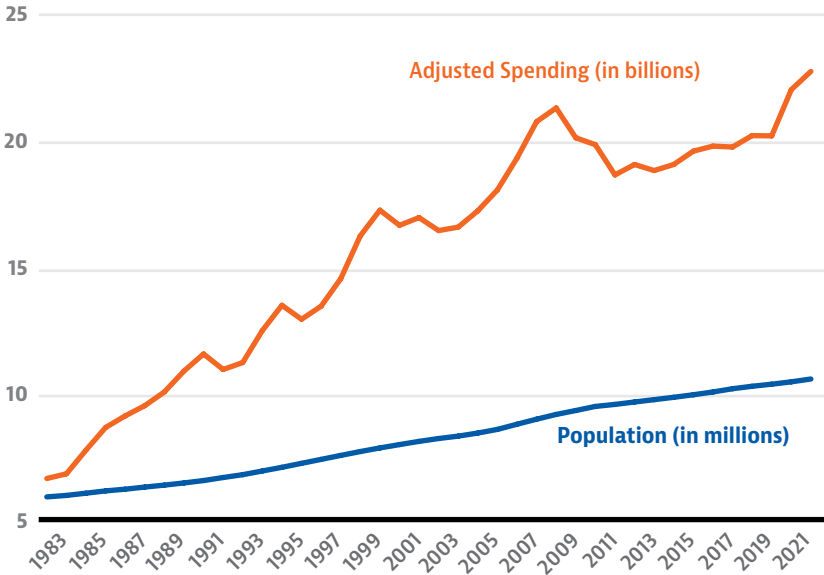
**Table 4: Trends in the General Fund Budget: 1991-2023**

Trends in the General Fund Budget: 1991-2023 (In Millions)						
Fiscal Year	Public Schools \$	Community Colleges \$	Higher Ed \$	Human Services \$	Other \$	Total \$
1990-91	3,329.20	387.60	1,143.20	1,098.20	1,291.40	7,249.60
1991-92	3293.7	344.1	1122	1237.3	1360	7357.1
1992-93	3435.6	398.7	1170.9	1410.3	1466.4	7881.9
1993-94	3634.1	450.9	1299.9	1759.3	1744.6	8888.7
1994-95	4083	455.7	1296.6	1948.6	1931.7	9715.5
1995-96	3999	470.9	1301	2049.1	1973.1	9793.1
1996-97	4301.6	501.8	1385.6	2189.8	2071.5	10450.4

Trends in the General Fund Budget: 1991-2023 (In Millions)						
Fiscal Year	Public Schools \$	Comm-unity Colleges \$	Higher Ed \$	Human Services \$	Other \$	Total \$
1997-98	4697.9	534.9	1489.9	2422.9	2113.1	11258.6
1998-99	5068.6	587.5	1628.9	2663.6	2378.4	12327
1999-00	5497.1	589.6	1682.1	2797.8	2875	13441.6
2000-01	5792.3	644	1802.1	2954.1	2592.7	13785.1
2001-02	5922.5	650.1	1802	3403	2594.9	14372.4
2002-03	5933	667.3	1769.9	3591.7	2362	14323.9
2003-04	6182	683.3	1821.2	3391.5	2757.4	14835.6
2004-05	6519	751.1	1959.2	3812	2831.7	15873.2
2005-06	6880.7	827.7	2515.8	4057.1	3224.1	17141.5
2006-07	7403.3	935.7	2444.5	4283	3593.1	18659.6
2007-08	8055.8	990.5	2752.9	4656.5	3973.2	20428.8
2008-09	8365.9	1016.7	2895.3	4965.6	3992.4	21226.9
2009-10	7544.5	1011.9	2738.6	3912.8	3802.4	19010.1
2010-11	7283.1	1050.9	2682.3	4055	3876.5	18947.8
2011-12	7617.4	1006.5	2556.9	4575.9	3942	19698.6
2012-13	7844.6	1040.4	2663.6	5009	3928.4	20486
2013-14	7920.1	1029	2604.2	4997.7	4051.9	20602.8
2014-15	8171.1	1050.1	2649.1	5153.9	4044.6	21068.6
2015-16	8516.8	1069.1	2746.5	5130.5	4271.8	21734.7
2016-17	8733.4	1096	2852.3	5020.9	4738.8	22441.4
2017-18	9046.4	1122.3	2893.8	5175.4	4792.6	23030.5
2018-19	9546.1	1185.5	3027.6	5356.5	4807.6	23923.3
2019-20	9754.7	1212.3	3119.9	5486.1	4760.0	24406.8
2020-21	9987.4	1229.6	3152.7	5719.9	4397.9	24487.5
2021-22	10602.8	1316.2	3528.2	5769.6	4704.6	25921.4
2022-23	11278.6	1357.6	3842.6	6552.5	4870.9	27902.2

**SOURCE:** ANNUAL BUDGET CONFERENCE REPORTS FROM RESPECTIVE YEARS

### Graph 4: N.C. Population vs. Real General Fund Growth, 1983-2022



**SOURCES:** GENERAL FUND APPROPRIATIONS FOR FYE 1979 THROUGH 2007 FROM THE 2006 POST-LEGISLATIVE SUMMARY PRODUCED BY FISCAL RESEARCH, SUBSEQUENT APPROPRIATION NUMBERS TAKEN FROM EACH YEAR'S BUDGET BILL, POPULATION ESTIMATES FOR JULY THAT BEGINS EACH FISCAL YEAR FROM THE OFFICE OF STATE BUDGET AND MANAGEMENT, AND GDP DEFLATOR LEVELS TAKEN FROM THE FEDERAL RESERVE BANK OF ST. LOUIS

The nearby chart shows the trend lines for the state's inflation-adjusted General Fund budget, compared to population growth, for the 39-year period ending in 2022.

As you can see, even after adjusting for inflation, North Carolina's state budget is now three times as large as it was in the early 1980s. But isn't that just a reflection of a rapidly growing state? No. Compare that growth rate to the state's population growth rate during that time of 76 percent. In short, inflation-adjusted spending has exploded at a rate nearly *three times* as fast as population since 1983.

As a result, North Carolina’s spending per person – even after adjusting for inflation – has *ballooned by more than 90%*. Put differently, North Carolina’s state budget now spends \$1,016 more for every man, woman, and child than it did in 1983 – not due to inflation, but in real, inflation-adjusted terms. That comes to an *increase* of \$4,064 for every family of four.

Sure, state spending leveled off a bit after the great recession of 2008-09, and the COVID-19 lockdowns caused a one-year dip in revenue, but there is no denying the massive increment of state government spending over the last three and a half decades.

**Table 5: Legislative Salary Increases - State Teachers and Employees**

Legislative Salary Increases - State Teachers and Employees		
Year	State Employees	Teachers
1973-74	5% + (5% for those under 2.75/hour)	5% + (employment extended 187 to 200 days = 7% salary increase and 1 step added to schedule)
1974-75	7.5%	7.5%
1975-76	0	0
1976-77	4% + \$300 (average 7.2%)	4% + \$300 (average 6.8%)
1977-78	6.5%	6.5%
1978-79	6%	6%
1979-80	5% + (\$200 one-time bonus payment)	5% + (\$200 one-time bonus payment)
1980-81	10%	10% + (Salary schedule changed = 2% to 10% added top each step of salary range)
1981-82	5% (effective 1-1-82)	5% (effective 1-1-82)
1982-83 a	0	0
1983-84 a	5%	5%

Legislative Salary Increases – State Teachers and Employees		
Year	State Employees	Teachers
1984-85 a	10%	10% + 4.8% salary classification adjustment
1985-86 b	5% + 1 step increase (9.6%)	"1-step increase (4.8%) second year teachers; 2-step increase (9.6%) third or more year teachers"
1986-87	\$75/month (average 6%)	6.50%
1987-88	5%	5%
1988-89	4.50%	4.50%
1989-90	4% + 2% merit funds	6.65% average
1990-91	4% + 2% merit funds	6.15% average
1991-92	0	0
1992-93	\$522.00	2% average
1993-94	2% + 1% one-time bonus payment	3% average
1994-95	4% + 1% one-time bonus payment	5% - 1-3 years 7% - 4-29 years
1995-96	2%	2%
1996-97	2.5% COLA + 2% career growth	5.50%
1997-98 c	2% COLA + 2% career growth	4% - 9%
1998-99	"1% COLA + 2% career growth + 1% one-time bonus"	4% - 9%
1999-00	"1% COLA + 2% career growth + \$125 compensation bonus"	4% - 11%
2000-01	"2.2% COLA + 2% career growth + \$500 compensation bonus"	2.5% - 13.8%
2001-02	\$625.00	1% - 6.92% (2.9% average)
2002-03	0	0% - 5.85% (1.8% average)
2003-04	0	
2004-05	"Greater of a \$1,000 or 2.5% across-the-board increase"	1.41% - 5.9% (2.5% average)



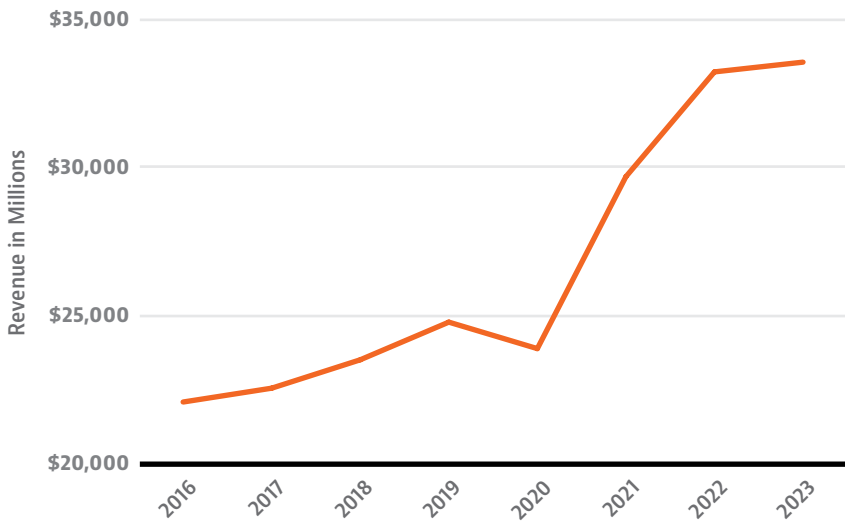
Legislative Salary Increases – State Teachers and Employees		
Year	State Employees	Teachers
2005-06	"Greater of a \$850 or 2% across-the-board increase"	1.77% - 6.27% (2.2% average)
2006-07	5.5% across-the-board increase	6.45% - 14.05% (8.2% average)
2007-08	4% across-the-board increase	4.05% - 9.53% (5% average)
2008-09	"Greater of \$1,100 or 2.74% across-the-board increase"	2.39% - 6.63% (3% average)
2009-10	0	0
2010-11	0	0
2011-12	0	0
2012-13 d	1.2% across-the-board increase	1.2% across-the-board increase
2013-14	0	0
2014-15 e	"\$1,000 for State employees \$500 for central office and noncertified public school employees"	0.5% - 18.5% (7% average)
2015-16 f	-0 - + \$750 compensation bonus	0 - 9.6% (3.8% average)
2016-2017 g	1.5% increase + 0.5% compensation bonus	0% - 13.1% (4.7%) average
2017-2018 h	\$1,000 across-the-board increases	0.6% - 6.9% (3.3% average)
2018-2019 i	"Greater of 2% salary increase or increase to \$31,200 salary for State agency employees"	0% - 14.8% (6.5% average)
2019-20	2.5% for State agency employees	0% - 2.9% (1.2% average)
2020-21	2.5% for State agency employees	0% - 2.9% (1.2% average)
2021-22	2.5% for State agency employees	1.3% increase in each step, 2.5% increase average overall plus bonuses.
2022-23	2.5% for State agency employees	1.3% increase in each step, 2.5% increase average overall plus bonuses.

Legislative Salary Increases – State Teachers and Employees		
Year	State Employees	Teachers
2023-24	4% for State agency employees in 2023, 3% in 2024	3.6% - 10.8% (7% average) plus
<p>"a": Salary increment program frozen</p> <p>"b": Conditional upon continuous employment for one year</p> <p>"c": Most teachers received between 4%-9%. Teachers receiving National Board of Professional Teaching Standards (NB-PTS) certification were eligible for larger increases.</p> <p>"d": The UNC Board of Governors was given flexibility in the use of compensation increase funds for EPA employees. The State Board of Community Colleges was given flexibility in the use of compensation increase funds for local community college employees.</p> <p>"e": State agency and local community college employees received a \$1,000 salary increase. UNC employees who are subject to the Human Resources Act (SHRA) also received a \$1,000 increase. The UNC Board of Governors was given \$5 million to provide increases to UNC employees who are exempt from the Human Resources Act (EHRA). Noncertified and central office local public school employees received a \$500 salary increase.</p> <p>"f": Starting pay for educators was increased from \$3,300 per month to \$3,500 per month, a 6.1% raise for educators on steps 0-4. The step increase for educators changing tiers of the schedule provides an increase ranging from 6.5% to 9.6%.</p> <p>"g": The 0.5% compensation bonus is provided across-the-board to all State employees and State-funded local employees except teachers. The merit bonus will be distributed based on policies developed by each employing agency.</p> <p>"h": The State Board of Community Colleges and, for EHRA employees, the UNC Board of Governors were given flexibility in the use of compensation increase funds. Judges and members of the Council of State did not receive the \$1,000 increase. The increase shown for teachers is the increase in State funding for a teacher who taught in FY 2016-17 and continues to teach in FY 2017-18, consistent with the prior years in the table. It does not include the \$385 bonus paid to veteran teachers or performance-related bonuses"</p>		

# Coronavirus Impacts on North Carolina's Economy

- ▶ Years of responsible budgeting and tax reform better prepared North Carolina's economy and state budget for the coronavirus pandemic and the ensuing shutdowns.
- ▶ The state's Savings Reserve had funds over \$1 billion when Gov. Roy Cooper mandated lockdowns.
- ▶ State revenue dipped modestly in 2020 (see graph) due to Gov. Roy Cooper's lockdowns, but then jumped back up to 40 percent above the pre-COVID-19 FY 2018-2019 figures in FY 2021-22.
- ▶ As of Sept. 30, 2023, the reserve had \$4.75 billion.<sup>16</sup>

**Graph 5: General Fund Revenue (Tax & Non-Tax), 2016-2023**



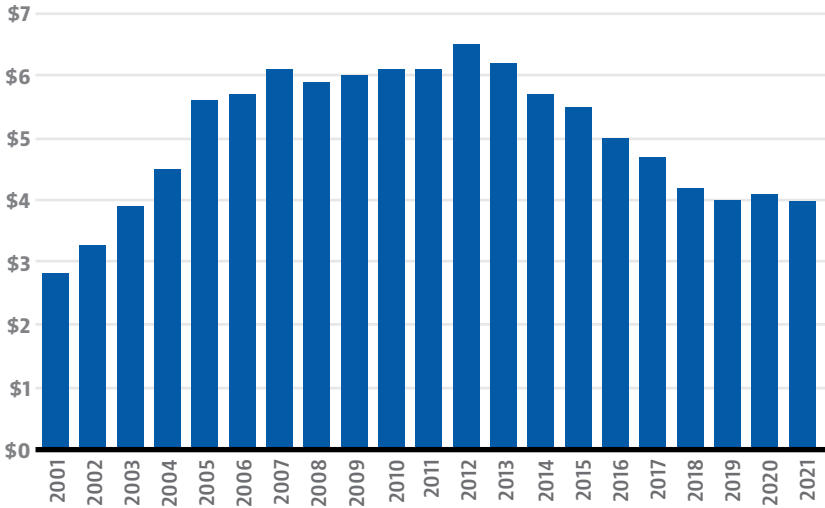
**SOURCE:** NORTH CAROLINA OFFICE OF STATE CONTROLLER, GENERAL FUND MONTHLY REPORTS



**SECTION 3:  
STATE DEBT &  
UNFUNDED  
LIABILITIES**

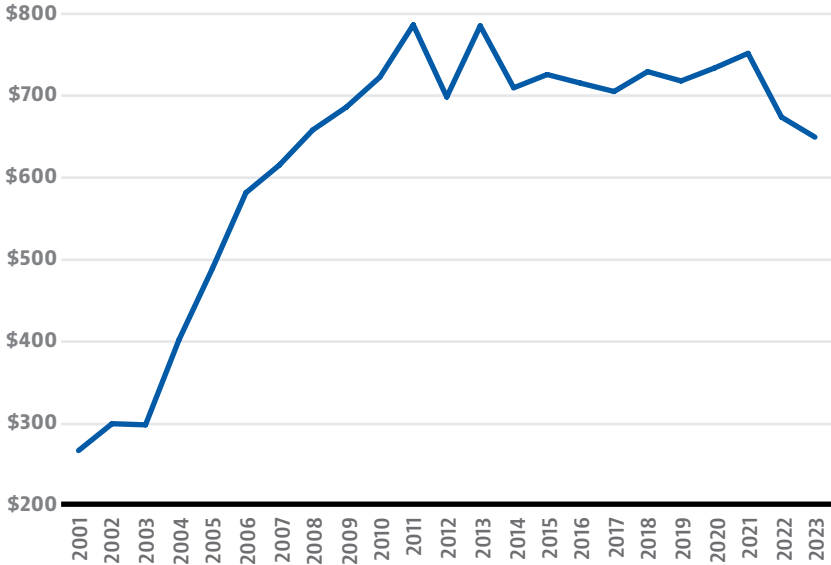
# Trends in Total State Debt

**Graph 6: Outstanding Net Tax-Supported Debt: 2001-2021 (in Billions)**



**SOURCE:** NORTH CAROLINA STATE TREASURER'S OFFICE; ANNUAL DEBT AFFORDABILITY STUDY, YEARS 2022, 2020, 2019, 2014, 2009 AND 2006. AVAILABLE ONLINE AT: [HTTPS://WWW.NCTREASURER.COM/SLG/PAGES/DEBT-AFFORDABILITY.ASPX](https://www.nctreasurer.com/slg/pages/debt-affordability.aspx)

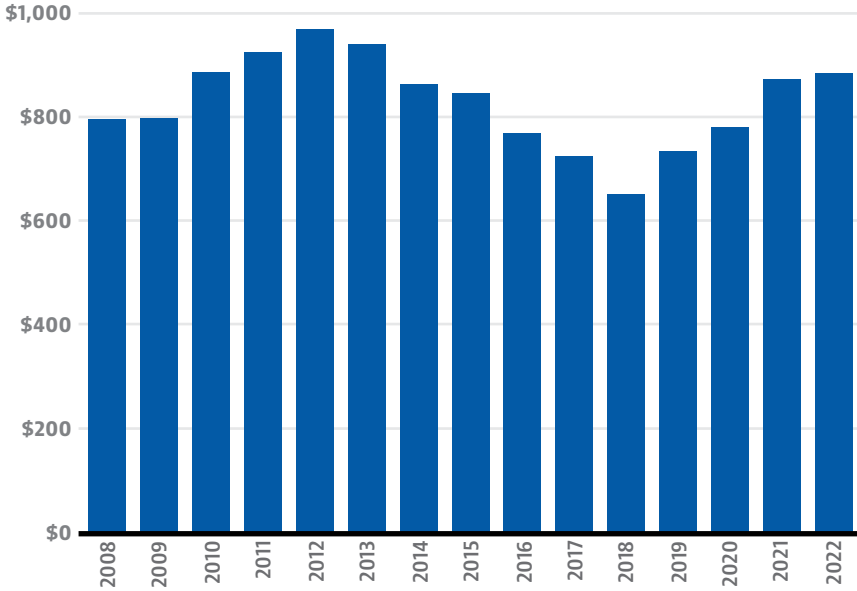
### Graph 7: Annual Debt Service Payments: FY 2001 - 2023 (in Millions)



**SOURCE:** NORTH CAROLINA OFFICE OF STATE BUDGET AND MANAGEMENT; 2019-20 GOVERNOR'S RECOMMENDED BUDGET, APPENDIX TABLE 4B, AVAILABLE ONLINE AT: [HTTPS://FILES.NC.GOV/NCOSBM/DOCUMENTS/FILES/REC2019-21\\_APPENDIXTABLES.PDF](https://files.nc.gov/ncosbm/documents/files/rec2019-21_appendixtables.pdf). ALSO ANNUAL BUDGET BILLS FOR SUBSEQUENT YEARS, NORTH CAROLINA GENERAL ASSEMBLY.

# Total Debt Per Capita

**Graph 8: State Debt Per Capita: 2008 - 2022 (in Thousands)**



**SOURCE:** NORTH CAROLINA OFFICE OF STATE CONTROLLER: COMPREHENSIVE AN-NUAL FINANCIAL REPORT, 2023. AVAILABLE ONLINE AT: [HTTPS://WWW.OSC.NC.GOV/2023-NORTH-CAROLINA-ANNUAL-COMPREHENSIVE-FINANCIAL-REPORT/OPEN](https://www.osc.nc.gov/2023-north-carolina-annual-comprehensive-financial-report/open)



# Q&A: State Unfunded Liabilities: Pension Fund and Retiree Health Benefits

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Most reports about North Carolina’s pension plan for state retirees discuss how it is in better condition than most other states. While this may be true, the pension plan faced \$14.8 billion in unfunded liabilities as of the end of FY2022.<sup>17</sup> This liability is up almost \$4.4 billion from 2019 and up nearly \$13.7 billion since 2014. The State Treasurer, along with the Debt Affordability Advisory Committee that he chairs, has called on the General Assembly to obligate \$100 million to the Unfunded Liability Solvency Reserve. Although the same amount was requested last year, only \$40 million was appropriated for 2022, and \$10 million was appropriated for 2023.<sup>18</sup>

State retirees have a “defined benefit” pension plan, meaning they are promised a level of benefits once they retire until the end of their life. Benefit payments are funded by state government contributions, active employee contributions, and earnings on the pension fund itself. Assumptions are made about the rate of returns on the pension fund – which currently is 6.5 percent, pared down from 7.25 percent in 2017.<sup>19</sup> Using more realistic return estimates would reveal a more substantial pension liability. For instance, assuming a rate

**“Most reports about North Carolina’s pension plan for state retirees discuss how it is in better condition than most other states. While this may be true, the pension plan faced \$14.8 billion in unfunded liabilities as of the end of FY2022.”**

of return average of, say, 5 percent would produce an unfunded liability of more than \$30 billion.

North Carolina has the 9th largest public pension fund in the country valued at nearly \$114 billion.<sup>20</sup>

Annual taxpayer-funded state contributions to cover retiree pension benefit payments is now approximately \$2.9 billion – up from just \$660 million in 2011.<sup>21</sup>

Likely more concerning than the state pension plan's unfunded liability, however, is the significantly larger liability for health benefits for state re-

**“The state of North Carolina pays 100 percent of the premiums for most retired state employees enrolled in the state health plan (some are asked to contribute small premiums, depending on the age at which they retire and level of coverage).”**

tirees. The state of North Carolina pays 100 percent of the premiums for most retired state employees enrolled in the state health plan (some are asked to contribute small premiums, depending on the age at which they retire and level of coverage). This group includes former employees of state agencies, universities, local public schools, and local community colleges. Estimates place the state's unfunded liability for these promised benefits at \$23.8 billion (reported as of June 30, 2022).<sup>22</sup>

The retiree health benefits liability has declined from previous years because of a change mandating that employees hired on or after 1/1/2021 are no longer eligible for free state health insurance when they retire.<sup>23</sup>

North Carolina uses a pay-as-you-go method of funding health care premiums for retired state workers, meaning that each year the state allocates funds sufficient only to pay for the enrollment premiums and benefits of current retirees. To finance the retiree health premiums, each

state agency is given General Fund dollars based on a percentage of total payroll for that agency during the fiscal year. For example, the pay contribution rate for FY 2005-06 was equal to 3.8 percent of budgeted payroll. Under this method, \$477 million was dedicated in FY 2005-06 toward funding state retiree health premiums. The pay contribution rate is adjusted annually to reflect the anticipated costs to cover current retirees only. By FY 2021-22, that rate had grown to 6.29 percent, coming to more than \$1.2 billion – over double the amount from fiscal year 2006.<sup>24</sup>

New reporting standards established in 2005 by the Governmental Accounting Standards Board (GASB) called for states to calculate and disclose the future costs – in today’s dollars – of paying for enrollment premiums to future retirees. GASB is a private, nonprofit organization that sets standards for public agencies to meet Generally Accepted Accounting Principles (GAAP). States tend to comply with GASB standards, not because of any legal obligation, but because such unfunded liabilities are used by bond rating agencies to determine the credit risk of state bond obligations.

In 2006, the state of North Carolina hired Aon Consulting of Chicago to calculate, for the first time, the cost of the unfunded retiree health premiums benefits, accumulated as of December 31, 2005. The report estimated this unfunded liability at \$23.79 billion, which was 113 percent of the entire General Fund budget for FY 2007-08. By comparison, the state of Texas’ liability was only 18 percent of its annual budget. As noted above, the most recent report pegs this liability at \$23.8 billion, meaning the liability has been reduced back to its 2005 level, for now.

**“The report estimated this unfunded liability at \$23.79 billion, which was 113 percent of the entire General Fund budget for FY 2007-08. By comparison, the state of Texas’ liability was only 18 percent of its annual budget.”**

To better understand the burden this liability will place on the state budget, we can examine the “actuarially determined employer contribution” (ADEC) for the state of North Carolina. The ADEC is the amount required to finance the current year’s obligations, plus an amount needed to set aside to cover future benefits being accumulated now. The state is not obligated to pay the entire ADEC each year, but failure to do so ensures the unfunded liability continues to grow. As of 2022, North Carolina’s ADEC comes to \$2.9 billion annually.<sup>25</sup> To date, while the state has sig-

**“Only five years of service were required for a state employee to become eligible for fully subsidized health insurance premiums for the duration of their retirement.”**

nificantly reduced the shortfall by eliminating coverage for retirees who started after Jan 1, 2021, the \$23.8 billion shortfall is still hanging over the head of the state government.

A major factor contributing to the size of the state’s unfunded liability is the generous eligibility criteria established when fully financed retiree health premiums were first implemented in 1978. Only five years of service were required for a state employee to become eligible for fully subsidized health insurance premiums for the duration of their re-

irement. As stated above, in an effort to rein in the growth of unfunded retiree health benefit obligations, the General Assembly in 2017 included in the state budget a provision to eliminate health benefits for state workers hired after Jan. 1, 2021. This measure will substantially head off long-term liabilities in the future, but significant challenges still remain in the meantime.

**SECTION 4:  
NORTH  
CAROLINA'S  
ECONOMY**

# The North Carolina Economy

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North Carolina has the 11th largest state economy. Despite a global pandemic and oppressive national and economic policies, jobs and earnings continue to grow:

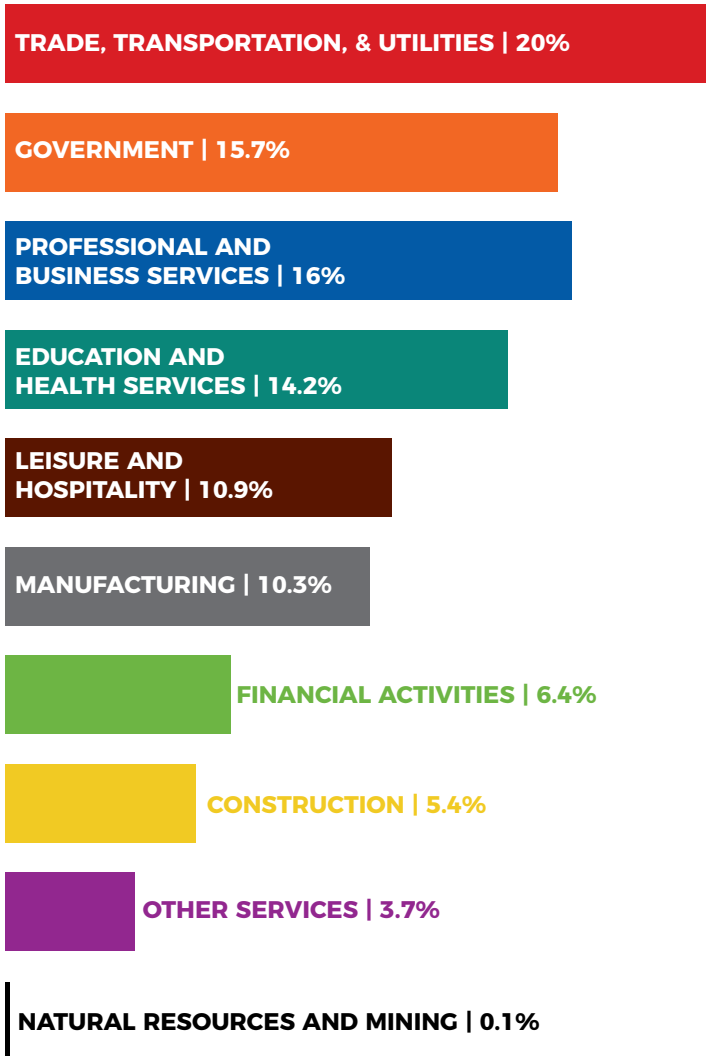
- ▶ In 2022, North Carolina real Gross Domestic Product (GDP) was \$609 billion and ranked 11th in the United States.<sup>26</sup>
- ▶ According to the World Bank, as of 2022, North Carolina's GDP was larger than all but 21 foreign nations, just behind Argentina but larger than Sweden.<sup>27</sup>
- ▶ According to the Bureau of Labor statistics, in May 2023, the size of North Carolina's work force was slightly over 5 million (5,033,200).<sup>28</sup>

## North Carolina's Labor Market

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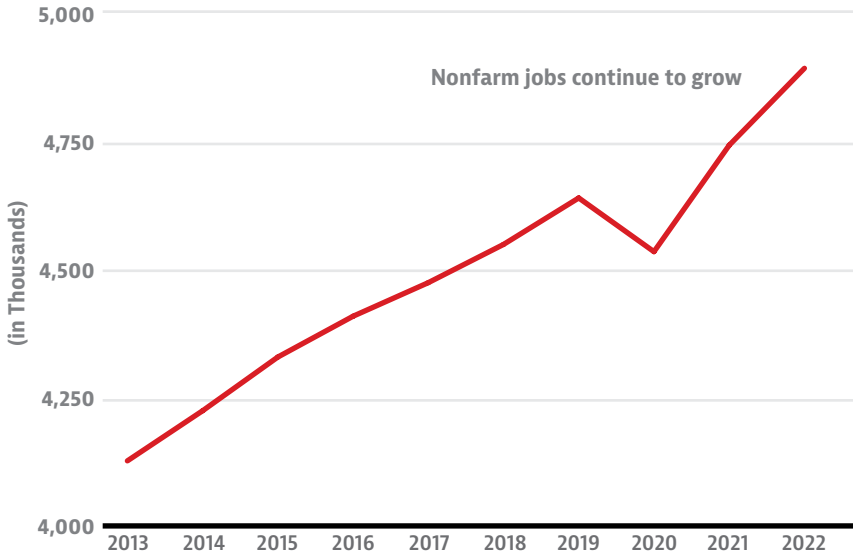
- ▶ The Trade, Transportation & Utilities industry employed the highest share of working North Carolinians, with just over 20 percent, followed by professional and business services at 16 percent.
- ▶ Nonfarm jobs in North Carolina continue to grow. From 2013 to 2022, North Carolina's economy added 759,400 jobs.
- ▶ After surging during the Covid lockdowns, North Carolina's unemployment rate fell back below pre-Covid lows. While it reached a high of 13.8 percent, it was down to 3.4 percent as of October 2023, which matches the pre-Covid low of 3.4 percent in December 2019. This continues the twelve year trend of slowly dropping from the 2010 high of 12 percent.<sup>29</sup>

**Table 6: Share of Employment by Industry, 2022**



**SOURCE:** [HTTPS://D4.NCCOMMERCE.COM/CESSELECTION.ASPX](https://d4.nccommerce.com/CESSELECTION.ASPX) 2022, ANNUAL AVERAGE, MAJOR GROUP, ALL INDUSTRY, EMPLOYMENT

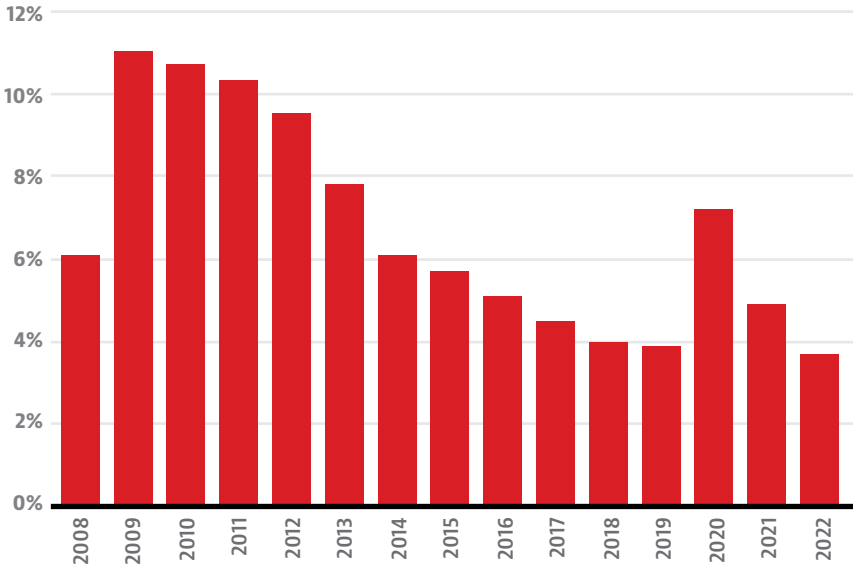
### Graph 9: Nonfarm Employment Trends



**SOURCE:** NORTH CAROLINA DEPARTMENT OF COMMERCE. [HTTPS://D4.NCCOMMERCE.COM/CESSELECTION.ASPX](https://D4.NCCOMMERCE.COM/CESSELECTION.ASPX)



### Graph 10: Unemployment Rate Trend, 2008 - 2022



**SOURCE:** FEDERAL RESERVE BANK OF ST. LOUIS, ECONOMIC RESEARCH DIVISION. [HTTPS://FRED.STLOUISFED.ORG](https://fred.stlouisfed.org)



# State Economic Trends

- ▶ From 2016-2022, North Carolina's per capita income grew at an average annual rate of 5.3 percent, coming in higher than the national average and highest among its neighbors.
- ▶ Also since 2018, North Carolina's GDP grew at an average annual rate of 2.2 percent, higher than the U.S. average but fifth among its neighbors.
- ▶ North Carolina's real GDP increased a total of 11.4 percent percent from 2017 to 2022, higher than the national average but fifth among its neighbors.

## Graph 11: NC and Neighbor States Change in Per Capita Income

	2016	2017	2018	2019	2020	2021	2022	Avg. % Change
U.S.	\$48,971	\$51,004	\$53,309	\$55,547	\$59,153	\$64,430	\$65,470	4.98%
<b>NC</b>	<b>\$42,582</b>	<b>\$44,207</b>	<b>\$46,040</b>	<b>\$48,366</b>	<b>\$51,781</b>	<b>\$56,705</b>	<b>\$58,109</b>	<b>5.34%</b>
GA	\$42,744	\$44,838	\$46,626	\$48,535	\$51,469	\$56,184	\$56,589	4.82%
TN	\$42,943	\$44,411	\$46,452	\$48,889	\$51,928	\$56,970	\$58,292	5.25%
SC	\$40,732	\$42,368	\$43,804	\$46,149	\$48,772	\$52,828	\$53,618	4.71%
VA	\$52,659	\$54,380	\$56,133	\$58,368	\$61,474	\$66,838	\$68,985	4.62%

**SOURCE:** BUREAU OF ECONOMIC ANALYSIS (BEA); REAL PER CAPITA INCOME BY STATE

### Graph 12: NC and Neighbor States Annual GDP Change

	2018	2019	2020	2021	2022	Avg. % Change
U.S.	2.97%	2.47%	-2.21%	5.80%	1.94%	2.19%
<b>NC</b>	<b>1.79%</b>	<b>2.14%</b>	<b>-0.65%</b>	<b>5.76%</b>	<b>1.97%</b>	<b>2.20%</b>
GA	2.98%	3.30%	-2.98%	6.13%	2.60%	2.41%
SC	2.99%	2.52%	-1.60%	4.77%	2.46%	2.23%
TN	1.95%	2.13%	-0.95%	8.19%	3.91%	3.05%
VA	2.45%	2.52%	-1.34%	5.44%	2.50%	2.31%

SOURCE: BUREAU OF ECONOMIC ANALYSIS (BEA)

### Graph 13: NC and Neighbor States Real GDP, 2017-2022

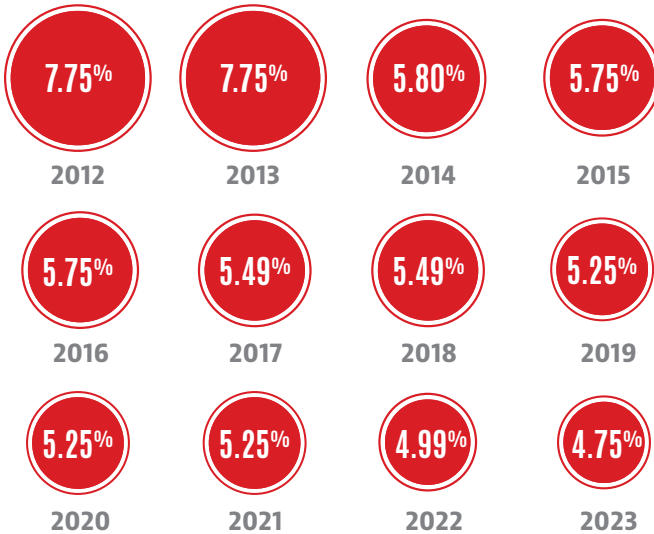
	2017	2018	2019	2020	2021	2022	Avg. % Change
U.S.	19,612,102	20,193,896	20,692,087	20,234,074	21,407,692	21,822,037	11.3%
<b>NC</b>	<b>546,810.1</b>	<b>556,573.7</b>	<b>568,475.6</b>	<b>564,794.4</b>	<b>597,316.1</b>	<b>609,058.2</b>	<b>11.4%</b>
GA	583,543.3	600,934.7	620,792.4	602,321.8	639,236.0	655,827.3	12.4%
SC	224,937.6	231,663.3	237,511.4	233,712.3	244,854.0	250,873.4	11.5%
TN	355,417.5	362,363.7	370,088.3	366,555.2	396,576.2	412,101.3	15.9%
VA	515,167.2	527,767.5	541,070.2	533,828.3	562,888.0	576,964.3	12%

SOURCE: BUREAU OF ECONOMIC ANALYSIS - SAGDPI STATE ANNUAL GROSS DOMESTIC PRODUCT (GDP) SUMMARY

# North Carolina's Business Climate

- ▶ Beginning with major reforms in 2013, steady tax cuts have dropped the state's top income tax rate from 7.75 percent (highest in the southeast) to 4.75 percent (second lowest in southeast).
- ▶ The corporate tax rate was formerly highest in the southeast, but now it is the lowest rate of any state that imposes such a tax. The tax is scheduled to completely phase out by 2030.
- ▶ Conservative reforms over the past decade have resulted in North Carolina being recognized by CNBC as the nation's top state for business, and a top ten business tax ranking.<sup>30</sup>

## Top Marginal Income Tax Rates for Individuals in North Carolina (2012 - 2023)



**SOURCE:** MARGINAL INCOME TAX RATES, TAX FOUNDATION FOR SELECTED YEARS.

2012	Top Marginal Rate	US Ranking	NC and Neighboring States Ranking
GA	6.00%	40	4
<b>NC</b>	<b>7.75%</b>	<b>43</b>	<b>5</b>
SC	7.00%	39	3
TN	0.00%	8	1
VA	5.75%	37	2

**SOURCE:** 2022 FACTBOOK

2023	Top Marginal Rate	US Ranking	NC and Neighboring States Ranking
GA	5.75%	35	5
<b>NC</b>	<b>4.75%</b>	<b>17</b>	<b>2</b>
SC	6.50%	28	3
TN	0.00%	6	1
VA	5.75%	34	4

**SOURCE:** TAX FOUNDATION FACTS AND FIGURES, [HTTPS://TAXFOUNDATION.ORG/DATA/ALL/STATE/2023-STATE-TAX-DATA/](https://taxfoundation.org/data/all/state/2023-state-tax-data/)



# Index and Sources for Charts & Graphs

## Section 1: Taxes

- ▶ North Carolina Major Tax Rates: North Carolina Department of Revenue; available online at: <https://www.ncdor.gov>
- ▶ Income Tax Rate Compared with Neighbors: Tax Foundation, annual State Facts & Figures publications
- ▶ Significant Tax Changes Since 1985: Table created by the John Locke Foundation. Data Sources are annual budget documents for the relevant years, accessed through the General Assembly's website: <https://www.ncleg.net/>

## Section 2: The State Budget

- ▶ Total State Budget, by Source of Funds: Joint Conference Committee Report on the Current Operations Appropriations Act of 2022, North Carolina General Assembly
- ▶ General Fund Revenue Sources FY 2022-23: North Carolina Office of the State Controller, General Fund monthly reports, for June 2023, available online at: <https://www.osc.nc.gov/june-2023-general-fund-monthly-report/open>
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- ▶ Trends in the General Fund Budget, 1991 - 2023: North Carolina General Assembly, Annual Budget Conference Reports, from their respective years.

- ▶ North Carolina Population vs. Real General Fund Growth, 1983-2022: General Fund appropriations for FY 1979 through 2007 from the 2006 Post-Legislative summary produced by the Fiscal Research Division of the General Assembly. Subsequent appropriation numbers from each respective year's budget bill. Population estimates are from the July that begins each fiscal year, and are from the Office of State Budget & Management demographics section; available at: <https://www.osbm.nc.gov/facts-figures/demographics> or at [https://files.nc.gov/ncosbm/demog/countytotals\\_populationoverview.html](https://files.nc.gov/ncosbm/demog/countytotals_populationoverview.html). For 2021 and 2022, they are from the NC Office of State Budget & Management's State Demographer, using the year-end total population, available online at: <https://demography.osbm.nc.gov/explore/dataset/county-population-totals>. GDP deflator levels taken from Federal Reserve Bank of St. Louis, Economic Research Division; <https://fred.stlouisfed.org/series/GDPDEF>
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## Section 3: State Debt & Unfunded Liabilities

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## Section 4: North Carolina's Economy

- ▶ Employment by Share of Industry: North Carolina Department of Commerce; Demand Driven Data Delivery. Available online at: <https://d4.nccommerce.com/CesSelection.aspx>
- ▶ Nonfarm Employment Trends: North Carolina Department of Commerce; Demand Driven Data Delivery. Available online at: <https://d4.nccommerce.com/CesSelection.aspx>
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## **Our History**

The John Locke Foundation was created in 1990 as an independent, nonprofit think tank that would work “for truth, for freedom, for the future of North Carolina.” The Foundation is named for John Locke (1632-1704), an English philosopher whose writings inspired Thomas Jefferson and the other Founders. The John Locke Foundation is a 501(c)(3) research institute and is funded by thousands of individuals, foundations and corporations. The Foundation does not accept government funds or contributions to influence its work or the outcomes of its research.

## **Our Vision**

Locke envisions a North Carolina in which liberty and limited, constitutional government are the cornerstones of society so that individuals, families, and institutions can freely shape their own destinies.

## **Our Mission**

Locke’s mission is to be North Carolina’s most influential force driving public policy so North Carolinians flourish in a free and prosperous society.



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*The views expressed in this report are solely those of the author and do not necessarily reflect those of the staff or board of the John Locke Foundation.*