History of State and Local Taxes in North Carolina - Changes in Sources and Burdens

Roby B. Sawyers, CPA, Ph.D.
College of Management
Background

- Tax system largely set in place in the 1920s and 1930s
- Basic structure has remained the same over the last 70+ years
Individual Income Tax

- In place since 1921

- In 1989, the state piggybacked the federal income tax
  - Unusual in that North Carolina starts with federal taxable income, not adjusted gross income

- In the early years, rates ranged from 3% to 7%

- Today, rates range from 6% to 8.25%
Sales Tax

- North Carolina was the second state in the nation to enact a retail sales tax (in 1933)
  - In 1933, the state levied a 3% state-level tax
    - Increased to 4% in 1991
    - Temporary increase of .5% in 2001
  - Added a local-level tax of 1% in 1971
    - Increased by .5% in 1983
    - Increased by .5% in 1986
    - Increased by .5% in 2002
Property Tax

- Before 1921, the largest source of state tax revenue
- Strictly a local-level tax since that time
- In 1972, the property tax accounted for over 90% of total local-level taxes collected in North Carolina
- Still the primary source of local government revenue but now accounts for only 77% of total tax revenue
Changes in Sources of Revenue

- In 1942, 90% of state and local government own-source revenue was from taxes
- Today, only 66% of own-source revenue comes from taxes
# Changes in Sources of Tax Revenue

## Percent of Total NC State and Local Tax Revenue from Various Sources

<table>
<thead>
<tr>
<th>Source</th>
<th>1957</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Taxes</td>
<td>41.4%</td>
<td>34.8%</td>
</tr>
<tr>
<td>Property Taxes</td>
<td>26.8%</td>
<td>24.0%</td>
</tr>
<tr>
<td>License Taxes</td>
<td>11.0%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Individual Income Taxes</td>
<td>10.5%</td>
<td>32.2%</td>
</tr>
<tr>
<td>Corporate Income Taxes</td>
<td>9.1%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Other Taxes</td>
<td>1.2%</td>
<td>2.0%</td>
</tr>
</tbody>
</table>
North Carolina’s Changing Tax Burden

NC State and Local Taxes as a Percent of Personal Income

Years (1977-2002)
North Carolina Tax Burden by Type of Tax

Years (1977 – 2002)
Total Burden

Years (1977 – 2002)