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Why North Carolina Got The Highest Grade On Cato's Fiscal Report Card

By Nicole Kaeding
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In less than two years, North Carolina’s governor and legislature have helped to revive the state’s economy. The economy is growing and adding jobs, improving the well-being of North Carolina residents.

Governor Pat McCrory took office in January of 2013, joining a Republican legislature. For the first time since Reconstruction, North Carolina’s executive and legislative branches were controlled by Republicans, and they had a large mandate for reform. In 2011, the state’s economy grew at an anemic 0.3 percent. It was well below the national rate of 1.6 percent and one of the lowest in the Southeast. The state’s growth lagged many of its peers in 2012 as well. Individuals wanted change.

The new government took action to repair the state. The biggest item on the agenda was tax reform. McCrory and the legislature’s plan passed one of the most impressive tax reform packages in any state in years.

First, the plan consolidated brackets and cut the individual income tax rate. The overhaul replaced three individual income tax rates ranging from 6.0 to 7.75 percent with a single rate of 5.8 percent. In 2015, the rate will be cut again to 5.75 percent. Cutting taxes returns money to the pocketbooks of individuals and small businesses in the state.

Larger businesses also gained from corporate tax reforms. The corporate income tax rate was cut from 6.9 to 6.0 percent in 2014, and is scheduled to fall to 5.0 percent in 2015. The rate will continue to drop over the next several years if budget targets are met.

The tax reforms also increased the income tax standard deduction, repealed the estate tax, and expanded the sales tax based to cover more services, eliminating favoritism among industries.

In totality, this package puts North Carolina on a pro-growth trajectory with a low, broad tax structure. The reforms will vault North Carolina from 44th to 17th in the Tax Foundation’s State Business Tax Climate Index. All told, these tax cuts reduced the burden of taxation on North Carolina residents by $700 million annually, or 3 percent of state tax revenues.

Tax reform did not stop there, with more tax cuts passed in 2014. The state eliminated the local privilege tax. The burdensome tax added unnecessary complexity to North Carolina's tax code. Three hundred of North Carolina's 540 cities charged the tax, but it was calculated differently across the state. Some localities assessed a flat fee, others charged a tax that varied by the business's size or employment structure. Eliminating the tax freed North Carolina firms from needless paperwork allowing each firm to concentrate on their businesses core function.

To complement the tax reforms, the state has also controlled spending growth. Actual general fund spending increased at half the national average in 2014. The state also reformed unemployment insurance and Medicaid, and eliminated several thousand state employees too.

All of these reforms seem to be making a difference and North Carolina's economy is responding. In 2013, North Carolina's economy grew 30 percent faster than the national average. The state added jobs at a quicker rate than the national average too. During the same time period, private-sector jobs grew by 4 percent, compared to 3.4 percent nationally.

For his efforts, Governor Pat McCrory received an "A" in the Cato Institute's newest edition of its "Fiscal Policy Report Card on America's Governors." The report card assigns grades of "A" to "F" to the nation's governors based on their efforts to restrain government and cut spending. McCrory tied for the highest score of any governor.

Under the leadership of Governor McCrory and the state legislature, North Carolina is poised for economic success. Limiting the growth of spending and passing tax reform is putting the state on a path of fiscal responsibility.

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