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## North Carolina Continues to Redefine “Temporary”

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North Carolina is likely to continue its Ohio-like [climb up our tax burden rankings](#) due to the [two-year budget just signed](#) by Governor Mike Easley.

As part of the budget, North Carolina's sales tax increased 0.25 percentage points to total 4.25 percent before local add-ons, and allowed localities the option of levying a land transfer tax. Both will increase the tax burden on North Carolinians.

The sales tax was "temporarily" increased 0.50 percentage points in 2001 to plug a budget shortfall and was supposed to return to 4.0 percent in 2003.

We've written about this before [here](#), [here](#) and [here](#).

Of course temporary tax increases are often anything but temporary, and the rate remained at 4.5 percent until December 1, 2006, when it fell 0.25 percentage points to the now permanent 4.25 percent.

In addition to the temporary sales tax hike, the top income tax rate was also raised 0.50 percentage points from 7.75 percent to 8.25 percent. It was also supposed to expire in 2003, but remained at 8.25 percent until January 1, 2007, when a partial repeal of 0.25 percentage points went into effect, lowering the rate to 8.0 percent. The rate is scheduled to fall back to 7.75 percent in January 2008, but it remains to be seen if this will actually occur.

Although the legislature and governor's persistence is hurting North Carolina by increasing its tax burden and damaging its [business tax climate ranking](#), their behavior is not surprising. When taxes are temporarily raised, lawmakers quickly get used to the higher tax revenue, and as expiration approaches, they find it nearly impossible to give up the revenue.

Unfortunately for taxpayers, the reverse is hardly ever true. When taxes are temporarily cut, legislators do not get accustomed to the new, lower revenue. Instead, they fight to raise the rates and look forward to expiration. We saw evidence of this at the federal level when many lawmakers in Congress aggressively tried to stop the federal tax cuts passed in 2001 and 2003 from becoming permanent.