AP Factcheck: Many pay more under new NC tax laws

RALEIGH, N.C. -- Gov. Pat McCrory and his Republican allies at the North Carolina legislature have hammered home a simple message about the tax reform package they passed into law this year: Taxpayers will soon be able to keep more of their hard-earned money thanks to the GOP-backed changes.

It's true that the state's income tax rate is going down for every taxpayer in 2014. But that does not mean all taxpayers will actually pay less to the state government over the coming year.

For decades, North Carolina has had a three-tier tax system in which the highest earners paid taxes at a higher rate than the middle class and working poor.

Under the state's new system, all taxpayers pay the same 5.8 percent income tax rate - ensuring that those with the largest incomes will benefit the most. Those who have been paying at the highest 7.75 percent rate will see their total income tax burden reduced by a quarter, while low-income taxpayers paying 6 percent got a more modest cut.

McCrory praised the GOP-backed tax reform package in a Dec. 13 op-ed piece printed in the state's largest newspapers.

"Starting on Jan. 1, the income tax rate will go down for every North Carolina taxpayer," McCrory wrote. "We made our rates more competitive to allow existing businesses to create jobs and attract new businesses to the state. North Carolinians will see more money in their paychecks next year."

In a Dec. 18 video issued by McCrory's office to tout his administration's 2013 accomplishments, the governor said: "North Carolinians will keep more of their hard-earned money thanks to historic tax reform."

But McCrory failed to mention that he and Republican lawmakers allowed the expiration of the state's Earned Income Tax Credit, a measure that boosted the income of the state's poorest workers. The tax reform package also eliminates several exemptions and deductions that benefited working class taxpayers, including a popular program that allowed families a deduction on pre-tax income into a college savings account.

According to a recent analysis by the legislature's own Fiscal Research Division, a married couple with two children making $20,000 a year will go from receiving a $222 tax rebate in 2013 to owing $40 next year, a net swing of $262.

At the other end of the income scale, a married couple with two children making $250,000 will get a $2,318 tax cut in 2014, according to the analysis.

McCrory communications director Kim Genardo said the governor's statements referencing the new benefits to North Carolinians shouldn't be interpreted as applying to all taxpayers.

"He didn't say 'every' or 'all,'" Genardo said. "You're taking it literally that we mean every single citizen, and we did not say 'everyone.'"

McCrory's recent comments on tax policy also make no mention of newly increased sales taxes on service contracts and tickets to movies and sporting events. Sales taxes will also rise on the purchase of a mobile home and on meal plans for college students.

An analysis by the left-leaning N.C. Budget and Tax Center concluded that, on average, the lower 80 percent of North Carolinians will pay more in total state taxes in 2014 than under the 2013 system. Those paying substantially less are concentrated in the upper 20 percent of income earners.

When the new income tax cut is coupled with corresponding reductions to corporate, franchise and privilege taxes, the center's analysis says the top 1 percent of taxpayers will reap two-thirds of the state's net tax cuts - awarding an outsized boost to those already earning $940,000 a year or more.

State Budget Director Art Pope criticized that analysis for failing to include a temporary one penny sales tax that GOP lawmakers allowed to expire in 2011, reducing the overall sales tax rate from 5.75 cents on each dollar spent to 4.75 cents. That's a 17 percent reduction.

"In general, most North Carolinians will see more money in their pocket, but not every single individual," Pope said. "Over the last three years, you have seen major tax reform and tax savings being passed on to North Carolina families, citizens and businesses."

The one-penny reduction in state sales tax occurred before McCrory moved into the governor's mansion in January 2012.