

MORE FAMILY TAX HIKES

Senate taxes children's candy to fund budget growth

Summary: The North Carolina Senate is considering a budget plan for the 2003-05 biennium that would compound the House's error in raising taxes in the midst of a slack economic recovery. While proponents of the plan claim that it would help families with children, the reality is that it would impose higher taxes on family purchases of such items as clothes, furniture, candy, soft drinks, and health insurance — in order to fund a \$726 million increase in state spending, or 5.1 percent.

The North Carolina Senate is apparently racing against the clock to approve its version of a 2003-05 state budget before April revenues come in and reveal a larger projected deficit for the coming year. Just two weeks after the House passed its own tax-laden budget plan, the Senate has also confirmed the adage that "haste makes waste" by considering a proposal to increase taxes about \$500 million next year and to boost state General Fund spending by about 5.1 percent.

Several elements of the Senate plan stand out. While the House voted to extend increases in sales and income taxes originally enacted in 2001 with the promise that they were "temporary," Senate leaders have decided not only to go along with this but also to add additional items of their own: 1) \$37 million in higher income taxes on families with children; 2) the delay of a scheduled \$33.4 million reduction of the marriage penalty; 3) a net \$25.5 million sales-tax increase on the purchase of candy, soft drinks, prepared foods, and modified software; \$19.3 million in higher taxes on Blue Cross and Blue Shield health insurance; and a questionable \$51 million revenue gain from attempts to improve tax collections and compliance.

As the table on the next page reveals, the spending-side differences between the House and Senate plan are relatively small. The Senate would increase General Fund spending in FY 2003-04 by \$726 million vs. FY 2002-03, compared with a \$619 million increase in the House budget. Spending for the UNC system, Health and Human Services, Commerce, and debt service grow significantly more in the Senate budget. And as the graph shows, the House plan closed the projected continuation budget deficit for FY 2003-04 with roughly equal amounts of higher taxes and budget savings. The Senate's solution, on the other hand, is weighted much more heavily in favor of increased taxes — particularly on families with children. So much for the claim by some that the Senate plan is more family-friendly.

— John Hood, President

200 West Morgan St.
Raleigh, NC 27601
Voice: (919) 828-3876
Fax: (919) 821-5117
www.johnlocke.org

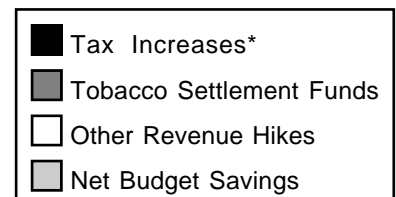
2003-05 GF BUDGETS AT A GLANCE: HOUSE VS. SENATE

(Preliminary, In Millions)

Spending Category	Authorized 2002-03	House Bdgt 2003-04	% Change	House Bdgt 2004-05	% Change	Senate Bdgt 2003-04	% Change	Senate Bdgt 2004-05	% Change
Public Education	\$5,946.5	\$6,017.7	1.2%	\$6,025.5	0.1%	\$6,029.6	1.4%	\$6,025.3	-0.1%
Community Colleges	\$669.3	\$659.1	-1.5%	\$662.2	0.5%	\$659.5	-1.5%	\$662.7	0.5%
UNC System	\$1,768.1	\$1,761.4	-0.4%	\$1,796.3	2.0%	\$1,794.6	1.5%	\$1,829.7	2.0%
Health & Human Serv.	\$3,596.4	\$3,643.2	1.3%	\$3,942.8	8.2%	\$3,657.9	1.7%	\$3,990.3	9.1%
Agriculture	\$50.4	\$49.2	-2.4%	\$49.2	0.0%	\$48.5	-3.9%	\$48.6	0.3%
Commerce	\$44.2	\$54.2	22.6%	\$54.5	0.4%	\$65.8	48.8%	\$54.3	-17.4%
Labor	\$14.2	\$13.3	-6.4%	\$13.3	0.1%	\$13.3	-6.4%	\$13.3	0.1%
Environment/Nat. Res.	\$215.3	\$171.3	-20.4%	\$178.1	3.9%	\$247.7	15.0%	\$253.5	2.4%
Correction	\$880.1	\$940.8	6.9%	\$960.2	2.1%	\$940.2	6.8%	\$959.9	2.1%
Crime Control/PS	\$27.8	\$29.0	4.5%	\$28.1	-3.1%	\$29.0	4.5%	\$28.1	-3.1%
Courts/Judicial	\$373.9	\$375.8	0.5%	\$381.1	1.4%	\$376.0	0.6%	\$381.3	1.4%
Juvenile Justice	\$129.0	\$130.3	1.0%	\$130.5	0.1%	\$130.9	1.5%	\$130.7	-0.1%
Justice	\$70.9	\$70.7	-0.4%	\$71.5	1.1%	\$70.7	-0.4%	\$71.5	1.1%
Transportation	\$10.9	\$11.4	4.8%	\$11.5	0.3%	\$11.4	4.8%	\$11.5	0.3%
Other Departments	\$275.2	\$335.2	21.8%	\$336.1	0.3%	\$323.5	17.5%	\$321.5	-0.6%
Debt Service	\$255.7	\$388.9	52.1%	\$475.6	22.3%	\$388.9	52.1%	\$504.8	29.8%
Other Items/Reserves	-\$9.3	\$289.0		\$419.2		\$259.9		\$485.2	
Subtotal-Operating	\$14,318.6	\$14,940.7	4.3%	\$15,535.6	4.0%	\$15,047.4	5.1%	\$15,772.2	4.8%
Capital/R&R	\$31.2	\$27.6		\$0.0		\$28.6		\$0.0	
Subtotal-GF Budget	\$14,349.8	\$14,968.3	4.3%	\$15,535.6	3.8%	\$15,076.0	5.1%	\$15,772.2	4.6%

HOW THE SENATE PLAN CLOSSES PROJECTED BASE BUDGET DEFICIT . . .

(In millions)

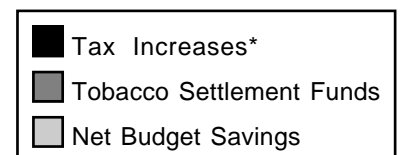


* Includes extension of "temporary" taxes and repeal of tax cuts.

DATA SOURCE: Fiscal Research Division, N.C. General Assembly

. . . COMPARED WITH THE HOUSE BUDGET'S APPROACH

(In millions)



* Includes extension of "temporary" taxes.
DATA SOURCE: Fiscal Research Division, N.C. General Assembly