



# SENATE BILL 75: Const. Amd. - Max. Income Tax Rate of 7.0%.

2017-2018 General Assembly

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| <b>Committee:</b>     |               | <b>Date:</b>        | July 5, 2018                        |
| <b>Introduced by:</b> |               | <b>Prepared by:</b> | Nicholas Giddings<br>Staff Attorney |
| <b>Analysis of:</b>   | S.L. 2018-119 |                     |                                     |

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**OVERVIEW:** *S.L. 2018-119 proposes an amendment to the North Carolina Constitution to cap the tax rate on both personal and corporate incomes at 7% for taxable years beginning on or after January 1, 2019, and places that amendment on the ballot in the 2018 general election. The cap is currently 10%.*

*Except as otherwise provided, the act became effective June 28, 2018.*

**CURRENT LAW:** The General Assembly is restricted by the Constitution of North Carolina from imposing a tax rate on personal or corporate income that exceeds 10%.<sup>1</sup>

The current tax rate on corporate income is 3%, and the rate is scheduled to fall to 2.5% for taxable years beginning on or after January 1, 2019.<sup>2</sup> The current tax rate on personal income is 5.499%, and the rate is scheduled to fall to 5.25% for taxable years beginning on or after January 1, 2019.<sup>3</sup>

The State Constitution may be amended by either a constitutional convention or by legislative action. An amendment proposed by legislative action must be approved by a vote of three-fifths of each house and submitted to the voters of the State. If a majority of the voters of the State approve the amendment, the amendment will become effective either the January following the public vote, or the date provided in the legislative proposal.

**BILL ANALYSIS:** S.L. 2018-119 submits to the voters of North Carolina the question of whether to amend the State's Constitution to reduce the maximum allowable tax rate on incomes from 10% to 7%. The ballot question will be considered at the statewide general election in November 2018, and the ballot question will read:

"Constitutional amendment to reduce the income tax rate in North Carolina to a maximum allowable rate of seven percent (7%)."

If approved by a majority of the voters, the amendment would limit the maximum allowable tax rate on both personal and corporate incomes to 7% for taxable years beginning on or after January 1, 2019. The limit, if approved, would not reduce the current personal and corporate income tax rates since they are below 7%.

**EFFECTIVE DATE:** The constitutional amendment would become effective upon certification, if approved by a majority of the voters in the State at the statewide general election in November 2018, and

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<sup>1</sup> North Carolina amended the Constitution in 1920 to cap taxation of incomes at 6%. In 1935, the cap was raised to 10%.

<sup>2</sup> Corporate income has always been taxed at a flat rate. The highest corporate tax rate in North Carolina was 7.75%, from 1991-1996. The lowest rate is 3%.

<sup>3</sup> Personal income utilized a bracket system for taxation until 2014, when a flat rate was implemented. The highest marginal personal income tax rate in North Carolina was 8.25%, from 2001-2006. The lowest rate is 5.499%.

Karen Cochrane-Brown  
Director



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apply to taxable years beginning on or after January 1, 2019. Except as otherwise provided, the act became effective June 28, 2018.