

Support Is Uncertain For New, Tentative Tax Deal

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Legislative leaders on Thursday reached an agreement on a retooled \$990 million tax plan that seeks to allay concerns Governor Beverly Perdue had over a previously proposed income tax surcharge; however, the plan still lacks the Governor's full approval and faces a handful of potential defections among House Democrats.

The new tax plan largely mirrors the one the Governor rejected, except the income tax surcharge has been adjusted so that low- and some middle-income residents and families would avoid paying the 2 percent surcharge. The new plan would tack a 3 percent surcharge on the tax liability of North Carolinians who are married filing jointly and report income of more than \$250,000 a year. A couple who reports between \$100,000 and \$250,000 in income would face a 2 percent surcharge. The individual income tax surcharge, and a corresponding 3 percent surcharge on corporate income tax, would last through 2010.

The tax plan agreement also would authorize House and Senate tax leaders to keep working into the fall on a Senate proposal to overhaul the state tax system.

Media reports today indicate the Governor still has two concerns with the new plan: 1) that it would cause individuals who earn as little as \$60,000 to pay the 2 percent tax liability surcharge, and 2) that the spending plan must avoid deep cuts to public schools, and more specifically, must protect the classroom.

"Lawmakers know I will not sign a budget that cuts education to the bone and unfairly taxes our working families," Perdue said in a statement released on Thursday. "The details of the General Assembly's revenue package continue to evolve, but that's only part of the picture. I also need to see the spending plan."

In addition to Perdue's lukewarm reception to the tax plan, it also faces potential opposition from roughly a dozen House Democrats who represent districts with breweries, wineries, cigarette manufacturers and tobacco farmers, and are concerned about the plan's proposed increases in alcohol and tobacco taxes. Along with the retooled income tax surcharge, the new tax proposal would generate \$990 million this year through the following components:

- A sales tax increase of 1 cent to raise \$803.5 million. This would increase the tax that most consumers pay from 6.75 percent to 7.75 percent through mid-2011.
- A 10-cent increase in the excise tax on cigarettes.
- An increase in the beer excise tax of about 5 cents per six-pack.
- A 4-cent per bottle increase in the excise tax on wine.
- A 5 percent hike in the tax on liquor.
- A tax on items downloaded over the Internet.

House and Senate budget negotiators plan to work through the weekend in hopes of resolving roughly a dozen budget issues still in contention, according to the House's senior budget writer, Rep. Mickey Michaux, D-Durham. House Democrats will meet privately before Monday night's session to determine if the new tax plan and the \$19 billion spending plan that it is intended to fund has enough votes for passage. If the support is adequate, the budget bill could face floor votes in both the House and Senate next week.