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Income Tax Cap Could Mean Unintended Burdens for Nonprofits

Charitable nonprofits across North Carolina are concerned that the proposed constitutional amendment to cap the state's income tax rate at 5.5% (S.817) could have unintended consequences for nonprofits that provide essential services in every community in our state. If the 5.5% income tax cap passed as a constitutional amendment, it would likely lead to new taxes, fewer private contributions, and increased burdens on charitable nonprofits.

At a time when 60% of North Carolina nonprofits already aren't able to meet basic needs, any new taxes on nonprofits or offloading of government services onto the sector will take away from charitable organizations' ability to serve communities across North Carolina. When nonprofits can't fully meet needs, nearly 1 in 5 people they serve turn to government programs instead. Without government or nonprofits able to support them, those 20% may simply fall through the cracks.

What changes would S.817 make to the N.C. Constitution?

If S.817 passes the Senate and the House by three-fifths supermajority votes, it would place a constitutional amendment on the November 2016 ballot that would establish a maximum 5.5% individual income tax rate. Currently, the state constitution sets the maximum rate at 10%. The present income tax rate is 5.75%, and the rate is scheduled to go down to 5.499% in 2017.

How would this change affect nonprofits?

- By limiting the income tax rate to 5.5%, S.817 would limit legislators' options to maintain state and local revenue during and after a recession. This could force legislators to look for other ways to make up the state's lost revenue. These would likely include new taxes on nonprofits, limitations on the state charitable deduction, and expansion of sales tax to more services provided by nonprofits. All of these policy options would constrain nonprofits' capacity to provide essential services. For example, ending nonprofit sales tax refunds would add between $300 million and $400 million in new taxes on nonprofits each year, and eliminating the state charitable deduction would cost nonprofits between $60 million and $900 million annually n private charitable contributions.
- Legislators may also have to reduce overall state spending, which would likely mean fewer and smaller state grants and contracts for nonprofits that provide essential public services. This would reduce the capacity of the already heavily-burdened sector and would leave many communities underserved or unserved.
- A 5.5% cap on the state's individual income tax rate could also jeopardize the state's credit rating. This could increase costs for borrowing money for roads, parks, and important infrastructure projects such as school construction. Nonprofits would likely be called upon to provide even more public services without being compensated for this additional work.

For more information, contact David Heinen, Vice President for Public Policy and Advocacy, at 919-790-1555, ext. 111 or dheinen@ncnonprofits.org.