



**LEAGUE OF WOMEN VOTERS
OF NORTH CAROLINA**

LEGISLATIVE UPDATE

Legislative Update for June 5, 2008
Action Alert for June 6, 2008

The League of Women Voters of North Carolina has a position supporting an equitable and efficient system of taxation that reflects taxpayers' ability to pay. This Action Alert is coming under the heading of that position, urging you to contact your legislators regarding the proposed elimination of the state gift tax.

Eliminating the state gift tax (Senate Bill 1756) is not sound fiscal policy

A new Budget & Tax Center brief explains the potential consequences of eliminating the state gift tax

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(RALEIGH) - This week the North Carolina Senate passed Senate Bill 1756 that would eliminate the state gift tax. The bill will now be considered by the NC House of Representatives. If enacted into law this bill would provide an unnecessary and costly tax break to the state's wealthiest residents. A new brief from the NC Budget & Tax Center (BTC), a project of the NC Justice Center, explains how the gift tax works and discusses the potential consequences of eliminating the tax. (Report is attached as a PDF file and has been posted to the Justice Center's website at www.ncjustice.org.)

The brief sets out several reasons why the state gift tax should not be eliminated. According to Elaine Mejia, author of the Brief and the director of the Budget & Tax Center, "North Carolina's state and local taxes already require greater shares of the incomes of low- and middle-income families than wealthy families." Mejia goes on to say that "Any tax reductions enacted this year should target low-income working families who are hit hardest by the downturn in the economy and who already pay more than their fair share in state and local taxes."

In addition to being poorly targeted, eliminating the gift tax would also affect the solvency of the state estate tax over time. This means that the General Assembly's suggested fiscal impact of \$18 million underestimates the potential revenue loss. Assistant Professor Jon Rork, a member of the Department of Economics in the Andrew Young School of Policy Studies at Georgia State University, is a national expert in inheritance and gift taxes. Dr. Rork has reviewed Senate Bill 1756 and concluded that "Eliminating the gift tax while having an estate or inheritance tax in place creates a loophole that undermines the estate tax, as it becomes easier to avoid taxation on wealth transfers by simply gifting away large amounts of wealth."

Eliminating the state gift tax was not endorsed by the Revenue Laws Study Committee of the General Assembly nor was it officially recommended by the recent State and Local Fiscal Modernization study commission. The lack of such endorsements and the questions raised by the Budget and Tax Center should caution lawmakers against eliminating the state gift tax.