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Hunt leads brainstorm on reform of tax structure

But big changes would be hard sell

Rob Christensen, Staff Writer

Former Gov. Jim Hunt suggested an outline Tuesday for modernizing North Carolina's taxes, an effort that likely would take several years and face long political odds.

After two days of meetings at N.C. State University with 800 business and political leaders and economists, Hunt said one option would be an expansion of the sales tax to cover services and a cut in the corporate and personal income tax.

The sales tax expansion would be aimed at broadening North Carolina's tax base and providing a steady stream of revenue to finance the state's rapid growth. The cuts in the corporate and personal taxes would be designed to lure more corporations and wealthy individuals to the state.

"I think we ought to look at broadening the base of that tax to include services and then cut the rate on all of it," said Hunt, a Democrat who served four terms as governor and is now a corporate lawyer. "We have heard the economists say we are uncompetitive on the corporate income tax."



Hunt

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For the past several months, the Emerging Issues Institute, a Raleigh-based think tank created by Hunt, has convened teams of experts to study the state's tax structure.

State Senate leader Marc Basnight, a Democrat, is considering setting up a panel of economists, lawmakers and business people to study the state's tax system, said Amy Fulk, a spokeswoman.

But Gov. Mike Easley has been cool to the idea, noting that he appointed his own tax study commission in 2001 that resulted in the legislature closing some tax loopholes.

"The tax system has yielded revenues better than I thought," Easley said in an interview in December. "We closed a lot of loopholes."

Easley, a Democrat, said he was concerned about making the tax code more regressive. He said expanding the sales tax to include services would attract strong opposition and would not necessarily provide a more stable source of revenue.

"If you go to the barbershop where I go and talk about taxing services, the barbers will speak up," he said.

Forum organizers have said tax modernization is a long-term project and would face the best chance of happening after the next governor is elected in 2008.

The business community supports lowering the corporate tax, which at 6.9 percent is the highest in the Southeast, and lowering the top marginal personal income tax rate. At 8.25 percent, it is also the highest in the region.

Overall, North Carolina ranks 28th in state and local tax burden, according to the Tax Foundation, a Washington-based non-profit group that studies tax trends.

Expanding the sales tax to include services could be more difficult. Since the sales tax was enacted in the 1930s, there has been a broad shift away from manufacturing to services. An estimated two-thirds of economic transactions are no longer taxed.

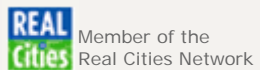
But such a move would likely draw opposition from groups such as lawyers, doctors, pharmacists and media outlets that could become subject to the sales tax.

"The key is leadership," said Robin Dorff, executive director of the N.C. Institute for Politics. "A group of people probably with executive and legislative and bipartisan and business community ties is going to have to get out there and pull everybody together."

He added, "Politically, it's probably a long shot."

(Staff writer Andy Curliss contributed to this story.)

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