### Business Pulse Survey

In North Korea an imminent danger to the U.S.?  
Next week’s question: Hillary Clinton vs. Jeb Bush in 2016: How likely is it?  
Go to http://triad.bizjournals.com and click on Business Pulse Survey to participate.  

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<th>Question</th>
<th>Yes</th>
<th>No</th>
<th>Other</th>
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<td>1. In North Korea an imminent danger to the U.S.?</td>
<td>25%</td>
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<td>2. Next week’s question: Hillary Clinton vs. Jeb Bush in 2016: How likely is it?</td>
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Based on 210 responses. Numbers do not total 100 due to rounding.

### Deductive reasoning on taxes

When I died my taxes this month, I was very pleasantly surprised by a new deduction from North Carolina income tax. If you earned “nonpassive business income” in 2012, you probably know what I’m talking about.

In 2011 the General Assembly created a deduction of up to $50,000 of net business income per person. The top marginal rate for the state income tax was 7.75 percent in 2012, so a business owner could cut his or her tax by as much as $3,875. If both spouses earn business income and file a joint return, the combined tax cut could be $7,750.

The only catch is that the income must be nonpassive. Income from owning stock doesn’t qualify. In essence, the deduction benefits owners/operators of pass-through businesses. Because I have a small consulting business (www.andrewbroad.com), it benefited me. I think it’s great!

But it’s bad policy. Darn!

The first problem is that the deduction’s effect is clearly regressive, which means it benefits richer people disproportionately. The poor and working class, even much of the middle class, tend to earn wages instead of business income and hence aren’t able to get in on this.

According to an analysis by the Institute for Taxation and Economic Policy (ITEP), 70 percent of the aggregate value of the deduction will accrue to the richest 20 percent of North Carolina taxpayers. When the deduction was originally proposed, it included a cap on annual revenue in order to target small businesses. But the cap disappeared by the time it was approved.

The regressivity of this deduction is relevant for a few reasons. One is simple fairness, which admittedly is in the eyes of the beholder. But it’s hard to justify making state taxes more regressive than they are now. And with the General Assembly considering other proposals to replace mildly progressive income taxes with regressive sales taxes, this deduction has the potential to exacerbate the state’s move toward regressive taxation.

Another implication of the deduction’s regressivity involves the still-depressed economy. In such an economy, the goal for fiscal and tax policy should be to get money into the hands of poorer folk, who are more likely to turn around and spend it. By benefiting mostly richer folks, this deduction will generate relatively little bang for the buck.

The second main problem with the deduction is that it’s unlikely to achieve its sponsors’ goal of job creation. Don’t look for this to spur hiring, certainly not in the right time frame. It’s true that hiring continues to be weak both in North Carolina and nationwide. If this were because business owners couldn’t afford to hire in spite of strong consumer spending, a deduction like this might make sense. But that’s not why businesses aren’t hiring.

The economy is depressed for the same reason you’ve been hearing for years now: Consumers are still not spending much. Lack of sales is why businesses aren’t hiring. What this deduction does is give business owners a little more money without giving them what they really need, which is more customers. If lack of hiring is the illness, this deduction is the wrong medicine.

The state estimates the cost of this tax deduction to be $336 million per year. ITEP says it could be as high as $552 million. My little sliver of that amount makes me quite happy. But if all we’re doing is brightening the days of a group of favored business folks, that’s a very expensive deduction.

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