

Steven D. Bell

June 6, 2005

Dear Business Leader:

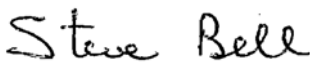
The North Carolina Legislature and Governor have enacted over \$4 billion in new taxes since 2001. In addition, we retain the highest corporate and individual tax rates in the Southeast. According to the General Assembly Fiscal Research Department, \$1 billion budget shortfalls will continue indefinitely until we restructure government. That is not good news for North Carolina! While the recently passed Senate budget had very modest reductions in the corporate and individual rates, they remain among the highest in the country.

Our Company has investment properties throughout the South, and I see and hear more and more developers and business people complaining about our unfavorable tax climate in North Carolina. I also hear almost weekly about friends establishing permanent residences in Florida to avoid paying our higher North Carolina taxes. Just a decade ago, North Carolina was the envy of the country in attracting new industry. Now we are struggling with our excessive corporate and individual rates, impeding job creation and business development. If we want our children and grandchildren to live and work in North Carolina, we must do a better job reducing wasteful spending. Also, the Senate budget contained \$2 billion of new taxes and fees in the next biennium.

Two years ago, Massachusetts had a \$3 billion deficit. Today, they have a \$700 million surplus because they implemented efficiency and cost containment measures. Texas has saved \$13 billion in the last decade and now has a budget surplus because it embraced cost saving reforms. With their fiscal house now in order, Texas was selected by *Site Selection* magazine in their March 2005 edition as the #1 state in the country for job creation and business development. North Carolina State Senator Robert Pittenger has identified over \$1 billion of savings in state government (which may be viewed at NCFuture.org) that would enable us to also reduce our excessive tax rates. North Carolina must embrace these cost saving reforms.

Please join me and other business leaders throughout the State in writing the Governor and Legislative Leadership and express your concerns for our economy and the need for better fiscal management. Your voice and statement can help make a big difference for the future of our great State.

Sincerely,



Steven D. Bell

SDB:jd

The Honorable Michael F. Easley
Office of the Governor
20301 Mail Service Center
Raleigh, North Carolina 27699-0301
Governor.office@ncmail.net

The Honorable Marc Basnight
Senate President Pro Tempore
Legislative Bldg. - Room 2007
Raleigh, North Carolina 27601-2808
marcb@ncleg.net

The Honorable James B. Black
Speaker of the House
State Legislative Building
16 West Jones Street
Raleigh, North Carolina 27601-1096
jimb@ncleg.net

P.S. Many business leaders, economists, and educators have joined this bi-partisan effort including John Belk, Dave Phillips, Stuart Dickson, Bob Luddy, John Silvia – Wachovia Chief Economist, and John Akin – Chair of Department of Economics UNC-Chapel Hill. Please join us.

"As an economist trained in Public Sector Economics, focusing on questions of government taxation and expenditure, I have no doubt that lowering both individual and corporate tax rates would help the state of North Carolina both attract and maintain small and large businesses. While companies obviously base location decisions on many factors, such as availability of skilled workers or the presence of prestigious universities, and the importance of the different factors will vary across companies, having a tax system whose burden compares favorably with the states competing for the same companies would only help North Carolina to attract businesses and jobs."

*John Akin, Ph.D
Carr Distinguished Professor
Chair, Department of Economics
University of North Carolina at Chapel Hill*

"Taxes act as an incentive or disincentive to economic activity. We may increase taxation on alcoholic beverages as a disincentive to discourage consumption. We offer tax reductions for economic activities in poorer communities.

Taxes also motivate businesses to expand or reduce their activities and employment in our state to the extent our taxes are greater than our neighboring states. Today, both our personal income tax and corporate tax rates are higher than our border states. This creates a disincentive to grow and create jobs in our state particularly along border communities and communities along major highways into and out of our state.

I would support a serious effort to reduce our corporate and personal income tax rates to levels competitive with our neighboring states."

*John E. Silvia, Ph.D
Chief Economist
Wachovia Corporation*

"I have been concerned over the past several years with the current rates of both the state personal income tax and the state corporate tax rate. Both taxes have top marginal rates that are amongst the highest in the Southeast. Historically, North Carolina has achieved excellent growth, reaching annual growth rates that by far exceeded the performance of other southeastern states. In recent years this has changed. Competitor states have lowered their effective corporate tax rates while North Carolina has increased its personal tax rates in light of budget problems. Potential relocating firms and high income individuals now choose to locate in states adjacent to North Carolina, in order to lower their tax liabilities.

As a result we loose twice. First, North Carolina's economic development suffers, and the tax base grows slowly. Second, we are put under additional pressure to raise taxes again. This is a viscous cycle with very costly consequences. High tax rates lead to a reduction in the tax base and consequently to lower tax receipts. It is no solution to raise tax rates in order to deal with short run budget problems. Rather, raising tax rates creates serious long term economic growth problems as well as an erosion of the tax base."

*John E. Connaughton, Ph.D
TIAA-CREF Professor of Economics
UNC Charlotte
Economic Forecaster for: Carolina Panthers, Charlotte Bobcats, Charlotte Airport
Authority, Charlotte Chamber, Lufthansa, and the NASCAR Hall of Fame*