North Carolina

#11

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
11 ▲ 2	4 ▼ 1	19 ▲ 4	12 –	16 ▲ 4	6 –

IN THE 2027 *Index*

North Carolina rose two spots overall from 13th to 11th. An individual income tax rate reduction from 4.25 percent to 3.99 percent improved its individual income tax ranking, with the state moving up four spots to 19th. The state's corporate ranking remained relatively stable. Although North Carolina does not conform to federal bonus depreciation provisions, it continues to levy the nation's lowest corporate income tax rate among states that impose one. That rate declined further this year from 2.25 to 2.0 percent.

FORTHCOMING, NOT YET REFLECTED

Since the state adopted a tax reform package in 2021, North Carolina's individual and corporate income tax rates have seen repeated reductions. If revenues follow projections, the individual income tax rate will drop to 3.49 percent in 2027 and 2.99 percent in 2028. Also in 2028, the corporate rate is scheduled to drop to 1 percent, with total elimination of the corporate income tax planned for 2030.

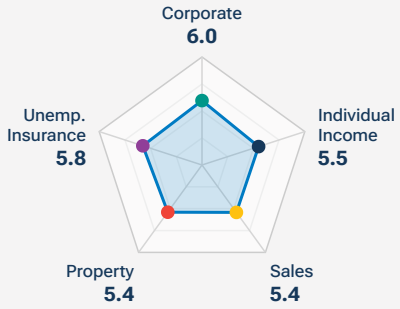
Of the states that levy all the major taxes, North Carolina is among the highest performers on the *Index*, with its flat 3.99 percent individual income tax rate, low 2 percent corporate income tax rate (slated for eventual repeal), and relatively competitive property and sales tax systems. These low rates are made possible in part by North Carolina's decision to forgo many nonneutral and distortive business tax credits, such as jobs, R&D, and investment tax credits, and for its commitment—secured through a series of reforms in the past decade—to broad bases and low rates.

North Carolina does, however, have room for improvement in its treatment of business net operating losses, as the state allows only 15 years of net operating loss (NOL) carryforwards, whereby past losses can be deducted from current or future profits to ensure the tax falls on average long-run profitability and to avoid subjecting cyclical businesses to a penalty. Additionally, although North Carolina passed conformity legislation during its 2026 legislative session, it decoupled from most of the business expensing provisions in the One Big Beautiful Bill Act (OBBBA) while maintaining its previous bonus depreciation allowance under Section 168(k) at only 15 percent, substantially lower than the federal allowance.

Moving forward, the state could rectify this adverse treatment of investment by adopting permanent full expensing separate from the federal Section 168(k) provision. Furthermore, North Carolina's Section 179 expensing limit is only $25,000, significantly lower than the $2.56 million federal allowance. Finally, the largest barrier to the state's tax competitiveness remains its capital stock tax, called the franchise tax, which is unusually aggressive and taxes businesses on their worth rather than their profits, harming investment and yielding a tax levied without regard to ability to pay.

Component scores

out of 10



North Carolina and its neighbors

Overall rank, 2027 Index, with change from 2026

Tennessee	#8	–
North Carolina	**#11**	▲ 2
Georgia	#24	▼ 6
Virginia	#31	▼ 4
South Carolina	#34	▼ 6