

Putting Money in Working Families' Pockets

Recommendation

Improves affordability for North Carolina's working families by providing close to \$380 million in tax cuts to offset the rising costs of child care, school supplies, and other necessities. Provides greater financial security for the families of individuals who lose their jobs by increasing the maximum weekly unemployment insurance benefit and providing additional weeks to find a new job before exhausting benefits. Governor Stein's Recommended Budget also averts the fiscal cliff by maintaining individual and corporate income tax rates at current levels, thereby preserving the state's fiscal stability and its capacity to make long-term investments that sustain shared economic prosperity.

North Carolina has a critical opportunity to refocus its tax policy on strengthening working families. Rather than relying on steep, pre-programmed tax cuts that are projected to reduce recurring revenue by billions, the state can prioritize meaningful, targeted relief for the households that need it most. Broad rate reductions overwhelmingly benefit high-income households and out-of-state corporate shareholders, leaving most North Carolina families with little real support. Meanwhile, the cost of essential public services that families rely upon continues to rise, and heedlessly pursuing policies that prevent revenues from keeping up with those costs jeopardizes the state's ability to maintain quality education, public safety, health care, and modern infrastructure.

Item	FY 2026-27	
	Recurring	Nonrecurring
Cut Taxes for Working Families		
1 Increase Standard Deduction	\$53,000,000	
2 Adopt Working Families Tax Credit	\$240,000,000	
3 Adopt Refundable Child and Dependent Care Tax Credit	\$55,000,000	
4 Restore Back-to-School Sales Tax Holiday	\$29,900,000	
Total Tax Cuts for Working Families	\$377,900,000	
Support Jobseekers		
5 Enhance Unemployment Insurance Benefits	\$110,000,000	
Avert the Fiscal Cliff		
6 Maintain Individual Income Tax Rate at 3.99%	\$896,000,000	
7 Maintain Corporate Income Tax Rate at 2%*		
Total Revenues to Avert the Fiscal Cliff	\$896,000,000	

* Will increase revenues by an estimated \$294 million in FY 2027-28

Statement of Need

- As wage growth has slowed for low- and middle-income households, recent inflation — particularly on necessities like groceries, transportation, and health care — has strained these families' budgets, even as high-income households have continued to see their incomes rise faster than inflation.¹
- In 2024, child care costs were almost 14% of the median income in North Carolina, and inflation for child care has outpaced general inflation in recent years.^{2,3} Families also face rising costs in other areas, including housing, food, and health care.
- Prices for educational books and supplies rose rapidly in 2024 and remain 10% higher than in early 2024, putting an extra strain on the budgets of families with school-age children.⁴
- Large across-the-board tax cuts disproportionately benefit high-income households and out-of-state corporate shareholders while providing comparatively little relief to the majority of North Carolina working families.⁵ Increases in the standard deduction are more targeted to low- and middle-income tax filers. Lawmakers have cut the individual income tax rate five years in a row but have not raised the standard deduction since 2022, while prices have risen more than 16% from 2022 to 2026.
- Laid-off workers in 2025 received unemployment insurance (UI) benefits that averaged only 28% to 34% of their earnings prior to losing their jobs, making it difficult to make ends meet while looking for new jobs.⁶
- More than half of North Carolina workers laid off through no fault of their own exhaust their UI benefits before finding a new job, despite the unemployment rate being below 4% for more than four years.⁷
- North Carolina is approaching a significant fiscal cliff as pre-scheduled individual and corporate income tax rate reductions phase in, reducing state General Fund revenue by billions of dollars over the next several years. These reductions threaten the state's long-term ability to sustain investments in education, public safety, health care, infrastructure, and other core services essential to economic competitiveness and community well-being.
- The scale and timing of the revenue loss coincide with growing pressures on state services, including dangerously high vacancies for key health and safety workers, rising service delivery costs, and ongoing population growth. Without corrective action, the state will face widening structural deficits that undermine the systems families and businesses rely on.

¹ [Bank of America Institute. Consumer Checkpoint: The Madness of March.](#) Bureau of Labor Statistics.

² [Child Care Aware of America. Child Care in America: 2024 Price & Supply.](#)

³ Bureau of Labor Statistics. Day care and preschool in U.S. city average.

⁴ Bureau of Labor Statistics. Educational books and supplies in U.S. city average.

⁵ OSBM. [Scheduled Income Tax Cuts to Mostly Benefit High-Income Households.](#)

⁶ US Department of Labor, Employment and Training Administration. [UI Replacement Rates Report.](#)

⁷ US Department of Labor, Employment and Training Administration. [Unemployment Insurance Data.](#)

- Allowing income tax cuts to continue as scheduled will reduce the state’s ability to respond to emergencies, maintain a stable workforce in schools and state agencies, and shoulder new costs from reduced federal support for programs like Medicaid and SNAP. Sustained underfunding of these systems risks service disruptions, longer wait times, and reduced access — especially for vulnerable populations.

Recommendation Detail

Cut Taxes for Working Families

Governor Stein’s budget provides broad tax relief to working households by raising the standard deduction for the first time since 2022, reducing income taxes for millions of North Carolinians. The standard deduction would increase by \$1,000 (from \$25,500) for married couples filing a joint return, by \$750 for household heads responsible for dependents, and \$500 for single filers and married couples filing separately. Increasing the deduction lowers financial strain for families struggling with rising costs, improves take-home pay, and supports greater economic security.

With the rising cost of basic necessities for working families, including housing, groceries, transportation, and utilities, more families are struggling to make ends meet even when working full time. To address these affordability challenges, this budget recommends a Working Families Tax Credit, a targeted, refundable credit equal to 10% of the federal Earned Income Tax Credit, which will boost the incomes of low- and moderate-income workers. This credit will help families better afford essentials and strengthen workforce participation by rewarding work and reducing financial barriers for working households.

To address the burden of child care costs for working families with young children, this budget adopts a refundable Child and Dependent Care Tax Credit. Nearly two of every three children five years old and younger live in families where all available parents are in the workforce, and providing those families with support for child care expenses helps parents remain employed, improves long-term economic stability, and addresses affordability challenges.

Many families also struggle to afford necessary school supplies for their children. This budget reduces families’ costs for ensuring their children have the school supplies they need to succeed at school by restoring the back-to-school sales tax holiday in the first weekend of August. Restoring this holiday helps households manage seasonal spikes in expenses, reduces financial pressure on parents, and supports students’ readiness for the school year.

Support Jobseekers

North Carolina’s strong recovery from the COVID-19 recession and continued economic expansion enabled the state’s Unemployment Insurance (UI) Trust Fund to reach a record high balance of \$5.8 billion in April 2026. Despite the Trust Fund’s robust balance, North Carolina’s UI system lags most states in supporting laid-off workers. The state’s average weekly benefit of \$323 ranks 43rd nationally, and the maximum weekly benefit of \$350 has remained unchanged since 2013.⁸ As a result, UI benefits now

⁸ US Department of Labor, Employment and Training Administration. [Unemployment Insurance Data: 2025Q4](#).

replace only one-third of wages for the average laid-off worker, down from approximately half in 2013. Most other states' UI benefits replace at least 44% of pre-layoff wages.⁹

Additionally, North Carolina is tied for the shortest benefit duration in the nation at just 12 weeks. Thirty-four states provide 26 or more weeks of benefits.¹⁰ North Carolina's short benefit duration results in 56% of laid-off North Carolina workers exhausting their benefits before finding new employment, the highest exhaustion rate in the country.¹¹

Governor Stein's recommended changes would adapt unemployment insurance benefits to better support laid-off workers and maintain consumer spending in areas hit by widespread layoffs. The maximum weekly benefit would increase from \$350 to \$495 for new claims filed on or after July 1, 2026, with annual inflation adjustments thereafter. The increase offsets the erosion in purchasing power that has occurred since the benefit was last changed in 2013. The recommendation extends the maximum benefit duration from 12 weeks to 20 weeks when unemployment is low and from 20 weeks to 26 weeks during times of high unemployment.

Avert the Fiscal Cliff

To preserve General Fund revenue, Governor Stein's budget maintains the current 3.99% rate for the individual income tax and eliminates the arbitrary tax-reduction triggers. This stabilizes the state's fiscal position, averts deep structural deficits, and ensures North Carolina can continue supporting critical services such as education, public safety, health care, environmental protection, and infrastructure. North Carolina already has and would continue to have the lowest individual income tax rate among East Coast states with an income tax.

This budget also prevents further erosion of the state's recurring revenue by holding the corporate tax rate at 2%. This protects funding necessary for statewide operations and investments while maintaining a competitive tax environment for businesses. In addition to already having the lowest tax rate among all states with a corporate income tax, North Carolina uses a tax formula that counts only a company's sales in the state. That means a company can hire workers here, build factories here, or expand operations here without raising its North Carolina income tax bill.

Keeping the individual and corporate income tax rates at current levels will allow the state to meet its core obligations and invest for the future.

Expected Impact

- Strengthens working families' economic stability by lowering household costs through targeted relief that directly addresses affordability pressures, improving financial resilience for families across urban and rural communities.

⁹ US Department of Labor, Employment and Training Administration. [UI Replacement Rates Report](#).

¹⁰ Center on Budget and Policy Priorities, ["How Many Weeks of Unemployment Compensation Are Available?"](#), updated April 2026.

¹¹ US Department of Labor, Employment and Training Administration. [Unemployment Insurance Data](#).

- Lowers financial strain on families by reducing income taxes for millions of North Carolina families and individuals by raising the standard deduction by \$500 to \$1,000, depending on taxpayers' filing status.
- Benefits an estimated one in six households with the Working Families Tax Credit, providing an average credit of \$350.
- Provides relief to an estimated one in five North Carolina families with children under 18 through the refundable Child and Dependent Care Tax Credit, with an average credit of \$250.
- Saves families with school-age children an estimated \$60 per year on back-to-school supplies and clothing by reinstating the back-to-school sales tax holiday.¹²
- Provides jobseekers with more financial security and allows them time to find positions that better match their skills and offer higher wages.¹³
- Helps local and regional economies stay afloat in times of widespread layoffs, keeping many families out of poverty and supporting local businesses by sustaining consumer spending.¹⁴
- Provides fiscally responsible, family-focused tax relief instead of providing costly income tax cuts that provide the most benefit to those who need it least.
- Avoids the fiscal cliff and prevents harmful reductions in education, health care, public safety, infrastructure, and human services by preserving the recurring revenue needed to sustain essential functions.
- Supports a stable and effective public sector workforce by maintaining consistent funding for teachers, nurses, correctional staff, frontline responders, and other essential personnel, reducing turnover and supporting service continuity. Providing targeted, family-focused tax relief ensures workers get support without compromising the resources necessary to maintain core public services.
- Promotes long-term fiscal responsibility by aligning the state's recurring obligations with a stable and sustainable revenue structure, reducing reliance on one-time funds, and protecting North Carolina's ability to respond to emergencies and future growth.

¹² National Retail Federation. "[Back-to-School Season Begins Early for Majority of Shoppers](#)"

¹³ Jason Faberman and Ali Haider Ismail. "[How Do Unemployment Benefits Relate to Job Search Behavior?](#)" Chicago Fed. June 2020.

¹⁴ William J. Congdon and Wayne Vroman. "[Extending Unemployment Insurance Benefits in Recessions: Lessons from the Great Recession.](#)" Urban Institute. February 2021.

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