



WHY REVENUES ARE FALLING AND WHAT GEORGIA CAN DO ABOUT IT

WHY DOES GEORGIA HAVE SUCH A TREMENDOUS DEFICIT?

The state budget deficit is due to a lack of revenues. State revenue collections, as a percentage of personal income, have declined dramatically over the past 10 years. In other words, as Georgians' incomes have increased, the amount the state collects has not kept pace. The reasons state revenues have not kept up with increased wealth is the result of:

- 20 years of carving certain businesses and groups of people out of the tax code through special interest tax breaks and cuts;
- a narrowing sales tax base due to an economy shifting from manufacturing to service;
- an out-of-date tax system developed more than 50 years ago;
- an out-of-date fee system with some fees unchanged for decades; and
- a weakening economy due to two recessions in the last decade, the first from which Georgia's collected revenue relative to income never truly recovered (see graph for low-point in 2002 and then in 2010).

The rise in revenues from 4.7 percent in FY 2010 to 5 percent in FY 2011 primarily is due to the new revenues the governor proposed for FY 2011. However, revenues in FY 2011 would need to increase by \$1.7 billion to return to the FY 2008 level of 5.5 percent, a level that only returns Georgia to the lowest point during the economic growth of the 1990s.

For more information, visit www.GBPI.org.

RECOMMENDATION

LAWMAKERS CAN REVERSE FALLING REVENUES AND THE DEFICIT WITH A RANGE OF OPTIONS:

- Suspending or ending ineffective tax breaks
- Broadening the sales tax base
- Adjusting the income tax rate to reflect modern income ranges
- Closing corporate loopholes
- Updating fees
- Increasing the cigarette tax \$1 a pack

Without new revenues, Georgia is facing an additional \$2.6 billion deficit in FY 2012, according to the governor.

STATE REVENUES AS A PERCENT OF PERSONAL INCOME

