



**Advancing
Georgia's 1930s
Tax System to
Modern Days**

Georgia Budget & Policy Institute

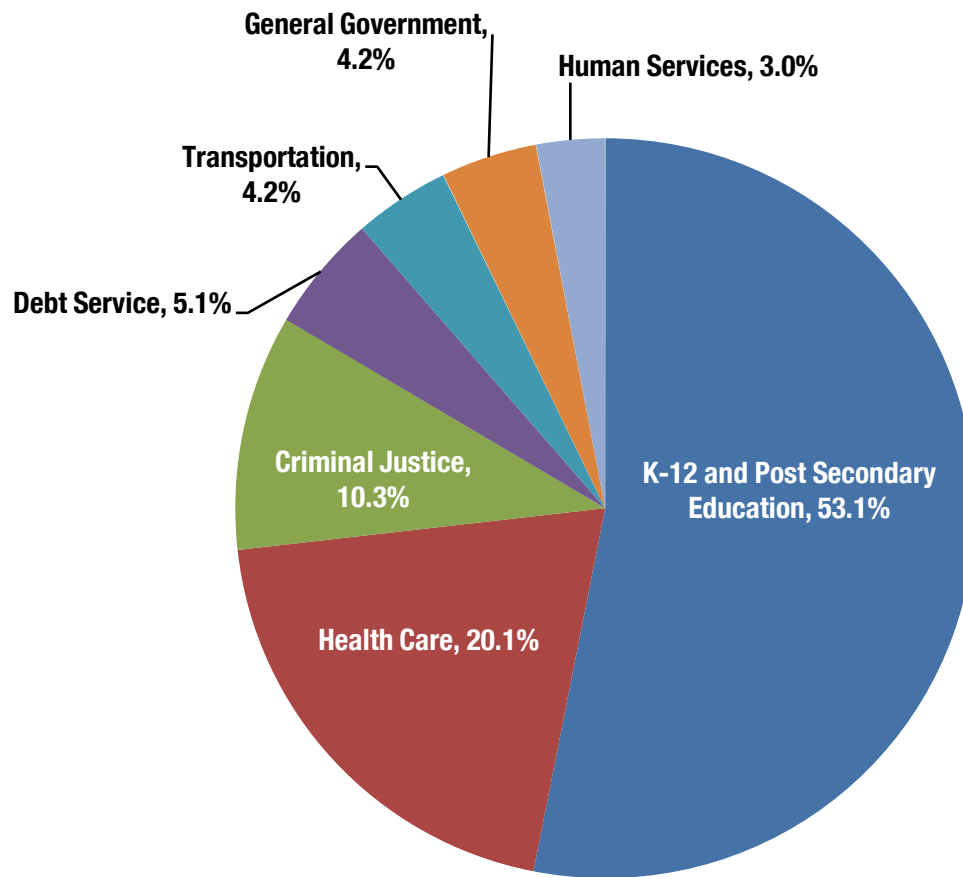
Alan Essig, Executive Director

November 6, 2011

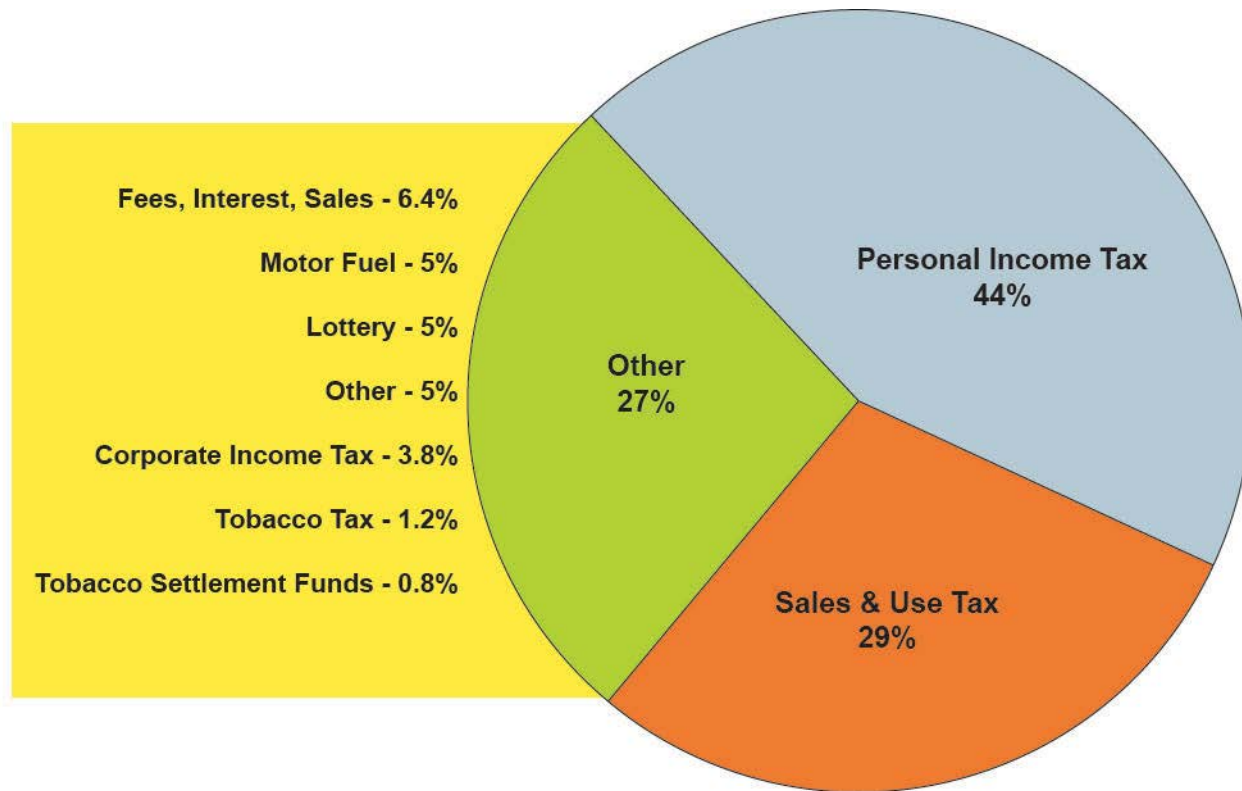
Georgia Tax Rankings

	Ranking
State and local own source revenue as a percentage of income	40 th
State and local business taxes as a percentage of GSP	42 nd
State tax revenue as a percentage of income	45 th
State and local own source revenue per capita	47 th
State tax revenue per capita	49 th

What are we paying?

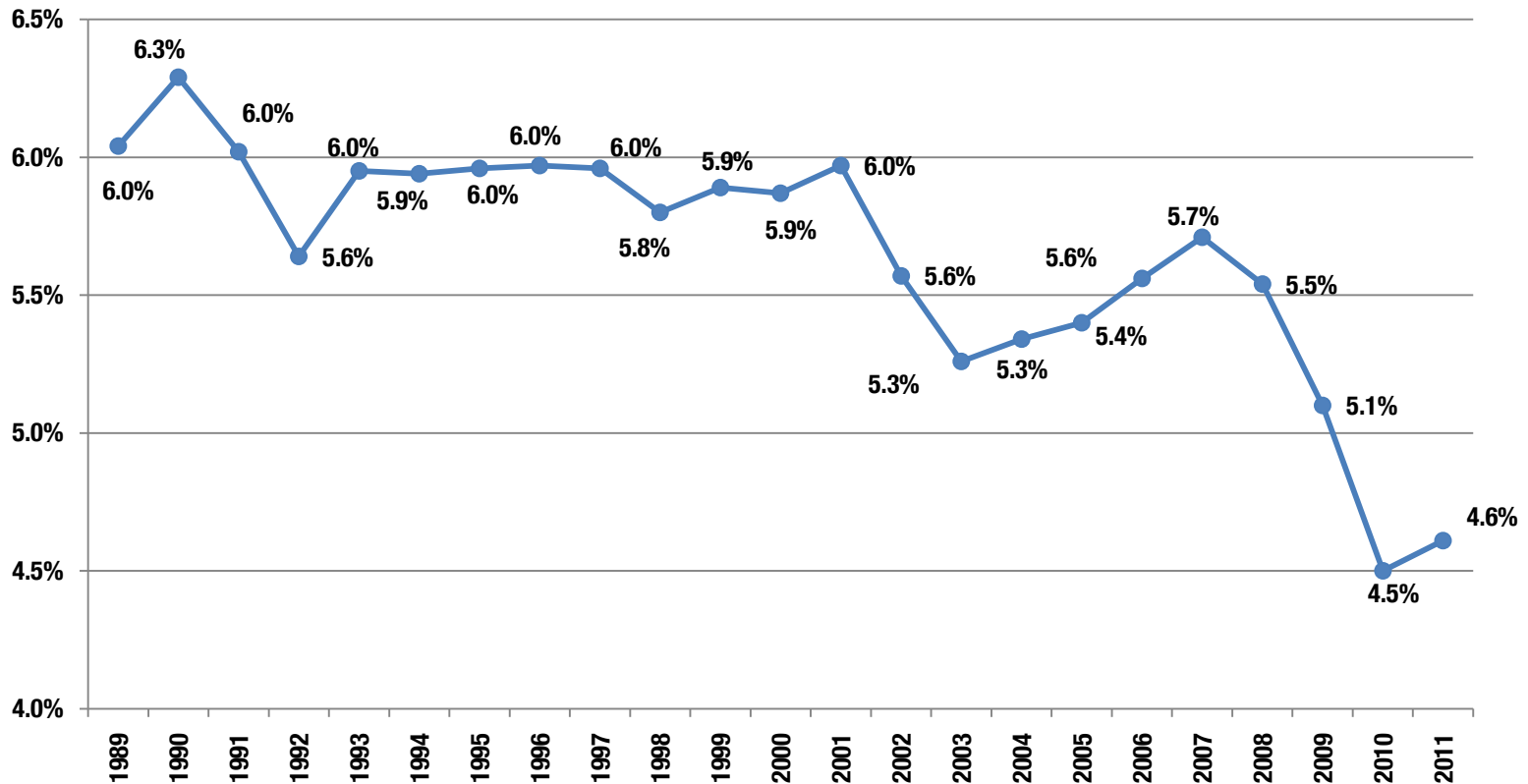


Georgia Revenues

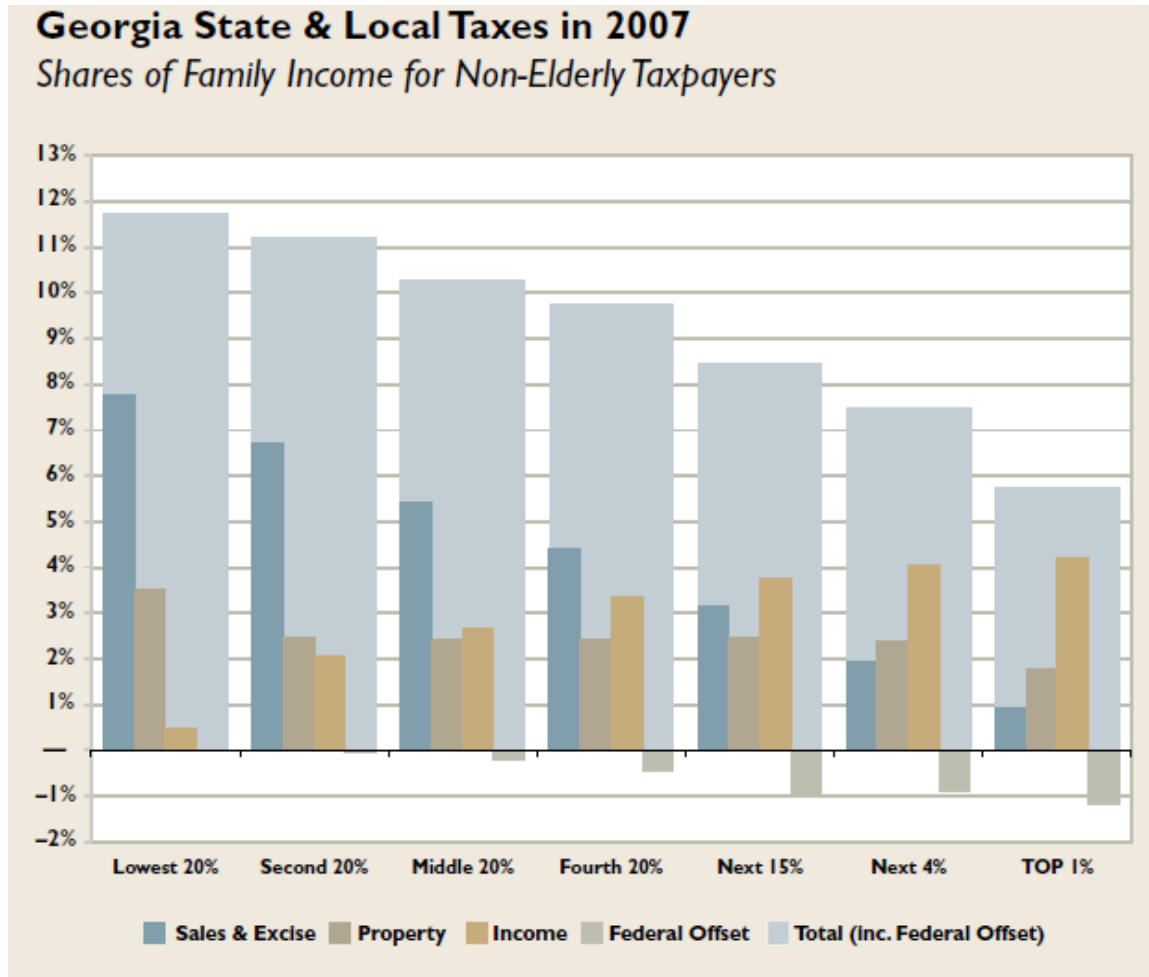


Where Georgia Stands on Adequacy: Historic Low

State Revenues as a Percentage of Personal Income



Where Georgia Stands on Fairness



Stability and Reliability

“Moody’s expects that the states with both major taxes would have a less volatile revenue stream than those with only one.”

“Moody’s expects the states that impose all three of the broad-based taxes – corporate income tax, personal income tax, and sales tax – and a broad array of more narrowly-based taxes and fees often have the best defense should revenues weaken.”

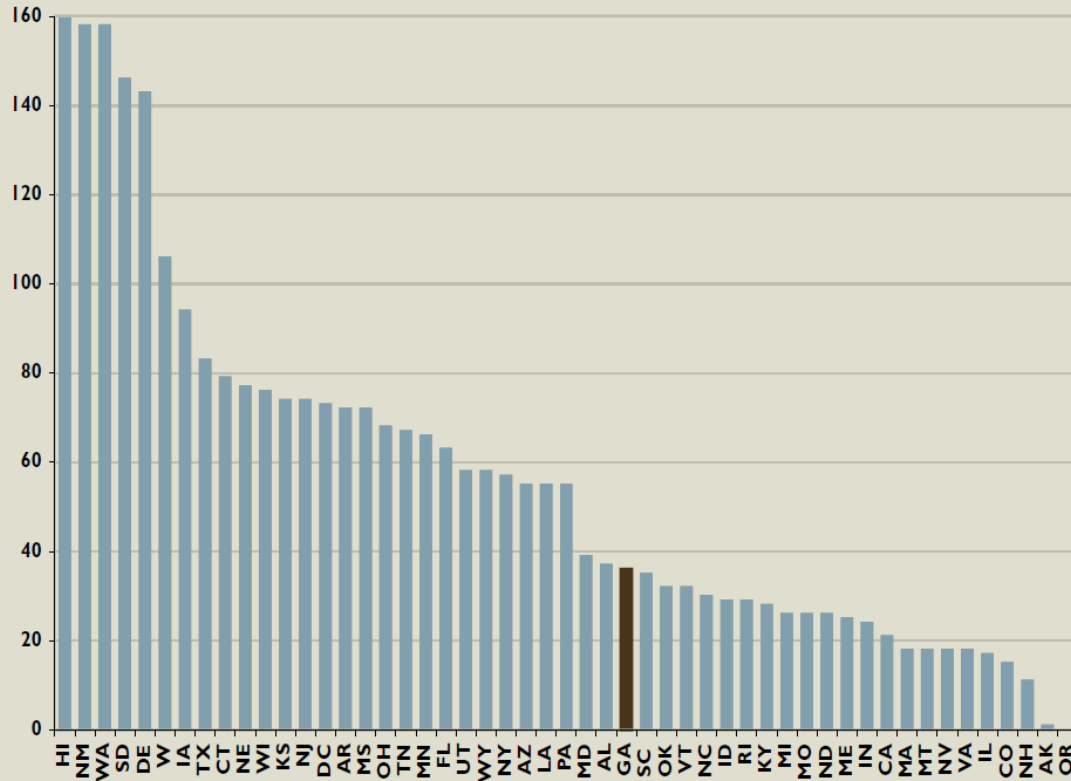
Source: Moody’s “State Rating Methodology,” 2004

GBPI Recommended Options for reform

1. Cut the state sales tax rate from 4.0% to 3.75% and cover more services to mirror 21st century spending trends.
2. Modernize income tax brackets, rates and standard deductions to better reflect current incomes. Cut top rate from 6.0% to 5.5%.
3. Create an earned income tax credit to offset sales taxes for the state's lowest earners.
4. Eliminate special tax breaks that shift more of the tax obligation to fewer taxpayers.
5. Close loopholes and update the net worth tax, cigarette tax and motor fuel tax.

Sales Tax

The Number of Services Georgia Taxes is Below Average



Source: Federation of Tax Administrators

Personal Income Tax

- Broaden the base by scaling back preferences.
 - Itemized deductions.
 - Retirement income exclusion.
- Increase the standard deduction.
- Modernize brackets and rates.
- Enact a refundable earned income tax credit.

Broadening the Income Tax Base Provides the Funds to Expand Brackets and Lower Rates:

Sample Bracket and Rate Modernization for Taxable Income

Rate	Single	Married Filing Jointly
1.0%	Less than \$800	Less than \$1,600
2.0%	\$800-\$4,000	\$1,600-\$8,000
4.0%	\$4,000-\$8,000	\$8,000-\$16,000
5.5%	\$8,000 and above	\$16,000 and above

Source: Institute on Taxation and Economic Policy

Corporate Taxes

- Evaluate and revise exemptions and credits.
 - Examples from North Carolina, Iowa and Missouri.
- Modernize the corporate net worth tax.
 - Update 1931 rates.

Other Taxes

- Raise the cigarette excise tax rate.
 - 4th lowest nationally.
 - Health benefits.
- Raise the motor fuel excise tax rate.
 - Tax rate per gallon among the lowest nationally.
- Encourage re-enactment of state credit for the estate tax.
 - Georgia lost \$125 million when the credit was eliminated.

Combined Changes Can Advance Adequacy *and* Fairness

Tax Reform Option	Estimated Revenue Impact (in millions)	Average Tax Change as a Percent of Income (by income group)						
		Lowest 20% Less than \$15,000	Second 20% \$15,000 to \$28,000	Third 20% \$28,000 to \$46,000	Fourth 20% \$46,000 to \$77,000	Next 15% \$77,000 to \$161,000	Next 4% \$161,000 to \$400,000	Top 1% \$400,000 or More
Reform Income Tax System <ul style="list-style-type: none"> Modernize brackets and rates Raise standard deduction and eliminate itemized deductions Lower retirement exclusion Enact refundable EITC 	\$85	-1.4%	-1.1%	-0.4%	0.0%	0.2%	0.4%	0.3%
Reform Sales Tax System <ul style="list-style-type: none"> Reduce sales tax rate to 3.75% Broaden the tax base to select personal services 	\$357	0.3%	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%
Increase Cigarette Tax Rate by \$1 , along with increases for other tobacco products	\$380	0.6%	0.4%	0.2%	0.2%	0.1%	0.0%	0.0%
Reform Corporate Taxes <ul style="list-style-type: none"> Close corporate loopholes Eliminate select tax breaks Modernize corporate net worth tax^(a) 	\$100	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Estimated Tax Change	\$922	- 0.53%	- 0.55%	0.02%	0.28%	0.40%	0.47%	0.35%

Source: Institute on Taxation and Economic Policy

THOUGHTFUL ANALYSIS, RESPONSIBLE POLICY

Fair and Adequate Tax Reform | www.gbpi.org

“Overall, Georgia’s taxes are low, have not increased over the past 30 years as measured by taxes as a share of personal income, and are competitive. Research on business firm location finds that while taxes matter, other factors seem to play a larger role. Factors such as functioning transportation systems, availability of water, and the quality of public education are more important components of the decision-making process.”

–Special Council on Tax Reform and Fairness for Georgians

Tax Council Recommendations

- Decrease corporate and personal income tax to a flat 4% rate.
- Broaden sales tax to include some services.
- Eliminate and sunset various sales tax exemptions, including eliminating the grocery exemption.
- Eliminate business tax credits and create economic development fund.
- Increase cigarette tax by 31 cents.
- Adjustments to Motor Fuel Tax, Insurance Premium Tax, and Communications Services Tax.

Special Joint Committee Recommendations

House Bill 388

- Decrease income tax to 4.55% and broaden base.
- Expand sales tax to car repair services.
- Expand sales tax to person-to-person used car sales
- 7% tax on telecommunications.
- New sales tax exemption for energy used in manufacturing, mining and agriculture.

Governor's Competitiveness Council



LET'S KEEP IN TOUCH.

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About the Georgia Budget & Policy Institute

GBPI seeks to build a more prosperous Georgia. We rigorously analyze budget and tax policies and provide education to inspire informed debate and responsible decision-making, advancing our vision of a state in which economic opportunity and well-being are shared among all. GBPI is an independent, nonpartisan nonprofit founded in 2004.