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Fact Sheet

Tax Facts: Income Tax Cuts Won't Boost Georgia Economy

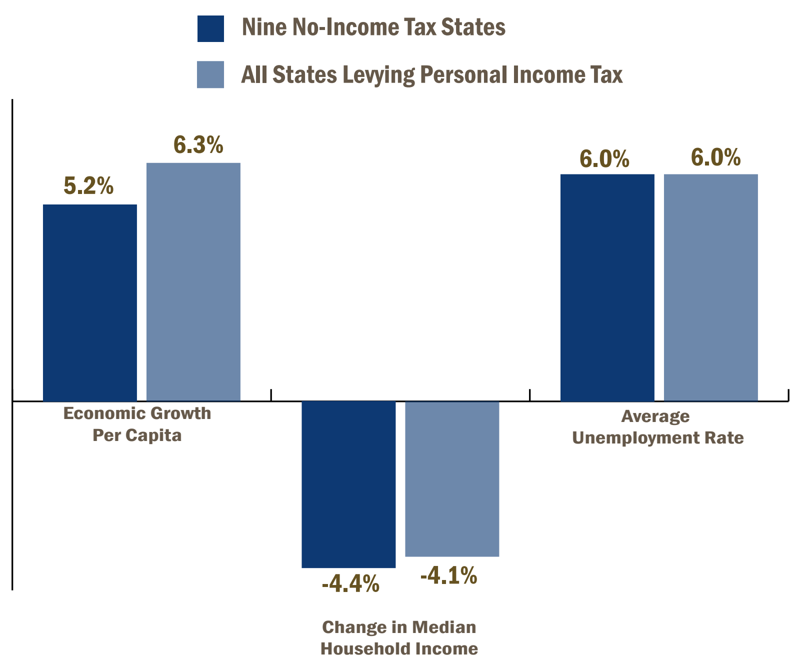
By Wesley Tharpe, Policy Analyst

Some Georgia lawmakers are helping promote the theory that drastically cutting or eliminating income taxes is a surefire way to put the state's economy on a path to prosperity. But that argument is based on a misunderstanding of available evidence. Making a drastic income tax cut a reality is as likely to hurt Georgia's economy as help it.

Fact No. 1: Slashing state income taxes is not a proven way to add jobs or grow the economy.
Big income tax cuts did not improve the economies of states that enacted them, and states without income taxes do not consistently grow more jobs or have stronger economies. Six states cut income taxes sharply from 2002 to 2007, before the most recent recession. Three of them – Arizona, Ohio and Rhode Island – grew slower than the rest of the country in subsequent years. Those three states saw their share of the nation's jobs and personal income fall by 4 percent and their share of economic output fall by 6 percent. Louisiana, New Mexico and Oklahoma are the other three states that cut taxes sharply in the 2000s and enjoyed above-average growth. But they are major oil-producing states that benefitted from a sharp rise in fuel prices.[1]

States that go without personal income taxes altogether also fail to consistently outperform others. They saw slightly lower economic growth, a larger decline in median household income and an identical average unemployment rate as states that taxed personal income over a decade from 2002 to 2012.[2]

Income-Tax States Competitive Against No-Income-Tax States
Change in economic measures from 2002-2012

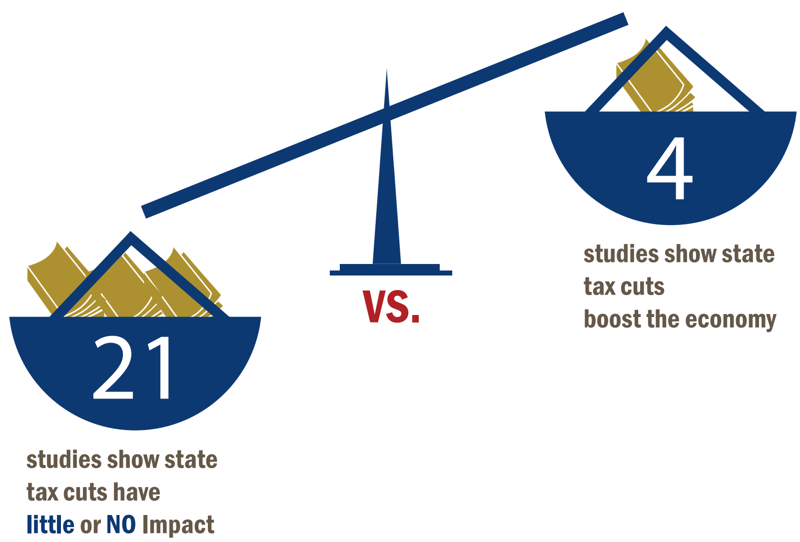


Source: Institute on Taxation and Economic Policy (ITEP)

Fact No. 2: Academic research doesn't support bold claims about lower income taxes and growth.
How taxes affect things like job creation and income growth is debated by experts, but most studies find the effect on the economy of state tax cuts is negligible or inconsistent. The nonpartisan Center on Budget and Policy Priorities in 2013 reviewed 25 major, peer-reviewed studies published on state tax issues since 2000.[3] Twenty-one of them find no consistent effect on economic performance. Many show no significant link between state and local taxes and growth at all. Others show a small positive or negative effect depending on specific variables, like the type of tax in question and what the revenue is used for. Only four of the 25 studies find that tax cuts consistently improve the economy.

Recent Studies Debunk the Economic Boom Myth

Number of peer-reviewed articles in academic journals or books since 2000



Source: GBPI analysis of Center on Budget and Policy Priorities report

Fact No. 3: Slashing income taxes will weaken Georgia's foundation for economic growth. Strong public investments support the private sector and create the environment for a good economy. Thriving state and local economies rely on world-class schools and universities to educate new workers and entrepreneurs; well-maintained roads and ports for businesses to get their goods to market; adequate public safety and health services to keep families safe and attractive communities with parks, museums and other amenities. Income tax cuts would drain the state treasury of money needed to provide these critical services.

Personal and corporate income taxes generate about half of Georgia's annual revenue. Georgia is expected to collect $21.8 billion in the 2016 fiscal year and $10.9 billion of that is projected to come from personal and corporate income taxes. To put that in perspective, the income tax alone could pay for all of Georgia's public education costs including K-12 schools, universities and technical colleges. It brings in more than twice as much as Georgia spends on health care each year. It's impractical to raise sales taxes or other fees high enough to recover that amount of money, so big cuts to the income tax would almost assuredly lead to spending cuts that hurt the economy.

[1] "State Personal Income Tax Cuts: A Poor Strategy for Economic Growth," Center on Budget and Policy Priorities. 3/21/2013.

[2] "States with 'High Rate' Income Taxes are Still Outperforming No-Tax States," Institute on Taxation and Economic Policy. February 2013. "Economic growth per capita" refers to the annual change in gross state product per capita, a broad measure of the value of goods and services produced in a state – adjusted for population.

[3] For similar studies, see Mazerov, Michael. "Academic Research Lacks Consensus on the Impact of State Tax Cuts on Economic Growth," Center on Budget and Policy Priorities. 6/17/2013.

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