Policy Report

Menu of Revenue Options to Pave Way for Georgia's Rebound

Low Revenues Keeping Georgia on a Path to Mediocrity, 2014 Update

By Wesley Tharpe, Policy Analyst

Georgia is one of the lowest-taxed states in the country, which prevents state and local governments from collecting the revenue they need to fully fund education, public services and other ingredients of economic success. But lawmakers can reverse these budget shortfalls by choosing from a menu of options designed to responsibly raise more revenues over time.

Deep cuts in state funding the last few years are compromising Georgia's economic competitiveness. Budget cuts translate to fewer teachers in Georgia's classrooms and less money for roads, bridges, community services and other investments that families and businesses rely on. Increasing revenue and promoting future public investments would reverse these negative trends and lay the foundation for a modern economy that provides good jobs, broadly shared growth and a higher quality of life.

To create a prosperous state, it is important to find the proper balance in tax strategy. Letting revenue levels drop too low is just as undesirable for Georgia's citizens and businesses as creating a tax system that strangles economic growth. Without vital services like health care and public safety, Georgia's communities are unable to thrive and the state becomes a less attractive place to work, start a business or raise a family.

This report lays out 15 available options to update Georgia's rickety tax system, which is failing to meet the state's growing needs. The report gives lawmakers a revenue "menu" to select from as circumstances require, rather than a comprehensive plan to implement all at once. The options are divided into four thematic categories: **Bolster the Sales Tax; Trim Benefits for Wealthiest Taxpayers; Close Income Tax Loopholes; and Review Other Taxes and Fees.** These categories are meant to provide a general guide for the types of revenue-raising tools available to Georgia policymakers.

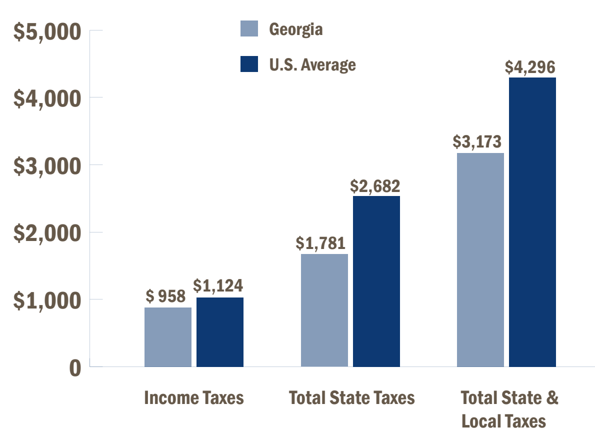
Georgia's Taxes are Comparatively and Historically Low

Georgia collects less revenue from its citizens and businesses than almost any other state. According to the most recent data, Georgia ranks 49th in the amount of state revenue collected per person;[1] 46th in combined state and local revenue per person[2]; and 44th in business taxes as a share of the economy.[3] Georgia's state treasury brought in $901 less per person than the average state in 2013, the most recent year of data available.

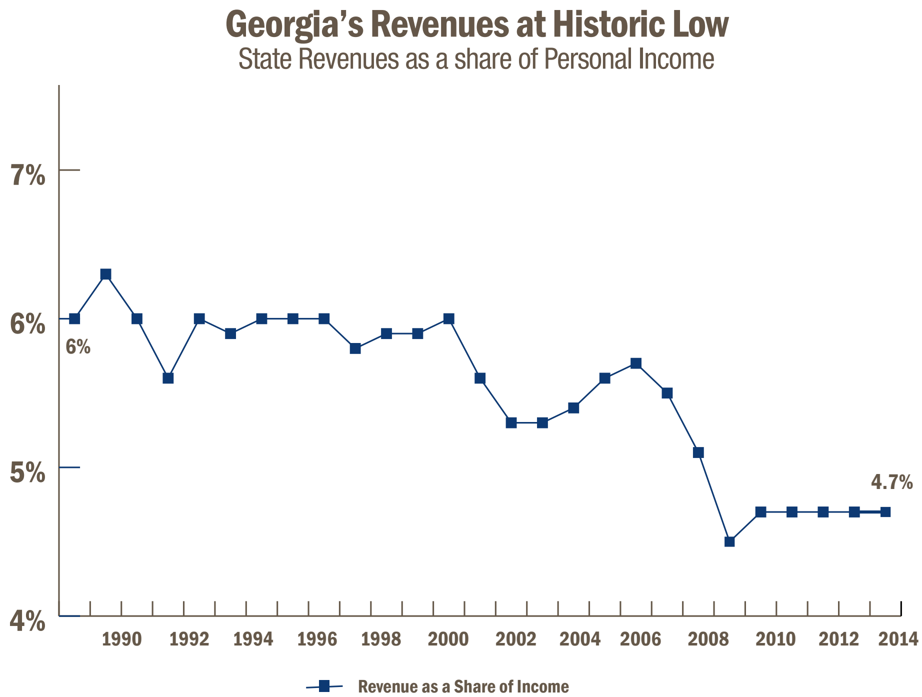
Georgia's taxes are not only low compared to similar states, but also compared to its own recent past. Georgians will devote an estimated 4.7 percent of their annual income to state taxes in 2014, up slightly from a historic low of 4.5 percent in 2010. That compares to an average of 5.9 percent in the 1990s.

Georgia's Taxes are Below Average

Tax Collections per capita



Sources: Federation of Tax Administrators, Center on Budget & Policy Priorities; Note: Income and total state taxes are for fiscal year 2013. State and local taxes are averages for fiscal years 2010 and 2011, the most recent data available.



Sources: Governor's Budget Reports and U.S. Bureau of Economic Analysis.

Because Georgia's taxes are extremely low in both relative and historical terms, state lawmakers have a lot of room to maneuver for increasing revenues while keeping the state competitive. If Georgians paid 5.5 percent of their income in state taxes, Georgia's treasury would collect an additional $3 billion per year and the rate would still be below the 1990s average.[4]

Menu of Tax Options Available

Raising new revenues could help reverse the damage done by deep cuts enacted in Georgia's K-12 schools and universities in recent years, while also allowing new investments in transportation, public safety and other needs. This report describes 15 of the most viable and measured tax options to responsibly raise those funds. It includes both smaller items that might be thought of as easy fixes, such as closing loopholes, and larger ones that are more ambitious and long-term, such as expanding the sales tax to cover services. Some are included in recommendations of the 2010 Special Council on Tax Reform and Fairness for Georgians, while others stem from policies used in other states.

Unlike the recommendations for comprehensive tax reforms released in GBPI's 2010 report, Advancing Georgia's 1930s Tax System to the Modern Day, these options are **not** a collective package of tax reforms to be implemented all at once. Instead, the list provides a menu of revenue sources to consider on individual merit.

A Brief Note on Methodology

The tax options in the following sections all include a brief description, a dollar estimate for potential revenue impact and a notation that describes whether the precision of those estimates are 'high,' 'medium,' or 'low.' The strength of each estimate depends on a few factors, most notably the reliability of the number's source. An official fiscal note from state experts is more likely to rank "high" than a newspaper article or industry report. No matter how an item is ranked, all estimates are approximate and ranges are provided when most appropriate. For more methodological details, see Appendix A.

Bolster the Sales Tax

Increase the state sales tax to 5 percent

Annual Revenue Gain: $1.3 billion[5] | Precision of Estimate: High

One of the more aggressive options available to lawmakers is to raise the state's sales tax rate to 5 percent from its current rate of 4 percent. Doing so would bring Georgia's combined state and local sales tax to 8 percent in most counties and 9 percent in both the city of Atlanta and those counties that passed the transportation tax in 2012. Georgia's average combined state and local sales of 7 percent is already slightly above the national average, ranking 23rd highest in 2014. If Georgia had an 8 percent combined rate in 2014, it would have ranked 13th highest.

Georgia's Sales Tax Slightly Above National Average, But Relatively Low for the South, 2013

	State Tax Rate	Average Local Tax Rate	Combined Rate	National Rank (combined rate)
Tennessee	7.0%	2.45%	9.5%	1
Arkansas	6.5%	2.69%	9.2%	2
Louisiana	4.0%	4.89%	8.9%	3
Alabama	4.0%	4.51%	8.5%	6
Texas	6.25%	1.90%	8.2%	11
S. Carolina	6.0%	1.19%	7.2%	17
Mississippi	7.0%	0.00%	7.0%	20
Georgia	4.0%	2.97%	7.0%	23
N. Carolina	4.75%	2.15%	6.9%	25
Florida	6.0%	0.62%	6.6%	29
Kentucky	6.0%	None	6.0%	37
Virginia	5.3%	0.33%	5.6%	41

Source: Tax Foundation. Rates are current as of January 1, 2014.

A higher state sales tax could permanently shore up the state's long-term finances, or it could be made temporary to pay for schools, roads or other large capital investments. Raising Georgia's sales tax a modest amount could also be part of a comprehensive tax reform effort, which means the hike could be partly offset through cuts in other taxes. A 1 percent bump would raise an estimated $1.3 billion per year under the current tax base, or in other words assuming sales taxes aren't expanded to other goods and services.

The drawback to a higher Georgia's sales tax is it would be regressive. Sales taxes inherently fall more sharply on middle- and low-income people than on the wealthy, since working people spend a greater share of their income on everyday necessities. Lawmakers could soften the impact of a higher state sales tax with some sort of rebate or credit, such as a state Earned Income Tax Credit.

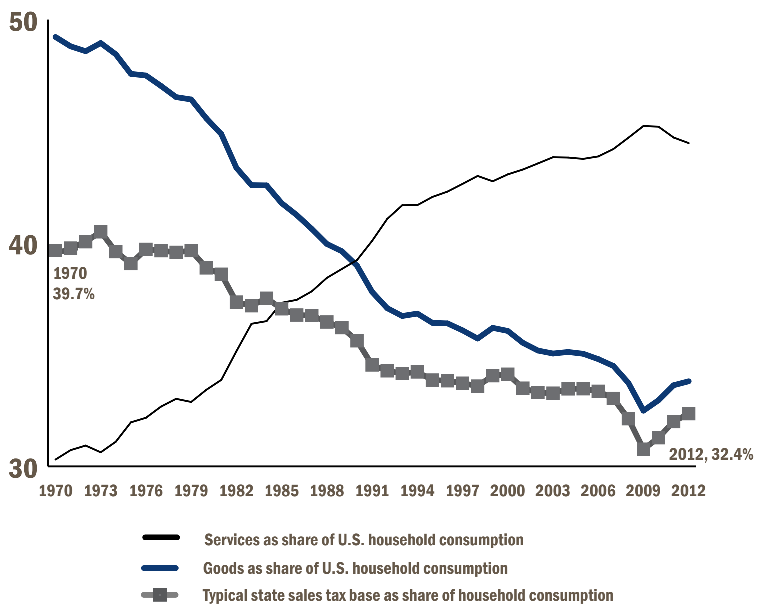
Expand sales taxes to cover more services

Annual Revenue Gain: $803 million[6] | Precision of Estimate: High

Georgia's state sales tax is mostly unchanged from the 1950s and lags behind changing trends in consumer choices. Americans are buying more services and fewer goods than in the past. Services, such as haircuts or veterinary visits, increased from 30 percent to 45 percent of purchases by U.S. households from 1970 and 2012, while the share of purchases for cars, televisions and other tangible goods fell from 49 percent to 34 percent.[7]

Because Georgia and other states historically applied the sales tax only to goods, these trends have caused the sales tax base to shrink. The typical state sales tax only applied to 32 percent of consumption in 2012, compared to nearly 40 percent in 1970. Georgia could adapt to changing times by extending the sales tax to cover a variety of household services now taxed in at least 15 states (listed in Appendix B), which would net an estimated $803 million annually under the current 4 percent sales tax rate. Georgia now taxes only 36 of 168 possible services, compared to the national average of 56.[8]

Growth of Service Economy Erodes Sales Tax Base Over Time



Source: Underlying data from Bureau of Economic Analysis. Provided to GBPI along with some calculations by the Center on Budget and Policy Priorities (CBPP)

Stop treating soda and candy as groceries

Annual Revenue Gain: $53 million[9] | Precision of Estimate: High

Georgia is one of several Southern states that does not apply its sales tax to either candy or sugary beverages, such as sodas and energy drinks.[10] These are included in Georgia's broad grocery sales tax exemption, designed to help families afford the basics. Exempting food from the state sales tax is an essential protection for Georgia's working families, but removing sweets from the exemption could bring in about $53 million each year in new revenue, raising much needed funds while helping fight Georgia's high level of obesity.

Abolish sales tax holidays

Annual Revenue Gain: $41 million[11] | Precision of Estimate: High

Sales tax holidays are widely viewed as poor tax policy. The popular gimmick provides minimal benefits to consumers, over-burdens businesses and diverts resources from vital state services and investments. As a Georgia State University expert put it in 2011, "Overall, the evidence to date on sales tax holidays does not support the arguments of their proponents…. The evidence with regard to sales tax holidays boosting sales of non-exempt items or attracting significant cross-border shoppers suggests they do not. On the other hand, the cost of these uncertain benefits in terms of lost state revenues is substantial."[12] Georgia held an annual sales tax holiday for eight years until 2010, took a break in 2011, then reinstated the practice in 2012. The special tax council in 2010 recommended eliminating them permanently, which would net about $41 million annually.[13]

Trim Benefits for Wealthiest Taxpayers

Limit itemized deductions

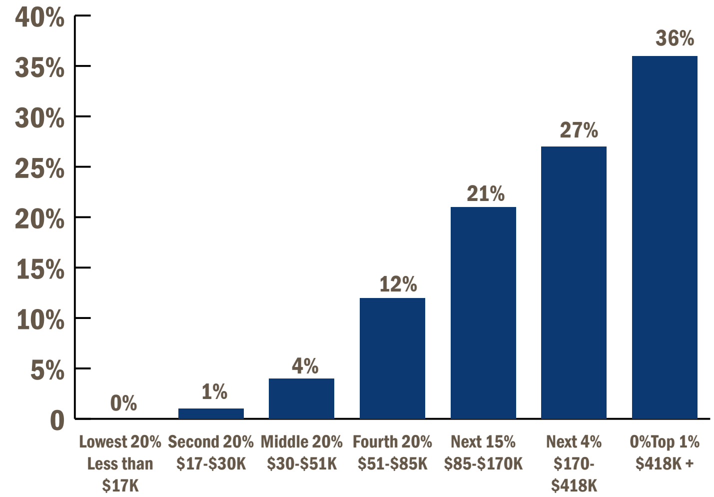
Annual Revenue Gain: $586 million[14] | *Precision of Estimate: High*

When Georgians file their state income returns, they can either take the standard deduction ($2,300 for individuals, $3,000 for married joint filers) or itemize deductions like mortgage interest and local property taxes. About two-thirds of Georgia filers took the standard deduction in 2010, the most recent year data is available, at an average value of $2,461 per person. The remaining third of Georgia taxpayers itemized their deductions that year and enjoyed an average tax benefit of $23,739 per person.[15] That is not surprising, since itemized deductions typically provide disproportionate value to wealthier taxpayers.[16]

Itemized deductions also introduce unneeded complexity into the tax code, which Georgia's special tax council took note of: "Itemized deductions narrow the tax base, create non-conformity adjustments, complicate filing and create distortions in fairness and efficiency."[17] Capping the annual value of itemized deductions at $10,000 for individuals and $20,000 for couples would net an estimated $586 million per year, while affecting mostly the wealthiest Georgia households.

Capping Itemized Deductions Would Mostly Affect Higher Incomes

Share of tax change, by income group, 2013 levels



Source: Institute on Taxation and Economic Policy (ITEP)

End itemized deduction loophold for state income taxes

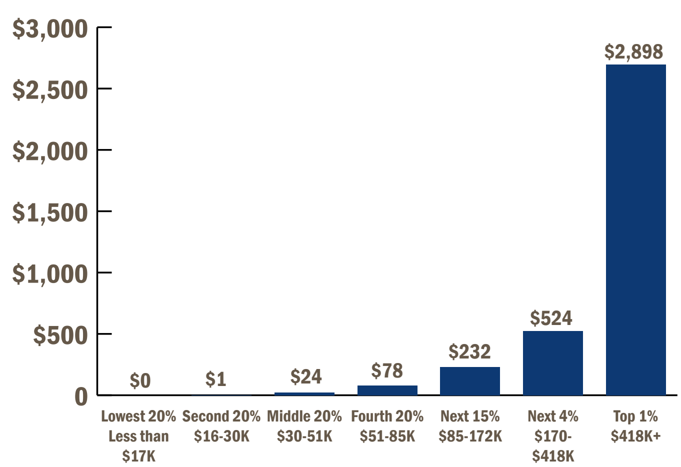
Annual Revenue Gain: $460 million[18] | *Precision of Estimate: High*

Georgia is one of only four states that allows taxpayers to claim a somewhat strange deduction on their state income taxes. Like most states, Georgia "piggybacks" off the federal tax code when it allows taxpayers to claim the same itemized deductions at the state level as the federal level. One deduction allowed on federal income taxes is the deduction taxpayers can claim for the amount of state income taxes they pay in that year. This makes sense for federal taxes, since it prevents Georgians from being "double-taxed" on income already collected as taxes by the state.

But letting the deduction for state income taxes also be claimed on the state level creates a circular quirk in the law. It allows for the bizarre outcome of taxpayers using their state income tax bill to lower not only their federal income taxes, but their state income taxes too.

Georgia's Itemized Deduction Quirk Gives Largest Benefit to Those at Very Top

Average annual tax benefit from deduction for state income taxes, by income group



Source: Institute on Taxation and Economic Policy (ITEP)

Forty-six states disallow this loophole, and closing it in Georgia would net an estimated $460 million annually. Keeping the deduction on the books delivers an outsized benefit to Georgians at the very top of the wage scale, since itemized deductions are most valuable to higher-income taxpayers. This deduction is unavailable to the 62 percent of Georgia taxpayers who take the standard deduction instead of itemizing.[19]

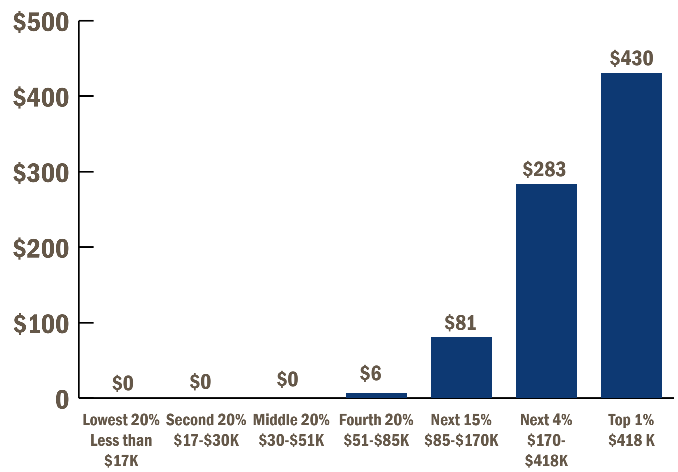
Return the elderly exemption to pre-recession levels
Annual Revenue Gain: $127 million[20] | Precision of Estimate: High

Georgia's income tax structure holds significant financial benefits for people after they turn 65. Social Security benefits are tax-exempt, as is an abnormally large amount of "retirement income," such as payments from pensions and IRAs. Georgians over age 65 may exempt up to $65,000 in retirement income each year, and couples of that age may exempt up to $130,000.

The retirement income exclusion was $35,000 per retiree until 2012, when legislation nearly doubling the exemption took effect. This expanded pension exemption will cost Georgia taxpayers an estimated $752 million in the 2015 budget year, which is about the amount needed to eliminate the state's shortfall for K-12 education.[21]

Trimming Pension Exemption Would Ask Slightly More From Wealthiest Retirees

Average change in annual taxes caused by returning retirement income exclusion to $35K per taxpayer, by income group



Source: Institute on Taxation and Economic Policy (ITEP)

The special tax council recommended phasing out the retirement income exclusion entirely, but a modest alternative is to drop it back to its long-standing, pre-recession levels of $35,000 for individuals and $70,000 for couples. That would raise an estimated $127 million in state funds per year, while still exempting much or all retirement income for most seniors. Roughly half of Georgians over 65 years old received some form of retirement income other than Social Security in 2012, with an average annual payout of about $24,000. A return to pre-recession standards keeps income taxes the same for at least 60 percent of Georgia seniors, while increasing them slightly for wealthy retirees.

Reinstate an inheritance tax for largest estates
Annual Revenue Gain: $125 million[23] | Precision of Estimate: Low

The estate tax is an extremely narrow levy that more than 99 percent of Georgians will never pay.[24] Georgia once gained about $125 million each year from a credit that sent federal estate tax revenue to the state treasury, but that funding disappeared in the mid-2000s after Congress phased out the credit. Georgia could reverse this change by creating a state-level inheritance tax, as 22 other states did.[25]

Close Income Tax Loopholes

Eliminate small and unproven income tax benefits
Annual Revenue Gain: Up to $97 million[26] | Precision of Estimate: Medium

Like most states, Georgia's income tax code contains a variety of credits and exemptions designed to encourage certain behaviors or goals. People can claim credits for things such as taking drivers' education courses and writing off premiums for high-deductible healthcare plans. Companies receive benefits for actions such as investing in research or purchasing company vehicles. Some of these preferences are likely good policy, while others are probably ineffective. Virtually all of them are unproven since lawmakers do not review the effectiveness of tax breaks very often.

Some of these tax benefits are expensive and claimed by large numbers of taxpayers, while others are quite small and claimed by a narrow subset of Georgians. If lawmakers singled out all income tax credits, deductions and exemptions that cost less than $15 million per year, they could put around $97 million of potential new revenue on the table.[27] They could then review them one-by-one and eliminate the ones that have outlived their usefulness.

Revisit the tax scholarship for private school students
Annual Revenue Gain: Up to $58 million[28] | *Precision of Estimate: High*

Georgia created a controversial program in 2008 that uses public money to pay private-school tuition for thousands of students. The credit provides a lucrative tax benefit for higher-income people and profitable companies contributing to so-called student scholarship organizations (SSOs), which make the private tuition payments. Proponents initially sold the program as a service to low-income students in poorly performing schools, but evidence shows many recipients are from upper-middle class and wealthy households. The program offers limited transparency and accountability. Scholarship recipients aren't identified and there is no assessment of their academic progress. Lawmakers could scale back or eliminate the credit entirely, the latter of which would net the state $58 million per year.

Prohibit personal income tax diversion
Annual Revenue Gain: Unknown | *Precision of Estimate: N/A*

Georgia is one of only 16 states that allows a controversial practice known as a "personal income tax diversion."[30] It works like this: state lawmakers design a corporate income tax credit allowing certain companies to keep a portion of employees' personal income tax withholding as a subsidy, rather than sending payments to the state as is standard practice. The result is that rather than helping pay for schools, roads or public safety, the taxes those workers pay on their wages are kept by their employer. Several of Georgia's business tax credits allow this diversion, including credits meant to add jobs and spur film production.

Review Other Taxes and Fees

Increase the cigarette tax by $1 per pack
Annual Revenue Gain: $325 to $400 million[31] | *Precision of Estimate: Medium*

At 37 cents per pack, Georgia has the fourth lowest cigarette tax in the nation and the lowest rate among its neighbor states.[32] Florida, North Carolina, South Carolina, Arkansas, Mississippi and Kentucky all raised tobacco tax rates in recent years. If Georgia follows lead of its neighbors, it could raise substantial revenues while also helping achieve a vital public health goal. Hiking the state's cigarette tax by $1 per pack could raise an estimated $325 to $400 million annually, assuming similar changes are applied to other tobacco products. It would also put Georgia smack in the middle of cigarette taxes nationwide. The current median state – where half of states have higher tobacco taxes and half have lower ones – is Iowa, where cigarettes are taxed at $1.36 per pack.

Raise the gas tax closer to national average
Annual Revenue Gain: Up to $406 million[33] | *Precision of Estimate: Medium*

With Georgia in desperate need of new for transportation improvements, lawmakers could make a small increase in the state's motor fuel tax, perhaps phased in over time. The true value of the motor fuel tax has declined for years. People now drive more fuel efficient cars and young people drive less than their parents did. The tax is also not pegged to inflation, which means it naturally degrades over time.

Modest Gas Tax Increases Yield Good Value for Small Cost

Gas Tax Increase (both gasoline and diesel)	State Revenue Yield Annual (millions)	Rise in Monthly Gas Tax for Average Driver
1 cent	$62-$68	$0.43
2 cents	$123-$135	$0.86
3 cents	$185-$203	$1.29
4 cents	$246-$271	$1.72
5 cents	$308-$339	$2.15
6 cents	$369-$406	$2.59

Source: Author's calculations using figures from the Institute on Taxation and Economic Policy (ITEP) and Georgia State Fiscal Research Center.

Raising Georgia's fuel tax a modest amount would bring in considerable revenue, while only minimally affecting most consumers. Hiking the gas tax for both gasoline and diesel by six cents per gallon, for example, would bring Georgia in line with the national average at a cost to the average driver of $2.59 per month, or less than a trip to Starbucks or McDonald's.[34] Increasing the state's gas tax by two cents per gallon brings it in line with the average for Southern states and rakes in up to $135 million per year at an added cost to the average driver of less than a dollar per month. Lawmakers could also tie the tax directly to inflation or to the rising costs of construction, so it stays linked to future economic growth.

Tax all communications services the same

Annual Revenue Gain: $166 to $277 million[35] | *Precision of Estimate: Medium*

One of the more obscure areas of state taxation is the labyrinth of levies on communications services, including phone, cable and internet. Companies that provide services with physical infrastructure, such as local phone and landline cable, pay both state taxes and local franchising fees. Satellite companies and streaming video companies pay far less, if anything. The 2010 special tax council recommended replacing this confusing system with a simple 7 percent surcharge on all communications services, with revenues shared between state and local governments. Such a change would deliver the state treasury up to an estimated $277 million a year. North Carolina, Virginia and to a lesser extent Florida enacted similar reforms in recent years.[36]

Tax companies extracting Georgia's natural resources

Annual Revenue Gain: $105 million[37] | *Precision of Estimate: Low*

Georgia is one of 15 states without some form of severance tax, a small levy on profits gained from extracting a state's natural resources. Georgia lacks major sources of resource-wealth, such as oil or natural gas, but it is among the world's largest producers of kaolin, a mineral used in various paper and pharmaceutical products. Companies extract more than $1 billion of kaolin from Georgia's soil each year.[38] Lawmakers last considered adding a severance tax on the state's mineral wealth in 1993, when experts estimated it would generate $65 million per year for the state. Adjusted for inflation, that estimate now equals $105 million per year.

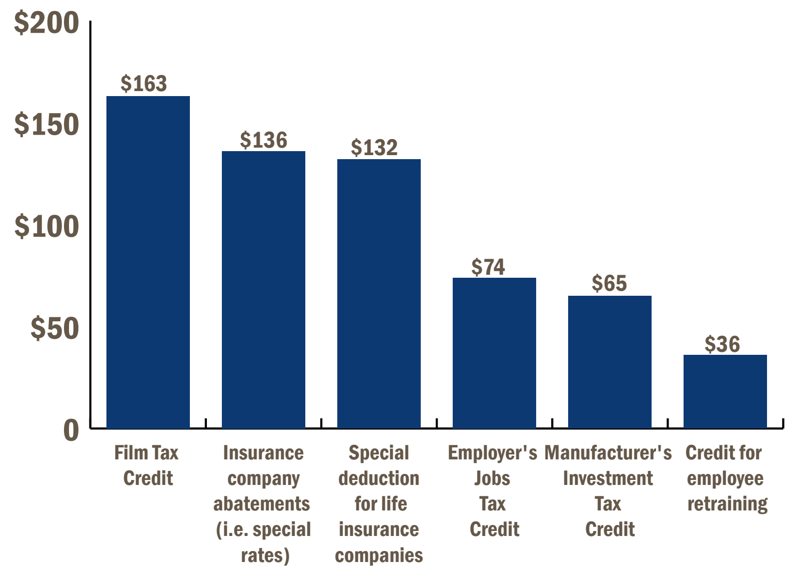
Good Governance Reforms Could Also Raise Some Revenue Over Time

Beyond the direct tax code changes discussed above, two additional reform options would likely raise additional revenue while also promoting a more open and accountable state government.

- **More closely review business tax subsidies** – Each year, Georgia spends hundreds of millions on a variety of special credits and exemptions for private companies in Georgia. But unlike other state investments such as education or health care, these programs are rarely reviewed to ensure effectiveness. Georgia was recently ranked as among the 26 states that are "trailing behind" on evaluating these incentives by the Pew Center on the States.[39] Creating a system to periodically analyze these programs would give lawmakers a tool to determine which tax credits and exemptions are working and which are not.[40] They could then cut or expand them based on actual return, as opposed to only anecdotal evidence or lobbyists' sway.

Largest Tax Subsidies Have Big Price Tag

Estimated costs in millions, FY 2015



Source: GBPI analysis of Georgia Tax Expenditure Report for FY 2015

- **Sunset and review sales tax exemptions** – Georgia's sales tax includes dozens of exemptions including some that are sound policy options and others that are likely outdated, ineffective or aimed at special interests. Similar to income tax loopholes, most of these exemptions remain on the books for years with little to no review. That is why the 2010 special tax council recommended a "sunset" (or expiration) date on most of these sales tax exemptions, which would bring Georgia in line with emerging best practices from other states. Oregon, for example, puts a six-year sunset on all of its tax exemptions, with staggered expiration dates so different groups of exemptions are reviewed every two years. Creating a similar system in Georgia would regularly prompt reviews of billions in potential revenue and determinations of which specific exemptions are worthwhile.

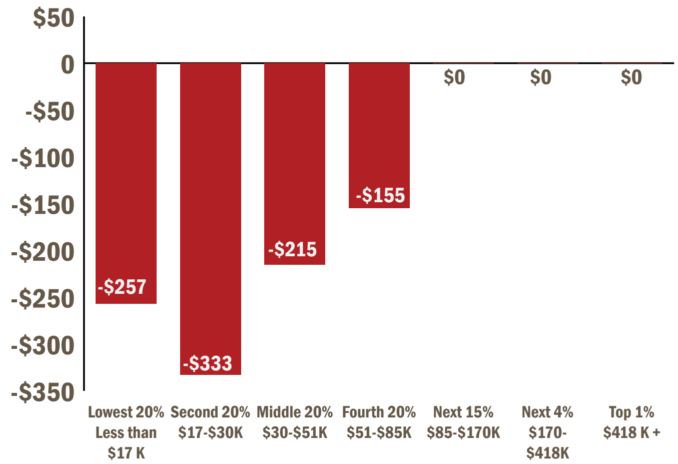
Balancing Out New Revenues With a New Credit

To bolster Georgia's broken revenue system lawmakers should ensure middle class families and the state's most vulnerable citizens don't shoulder too much of the cost of state operations. The best way to achieve that is through a state Earned Income Tax Credit (EITC), which is a best-practice policy modeled off a successful federal program.

Low- and middle-income Georgians already pay a greater share of income in state and local taxes than do the wealthiest, mainly because sales taxes, property taxes and excise fees fall more sharply on working people. Georgians who make less than $15,000 a year pay 11.3 percent of their annual income in state and local taxes. Taxpayers in the middle, who make $29,000 to $47,000 per year, pay 9.6 percent. The top 1 percent of Georgians with annual incomes of $393,000 or more pays an estimated 4.9 percent.

Enacting a Georgia EITC Would Give Big Tax Cut to Working Families

Average change in annual tax bill, by income group



Source: Institute on Taxation and Economic Policy (ITEP)

Twenty-four states and the District of Columbia address this disparity through state EITCs. Only available to people who work, the tax credit helps families afford necessities and cancels out the cost of some state and local taxes. The tax credit is modeled on a larger federal version, which President Reagan once called "the best anti-poverty, best pro-family, best job-creation measure to come out of Congress."[41] Families with children who earn up to about $38,500 to $52,500 (depending on marital status and the number of children in the family)[42] generally can qualify, but the largest benefits go to families with incomes between about $10,000 and $22,000.[43] A Georgia version of the credit at 10 percent of the federal value would cost about $274 million per year.[44]

Menu of Revenue Options to Get Georgia Back on its Feet Georgia Budget and Policy Institute (GBPI), June 2014		
Tax Policy Change	**Revenue Gain (annual, in millions)**	**Estimate Precision**
Bolster the Sales Tax		
Increase the state sales tax to 5 percent	$1,300	High
Expand sales taxes to cover more services	$803	High
Stop treating soda and candy as groceries	$53	High
Abolish sales tax holidays	$41	High
Trim Benefits for Wealthiest Taxpayers		
Limit itemized deductions	$586	High
End the itemized deduction loophole for state income taxes	$460	High
Return the elderly exemption to pre-recession levels	$127	High
Reinstate an inheritance tax for largest estates	$125	Low
Close Income Tax Loopholes		
Eliminate small and unproven income tax benefits	Up to $97	Medium
Revisit the tax scholarship for private school students	Up to $58	High
Prohibit personal income tax diversion	Unknown	N/A
Review Other Taxes and Fees		
Increase the cigarette tax by $1 per pack	$325 - 400	Medium
Raise the gas tax closer to national average	Up to $406	Medium
Tax all communication services the same	$166 - $277	Medium
Tax companies extracting Georgia’s natural resources	$105	Low
Balancing Out Revenues With a New Credit		
Enact State Earned Income Tax Credit (EITC)	($274)	High

Appendix A: Methodology

The revenue estimates in this report come from a variety of sources, including official fiscal notes on recent legislation, GBPI analysis of Georgia's Official Tax Expenditure Report, industry figures, newspaper articles and academic studies. Several of the estimates were provided to GBPI by the Washington, D.C.-based Institute on Taxation and Economic Policy (ITEP), which houses one of the most respected tax simulation models in the country. The report would not be possible without their assistance.

Whenever possible the most recent estimate is used, though in some cases an older number is the only available source. Where appropriate, GBPI has updated these older numbers using inflation adjustments.

Each estimate is described as having a "precision of estimate" that takes these factors into account. Values of "high," "medium," and "low" are assigned based on a combination of the source of the original estimate (e.g. official fiscal note vs. industry report) and how recently the number was published. These categories provide a basic confidence level for each estimate.

Description of Sources and Data Used for Revenue Estimates

Precision of Estimate	Sources
High	Recent official fiscal notes from the Georgia Department of Audits and Accounts as produced by the Georgia State University Fiscal Research Center or Carl Vinson Institute of Government; Institute for Taxation and Economic Policy (ITEP) microsimulation model; Georgia's official Tax Expenditure Report (for individual estimates)
Medium	Georgia's official Tax Expenditure Report (for aggregated estimates); older fiscal notes; academic reports; in-house calculations using Georgia-specific data
Low	Industry reports; newspaper articles

Readers should understand estimates in all categories are approximate and any new legislation would require more in-depth estimates from the state's financial experts. Changes in the tax code interplay with each other, such as when a higher sales tax lowers consumer spending and in turn decreases business receipts. So any collection of changes would need to be carefully analyzed to estimate its total, combined effect.

Appendix B: Services Taxed in At Least 15 States But Not Georgia

- Labor charges on repairs to motor vehicles
- Automotive washing and waxing
- Automotive road service and towing services
- Auto service, except repairs, including painting and lube
- Parking lots and garages
- Automotive rustproofing and undercoating
- Software – Downloaded
- Books – Downloaded
- Music – Downloaded
- Movies/Digital Video – Downloaded
- Carpet and upholstery cleaning (in-home)
- Altering and repairing garments
- Health clubs, tanning parlors, reducing salons
- Shoe repair
- Swimming pool cleaning and maintenance
- Membership fees in private clubs
- Repair labor, general
- Labor on radio/TV repairs; other electronic equipment
- Labor charges – repairs, other tangible property
- Installation charges by persons selling property
- Installation chargers – other than seller of goods
- Custom processing (on customer's property)
- Taxidermy
- Welding labor (fabrication and repair)
- Janitorial services
- Pest control
- Landscaping services (includes lawn care)
- Automotive storage
- Marina service/docking
- Overnight RV park

Endnotes

[1]"2013 State Tax Revenue," Federation of Tax Administrators.

[2]"2011 State & Local Revenue." Federation of Tax Administrators.

[3]"Total State and Local Business Taxes," Council on State Taxation. 2012

[4]GBPI calculations based on *Governor's Budget Reports and U.S. Bureau of Economic Analysis.*

[5]Estimate assumes the rate is increased to 5 percent under the current tax base, or in other words without expanding the tax to cover additional goods or services. Institute on Taxation and Economic Policy (ITEP), by email, March 6, 2014

[6] Ibid.

[7]Michael Leachman and Michael Mazerov. "Four Steps to Moving State Sales Taxes into the 21st Century," Center on Budget and Policy Priorities (CBPP). 7/9/2013.

[8] "Sales Taxation of Services." Federation of Tax Administrators. The Federation performed an updated survey of states in 2007; however, Georgia and four other states did not respond. Therefore, data for these states is from 2004.

[9]Institute on Taxation and Economic Policy (ITEP), by email, March 6, 2014.

[10]"Sales Tax Treatment of Groceries, Candy and Soda," Tax Foundation. 1/1/2012.

[11]"Fiscal Note, HB 958 (LC 34 4112-EC))," Department of Audits and Accounts. 2/21/2014.

[12]Buschman, Robert D. "Sales Tax Holidays and Revenue Effects in Georgia," Georgia State University Fiscal Research Center. 3/2011.

[13]2010 Special Council on Tax Reform and Fairness for Georgians: Recommendations. 1/7/2011.

[14]Ibid.

[15]GBPI calculations using data from Georgia Department of Revenue Statistical Report FY 2012. Page 29.

[16]"Writing Off Tax Giveaways, How States Can Help Balance their Budgets by Reforming or Repealing Itemized Deductions," Institute on Taxation and Economic Policy. August 2010.

[17]2010 Special Council on Tax Reform and Fairness for Georgians: Recommendations. 1/7/2011. Page 15.

[18]Institute on Taxation and Economic Policy (ITEP), by email, March 6, 2014.

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[20]Institute on Taxation and Economic Policy (ITEP), by email, March 6, 2014.

[21]"Georgia Tax Expenditure Report for FY2015," Georgia State University Fiscal Research Center.

[22]U.S. Census Bureau American Community Survey (ACS), 2012 1-year estimates. Table S0103.

[23]Author's calculations using "Georgia Tax Expenditure Report for FY2015," Georgia State University Fiscal Research Center.

[24]In 2004, only 615 Georgians had to pay the tax, less than 1 percent of all state residents who died in that year. "How the Federal Estate Tax Affects Georgia," Citizens for Tax Justice. 6/5/2006.

[25]"State Taxes on Inherited Wealth Remain Common: 22 States Levy an Estate or Inheritance Tax," Center on Budget and Policy Priorities (CBPP). 1/4/2012.

[26]Author's calculations using "Georgia Tax Expenditure Report for FY2015," Georgia State University Fiscal Research Center.

[27]Specific income tax benefits meeting these criteria include: Higher Education Savings Plan Contributions; Interest on U.S. Obligations; Organ donation expenses; Aged 65/blind deduction; Premiums for high deductible health plans; Rural Physician's Credit; Disabled person home purchase or retrofit credit; Driver Education Credit; Disaster Assistance Credit; Qualified Caregiving Expense Credit; National or Air Guard Life Insurance Credit; Adoption of Foster Child Credit; Low-Income Credit; Quality Jobs Tax Credit; Optional Investment Tax Credit, Port Activity Tax Credit; Research Tax Credit; Seed Capital Fund Credit, Qualified Health Insurance Expense Credit, Qualified Transportation Credit, Business Enterprise Vehicle Credit, Employer Credit for providing child care or purchasing child care property; Historic Rehabilitation Credit, Diesel Particulate Emission Reduction Technology Equipment Credit, Clean Energy Property and Wood Residuals Credit, Employer's Credit for Basic Skills Education, and Qualified "Angel" Investor Credit.

[28]"Georgia Tax Expenditure Report for FY2015," Georgia State University Fiscal Research Center.

[29]"A Failed Experiment: Georgia's Tax Credit Scholarship for Private Schools," Southern Education Foundation. 2011.

[30]"Paying Taxes to the Boss," Good Jobs First. 4/2012.

[31]The range for this revenue estimate comes from two sources: "Revised Fiscal Note, House Bill 39 (LC 18 7785)," Georgia Department of Audits and Accounts. 3/4/2010; and "Look at smoking preferences reveals 'left-digit' price effects," University of Georgia. 7/30/2012.

[32]Federation of Tax Administrators. Cigarette tax rates as of 1/1/2014. Per pack cigarette taxes are 43 cents in Alabama, 45 cents in North Carolina, 57 cents in South Carolina, 62 cents in Tennessee and $1.34 in Florida.

[33]Author's calculations using estimates from: "Building a Better Gas Tax," Institute for Taxation and Economic Policy (ITEP). 12/11; and "Georgia's Fuel Tax," Georgia State University Fiscal Research Center. 12/10.

[34]Author's calculations using estimates from: "Building a Better Gas Tax," Institute for Taxation and Economic Policy (ITEP).

[35]Revenue estimate is derived from two sources: "Fiscal Note, House Bill 388 Substitute (LC 18 9981S)," Department of Audits and Accounts. 4/6/2011; and the special tax council's final report, page 31.

[36]Hawkins, Richard R. "Lessons for Georgia: Telecommunications Tax Reform in Some of the Other Southeastern States," Georgia State University Fiscal Research Center. 1/2013.

[37]"Special Report on the Kaolin Industry in Georgia," Atlanta Journal Constitution. 5/9/1993.

[38]"Kaolin," The New Georgia Encyclopedia. Accessed 2/20/2014.

[39]"Evidence Counts," Pew Center on the States. 4/2012.

[40]Rhode Island recently became the national model in this area. Their revenue agency now produces reports every three years detailing the benefit and cost of each tax incentive, including its impact on the state's overall budget and economy. The governor's budget proposal then must make a recommendation to continue the tax break, make changes or end the program. Budget hearings in the Legislature provide a forum to discuss and compare the results and costs of tax breaks alongside other types of state spending. "Rhode Island's Plan for Evaluating Tax Incentives," Pew Center on the States, 8/1/2013.

[41]"Cutting Taxes to Nothing," The New York Times. 9/18/2012.

[42]"Preview of 2014 EITC Income Limits, Maximum Credit Amounts and Tax Law Updates," Internal Revenue Service. Accessed 3/7/2014.

[43]"Policy Basics: State Earned Income Tax Credits," Center on Budget and Policy Priorities (CBPP). 12/5/2010.

[44] Institute on Taxation and Economic Policy (ITEP), by email, March 6, 2014.