GBPI
Georgia Budget & Policy Institute

Fact Sheet

Tax Facts: Georgia Gives Up Billions through the Tax Code

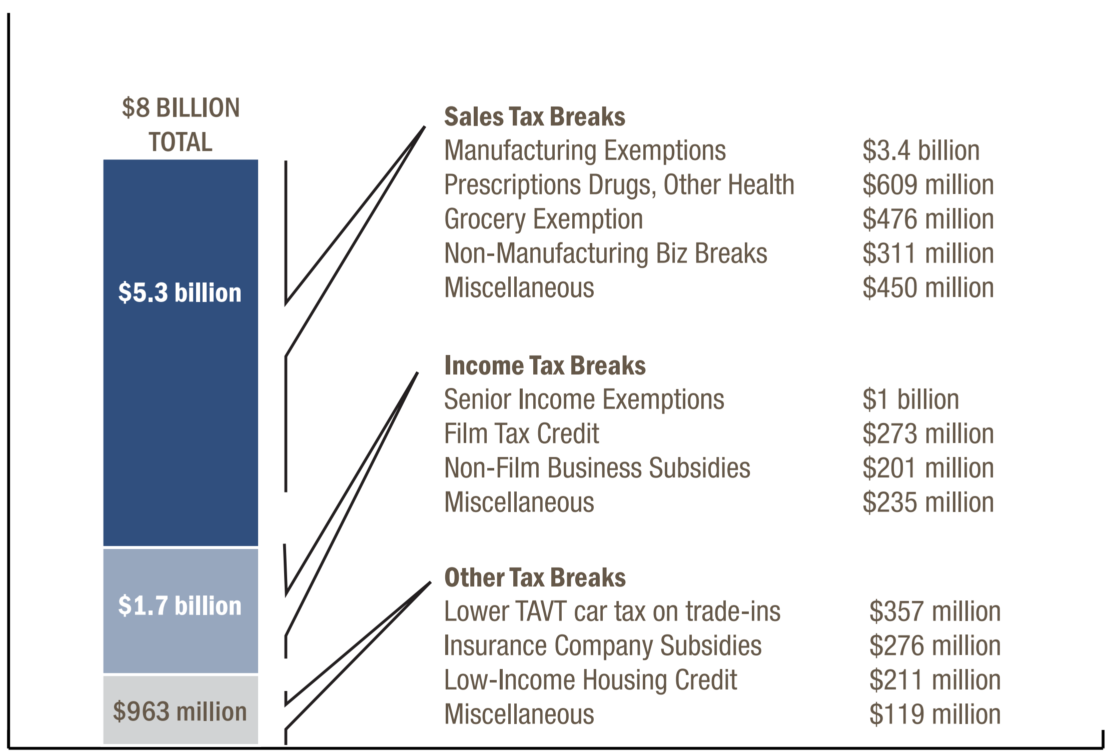
By Wesley Tharpe, Policy Analyst

Georgia foregoes billions of dollars in state revenue each year through dozens of credits, deductions and other special preferences called tax expenditures. As with spending items in the state's annual budget, tax expenditures are supposed to promote policy priorities that can range from economic development to support for working families. But while the budget sets public objectives by spending state dollars the treasury collects, tax expenditures advance objectives by not collecting taxes in the first place. Stronger evaluation of tax breaks could help Georgia get a better bang for its buck.

Fact No. 1: Tax expenditures drain billions in state revenue each year.
Georgia's assortment of tax breaks is projected to cost the state treasury an estimated $8 billion in the 2016 budget year, according to GBPI analysis of the state's official tax expenditure report which is released each January.[1] About two-thirds of the $8 billion is attributable to exemptions from Georgia's sales tax. The rest is due to exemptions from the state's personal income tax, corporate income tax and miscellaneous levies like Georgia's new system of taxing cars.

Georgia's Tax Breaks are Costly

Estimated revenue loss of state expenditures, FY 2016



Source: GBPI analysis of Georgia Tax Expenditure Report for FY 2016; Notes: Totals are approximate. Income Tax section does not include personal exemption, standard deduction or credit for taxes paid to other states. Low-Income Housing Credits can be applied to either income or insurance premium tax liability, but the program's combined cost is listed in Other Tax Breaks for clarity.

Fact No. 2: Some of these tax breaks provide critical protections for poor and middle class families.

Not all tax breaks are bad public policy. Some are designed to keep the state's tax system from unduly harming either low-income Georgians or people struggling to stay in the middle class. Groceries, prescription drugs and goods bought with food stamps are exempted from Georgia's sales tax for that reason. Georgia seniors aren't asked to pay income taxes on their Social Security benefits. Low-income workers get tax credits to help them afford the rising costs of childcare and other necessities. These types of policies should certainly be monitored to ensure efficiency, but generally they are essential tools lawmakers should maintain and, in some cases, expand.

Fact No. 3: Business tax breaks are very expensive and some are of dubious merit.

About 56 percent of revenue lost from tax expenditures is due to special tax treatment for Georgia businesses. Examples include sales tax exemptions for manufacturers and airlines, income tax credits for film producers and special tax deductions for life insurance companies.

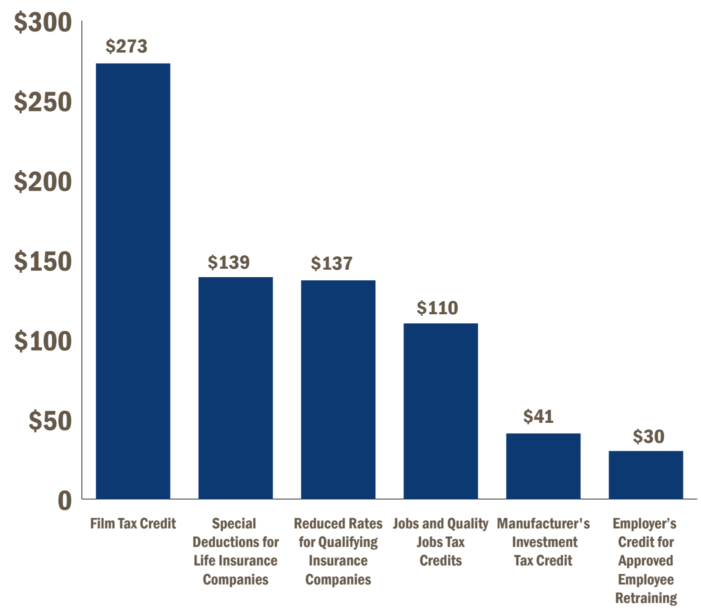
The most expensive measure, by far, is Georgia's sales tax exemption for manufacturers, which don't pay sales taxes on things like machinery and electricity. The exemption will cost an estimated $3.4 billion in the 2016 budget year, compared to $1.1 billion for all other business tax breaks combined. States often exempt manufacturers from their sales tax because experts tend to agree states should avoid taxing so-called business inputs when feasible. When sales taxes are levied at multiple intervals in the production process, businesses pass them on to consumers – artificially raising the amount of sales taxes people pay at the register. As a result, most sales tax exemptions for businesses are considered sensible aspects of state tax codes.

In contrast, most tax experts oppose *income tax* breaks for businesses. At best, income tax breaks are an inefficient and often ineffective way to attract new companies, bolster job growth or encourage research and development. At their worst, income tax subsidies just boost the profits of favored industries and well-connected special interests.

Some income tax breaks are broadly available, while others are industry-specific. Film producers and life insurance companies are examples of businesses that receive various credits and deductions in exchange for doing business in the state.

Income Tax Subsidies Carry Big Price Tag

Estimated costs in millions, FY 2016



Source: GBPI analysis of Georgia Tax Expenditure Report for FY2016; Notes: 'Jobs and Quality Jobs Tax Credits' includes two separate but similar programs; Insurance company abatements and special deductions for life insurance companies are technically tax breaks from the insurance premium tax, rather than the income tax. They are included alongside income tax subsidies because the same principles apply.

Fact No. 4: Stronger evaluation of tax breaks could identify sensible ways to save.

State lawmakers routinely scrutinize public investments like education and health care, but tax expenditures are rarely reviewed to ensure effectiveness. Georgia ranks among the 26 states lagging on evaluating tax incentives, according to the Pew Center on the States. Lawmakers should create a system to periodically analyze these programs to give them a tool to determine which tax credits and exemptions work as designed. Then they should cut or expand them based on actual return, without regard to anecdote-based theories or lobbyist influence. Florida, Louisiana, Rhode Island and Oregon are among the states whose lead Georgia could follow in establishing such a system.

[1]Georgia's tax expenditure report includes estimates for individual tax breaks only. GBPI arrives at the $8 billion estimate above by manually summing a portion of tax breaks in the report, based on the following assumptions and adjustments: (1) GBPI's summation includes breaks deliberately enacted by Georgia lawmakers to the state's personal and corporate income tax, sales tax, premium tax, ad valorem and excise taxes. It does not include a handful of items for which the state's report does provide estimates: income tax breaks where Georgia is "piggybacking" off a federal rule; Georgia's personal exemption, standard deduction and credit for taxes paid to other states, which are natural parts of the tax code; and services that Georgia could choose to apply the sales tax to but doesn't. (2) The official report does not provide precise estimates for items between $0 and $1 million per year; GBPI includes them by assigning each such item a value of $0.5 million.