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Georgia Budget and Policy Institute

STATE BUDGET FACTS

GEORGIA HAS MANY REVENUE OPTIONS OTHER THAN DEEP CUTS

CUTS WEAKEN GEORGIA'S STRUGGLING ECONOMY

Relying solely on additional budget cuts weakens an already struggling economy and leaves Georgians without essential services at a time when they are needed most.

A balanced, responsible approach to managing this fiscal crisis includes targeted budget cuts, but also additional revenues. This strategy avoids further deterioration of vital public services, such as education and healthcare.

OTHER STATES BEGINNING TO REAP BENEFITS OF THEIR 2009 TAX INCREASES

Thirty-three states enacted more than 100 revenue-raising measures in 2009. For a complete list by state, visit www.ncsl.org.

These are already boosting revenues. The Rockefeller Institute found, "Revenue gains toward the end of calendar 2009 were often driven by legislated tax increases rather than growth in the economy and tax base."ⁱ

See reverse for revenue options. For complete reports, visit www.GBPI.org.

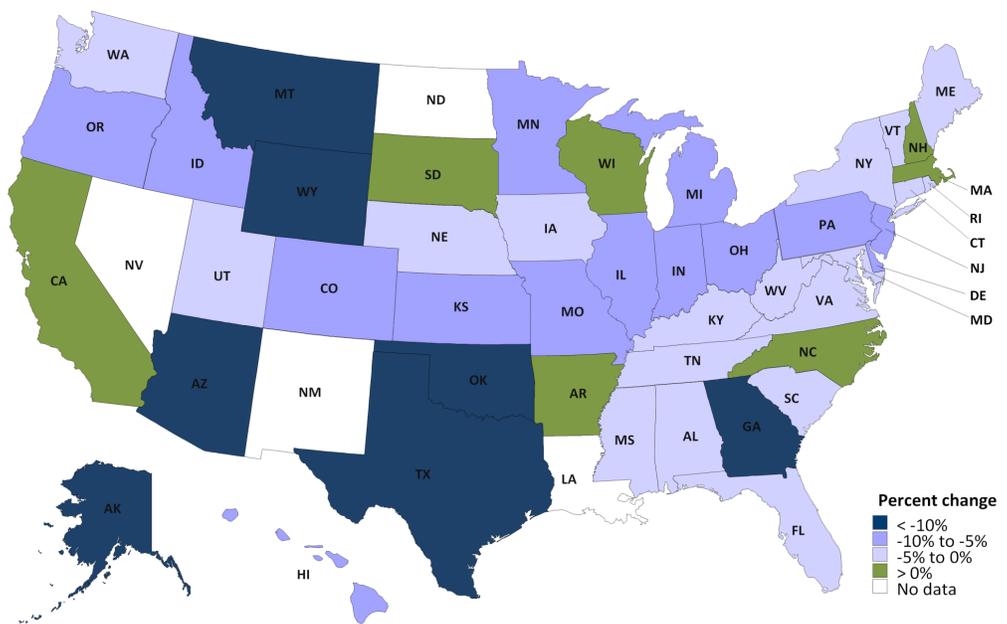
RECOMMENDATION

GEORGIA HAS MANY REVENUE OPTIONS AVAILABLE:

Lawmakers should avoid harming Georgia's economy more by slashing vital services and decimating state government.

Georgia is 46th lowest in state and local revenues in the nation, therefore targeted tax increases are warranted. Without new revenues, Georgia is facing an additional \$2.6 billion deficit in FY 2012, according to the governor.

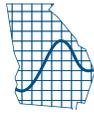
GEORGIA'S REVENUE DECLINE IN FINAL QUARTER OF 2009 IS 6TH HIGHEST



Source: Rockefeller Institute of Government (preliminary data)

THOUGHTFUL ANALYSIS...RESPONSIBLE POLICY

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LAWMAKERS SHOULD CONSIDER THE FOLLOWING REVENUE OPTIONS

Policymakers have several options for raising new revenues and thereby reducing the state's deficit, including raising tax rates, expanding tax bases, and collecting more taxes owed.

SALES TAXES:

1. Increase the sales tax rate from 4 percent to 4.5 percent in FY 2011, which raises \$600 million, then reduce the rate back to 4 percent in FY 2013, as the proposed regional transportation sales tax begins.

Lawmakers should only do this in combination with implementing a refundable earned income tax credit or increasing the existing low income tax credit.

2. Expand the base to services. For example:
 - Eliminate the sales tax exemption on fees for services by repair persons, raising \$150 million.ⁱⁱ
 - Apply the sales tax to dry cleaning, pet grooming and non-veterinary services, pest control, and gym/club membership fees, raising \$35 million.ⁱⁱⁱ
3. Create a ceiling on compensation for vendors that collect sales tax, raising \$22 million.^{iv}

INCOME TAXES:

4. Impose a temporary one percent surcharge on income more than \$400,000 for married couples (\$200,000 for singles). This raises an estimated \$200 million a year and impacts less than one percent of taxpayers.^v (House Bill 1066)
5. Reduce exemptions, deductions, or credits. For example:
 - Lower the personal exemption by \$500. This impacts most filers and raises \$200 million.^{vi}
 - Restrict itemized deductions, such as repealing the deduction for state income taxes, which raises \$400 million. Restricting deductions impacts less than half of all filers.^{vii}
 - Lower the \$50 million cap on tax credits for donations to student scholarship organizations to \$2 million.

- Place an income ceiling on child care tax credits to focus the credit on families with limited ability to afford care.
- Lower the retirement exclusion from \$35,000 to \$20,000.
- Reduce business tax credits and restrict their use against payroll withholding.

EXCISE TAXES AND OTHER REVENUE:

6. Increase the excise tax on cigarettes by \$1 per pack to raise \$300 to \$400 million. (House Bill 39)
7. Update user fees to cover more fully the cost of associated state services, where appropriate (raising millions).
8. Enhance collections of existing taxes by adequately funding the Department of Revenue, closing corporate loopholes, and enacting reforms to aid in collections. (Several bills introduced in the House.)

In addition to short-term revenue changes for mitigating the fiscal crisis, policymakers should undertake long-term, comprehensive tax reform to strengthen the tax base, enhance fairness, and solve Georgia's structural budget deficit.



i Lucy Dadayan, "Final Quarter of 2009 Brought Still More Declines in State Tax Revenue," Rockefeller Institute, Feb. 23, 2010.

ii Georgia State University, Fiscal Research Center, 2007.

iii Ibid.

iv Georgia Department of Revenue, 2009.

v Institute on Taxation and Economic Policy, 2009.

vi Institute on Taxation and Economic Policy, 2010.

vii Ibid.