FACT SHEET

Georgia Budget and Policy Institute

Capital Gains Tax Breaks

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Capital gains tax preferences are costly, inequitable, and ineffective. **They deprive states of millions of dollars in needed funds**, benefit almost exclusively the very wealthiest members of society, and fail to promote economic growth in the manner their proponents claim.

- In 2008, only nine states – Arkansas, Hawaii, Montana, New Mexico, North Dakota, Rhode Island, South Carolina, Vermont, and Wisconsin – offered substantial tax breaks for all income derived from long-term capital gains. Since then, Rhode Island, Vermont, and Wisconsin have eliminated or reduced their capital gains tax preferences in response to their budget shortfalls.
- Capital gains are the profits one realizes from the sale of an asset, such as stocks, bonds, investment or vacation real estate, art, or antiques. The two most common assets held by working Americans – their investments for retirement and their homes – generally are not treated as taxable capital gains when they are sold. Assets held in 401(k)s or Individual Retirement Accounts (IRAs) – the means by which most households own stocks and bonds – are considered "ordinary" income when they are sold and are therefore ineligible for capital gains tax breaks.
- In practice, very few low- and moderate-income Georgia taxpayers report income from capital gains. Federal data from 2006 indicate that, in Georgia, taxpayers with adjusted gross income (AGI) of less than $50,000 comprised 69 percent of all federal tax returns filed, but constituted just 8 percent of all returns with income from capital gains. Similarly, taxpayers in this income group held 26 percent of Georgia AGI in 2006, but received just 4 percent of reported capital gains income.

Share of Capital Gains Tax Benefit by Income Group in Georgia

Income Group	
Bottom 80%	1%
Top 20%	99%
Top 5%	92%
Top 1%	**77%**

- Not surprisingly – given the concentration of capital gains income among the very wealthiest taxpayers – the benefits of capital gains tax preferences are similarly focused on the well-to do. If Georgia excluded half of net long-term capital gains from taxation in 2008, virtually all – **99 percent** – of the tax reductions would have been realized by the richest 20 percent of taxpayers in the state; the remaining 80 percent of taxpayers collectively would have received just 1 percent of the overall capital gains tax break. The state revenue loss would have totaled an estimated **$340 million**.
- Claims that capital gains tax breaks help to promote economic growth are without merit. A policy statement by the state's economist last year notes: **"Because of how states tax capital gains, the effect of a cut in Georgia's tax on capital gains will likely provide little incentive to increase investment in Georgia**."[2]

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[1] Excerpted from "A Capital Idea," the Institute on Taxation and Economic Policy (ITEP), March, 2009, and ITEP's Microsimulation Model, April 2009.
[2] Heaghney, K. et. al. *Economic Effect of a Tax Rate Reduction for Capital Gains.* GSU Fiscal Research Center, April 13, 2009.