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House Bill 1198 Eliminates $21 Million in Tax Credits for 1 Million of the Poorest Georgians

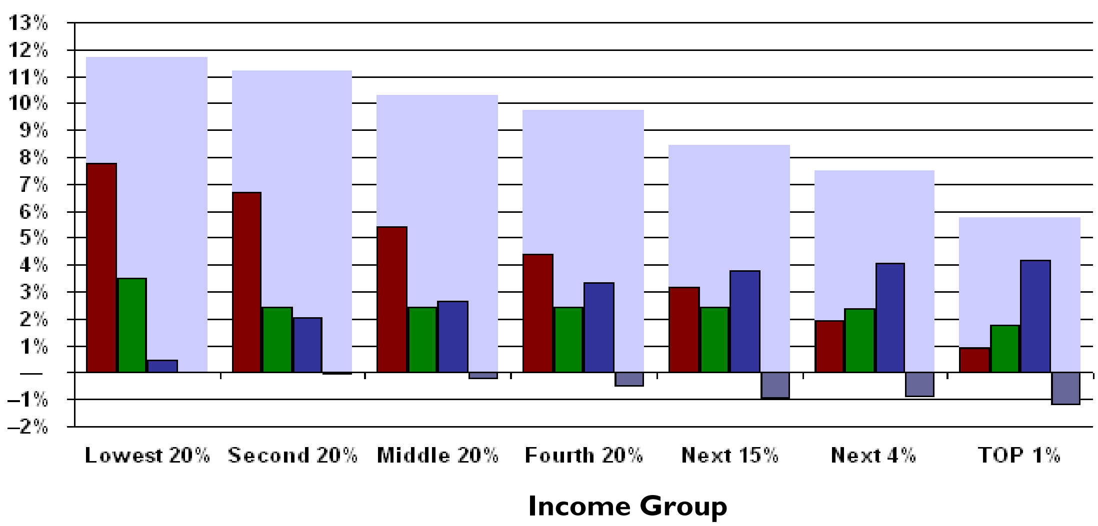
Leaves in Place Refundable Credits for Corporations

By Sarah Beth Gehl, MUPP, Deputy Director

Just a week after passing a half billion dollars in more tax breaks for the wealthiest Georgians and corporations, the Senate revived a proposal that died in the House on Crossover Day — a proposal that eliminates the refundable portion of the Low Income Tax Credit.

Currently, taxpayers with income below $20,000 are eligible for a tax credit of up to $26 for individuals, with additional benefits for the elderly and families with children (up to $104 for a family of four). If the tax credit exceeds a taxpayer's income tax liability, he or she receives the remaining credit as a refund.

Chart 1 **Georgia State & Local Taxes in 2007**
Shares of family income for non-elderly taxpayers



Source: Institute on Taxation and Economic Policy, 2009

More than one million Georgia taxpayers claimed the Low Income Tax Credit in 2007, receiving $29 million in credits. If the House agrees to eliminate the refundable portion of the credit, they will be cutting the Low Income Tax Credit by two-thirds, lowering the total credits to low-income Georgians by $21.8 million.

If lawmakers pursue this proposal because they do not believe in refundability for more than one million of Georgia's lowest-income taxpayers, then it follows that they will also need to enact legislation to correct the refundable nature of certain corporate tax credits.

Corporations doing business in Georgia can claim certain tax credits even if they have zero corporate income tax liability. These include the film tax credit, the jobs tax credit, and the headquarters tax credit. A corporation with tax credits in excess of its income tax liability is able to receive the remaining credits by taking the credits against employee payroll withholding. Here's how it works: Employees have income withheld from their paychecks for state income taxes. That money typically flows to the state. However, if the company has tax credits and no income tax liability to use the credits against, the state allows the corporation to keep the employees' withholding payments in the amount equal to the excess tax credits.

Corporate tax credits taken against payroll withholding (the essentially refundable portion) cost $20.9 million in 2007, nearly matching the cost of the Low Income Tax Credit refunds.

Adding insult to injury, the legislature passed HB 1023, benefiting the wealthiest Georgians by cutting the capital gains tax in half. It also eliminates the corporate net worth tax for a combined $380 million loss to the state annually. Lawmakers also passed HB 1055, which eliminates the income tax on retirement income for the state's wealthiest seniors (costing $150 million when fully implemented). These bills await the governor's signature or veto.

Why is the Low Income Tax Credit Refundable?

Low-income taxpayers do not have a large income tax liability. Instead, they pay substantial sales taxes since they consume a greater portion of their income than higher income residents do. Georgians earning less than $16,000 pay 7.8 percent of their income on average in state and local sales and excise taxes; however, Georgians earning $62,000 pay 4.4 percent and those earning over $433,000 pay 0.9 percent on average (Chart 1).[1]

The refundable portion of the Low Income Tax Credit (the portion that exceeds income tax liability) is intended to offset some of the sales tax liability of low-income Georgians. In its current refundable form, it offsets a small fraction of sales tax liability for low-income taxpayers, making an overwhelmingly regressive tax somewhat less so. Since relief cannot be targeted specifically to low-income taxpayers through the sales tax, it must be done through the income tax.

Other Practical Options to Balance the Budget

There is no doubt about the fact that Georgia desperately needs more revenues. However, there are many logical and fair options for seeking revenues that do not focus solely on those taxpayers with the least ability to afford a tax increase now or after the recession. Lawmakers should seek either broad-based revenue measures or those targeted at taxpayers with the greatest ability to afford it. One tax credit that most states have already corrected is the deduction for paying state income taxes, which gives filers who itemize a deduction for their state income taxes. Removing this circular deduction would save $450 million a year.

Endnotes

[1] Institute on Taxation and Economic Policy, "Who Pays," 2009, http://www.itepnet.org/wp2009/ga_whopays_factsheet.pdf.

Contact: Sarah Beth Gehl, sbgehl@GBPI.org

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