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Georgia Budget and Policy Institute

# TAX REFORM FACTS

## INCOME TAX EVENS OUT THE BURDEN FOR FAMILIES

### A MAJOR MOVE TO SALES TAX SHIFTS TAXES ONTO MIDDLE- AND LOW-INCOME GEORGIANS

As Georgia leaders consider changes to the tax system, there's discussion of moving away from the current balanced tax system of personal income, corporate income, and sales tax to a system dominated by the sales tax. Rating agencies note that a tax system comprised of those three broad-based taxes, along with a variety of more narrowly-based taxes, are often more stable and reliable. Currently, Georgia has a system composed of 49% personal income taxes, 33% sales taxes, and 5% corporate income taxes, along with a number of smaller revenue streams. (When local taxes are added, those ratios change to state and local tax revenue composed of 29% income, 29% sales, and 30% property tax.)

Although slight shifts in the balance between income and sales taxes should be debated as part of responsible tax reform, a wholesale change from a balanced system to a sales-tax dominated system would be a radical shift that places a higher tax obligation on Georgia's middle- and low-income families.

### INCOME TAX TAKES MIDDLE CLASS FAMILIES INTO ACCOUNT (...AND SENIORS, VETERANS, DISABLED...)

We all recognize that a family of four living on \$50,000 is different than a single person living on \$50,000. The family of four must provide housing, food, clothing, and other necessities for four people, whereas the single person only provides for one. Our income tax system makes adjustments for that reality.

### R E C O M M E N D A T I O N

**ONE OF THE LARGEST QUESTIONS FOR TAX REFORM IS "WHO PAYS?" A DRAMATIC SHIFT FROM INCOME TO SALES TAX MEANS MIDDLE- AND LOW-INCOME GEORGIANS WILL FOOT MORE OF THE BILL.** Broadening the income tax base and lowering the rate can be good tax policy, as discussed in GPBI's *Advancing Georgia's 1930s Tax System to the Modern Day*. However, these changes should be accompanied by a robust, refundable earned income tax credit and other measures to ensure taxes are not shifted to middle- and low-income Georgians.

The income tax system excludes a base amount of income per person to ensure we are not taxing the most basic level of income. Each person in the four person family receives a personal exemption (\$5,400 for the parents and \$3,000 for each child). The single person receives one \$2,700 personal exemption. The family of four pays about \$1,900 in state income tax on their \$50,000 income, whereas the single worker pays about \$2,500.

**The sales tax does not recognize that it takes a larger amount of income to provide for more people. The income tax does.**

Beyond recognizing families through personal exemptions and child tax credits, the income tax recognizes other groups such as veterans, seniors, low-income families, and persons with disabilities through larger exemptions and targeted credits. Any dramatic shifts from the income tax to the sales tax will shift taxes onto these populations -- often our most vulnerable populations.

**THOUGHTFUL ANALYSIS...RESPONSIBLE POLICY**

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