

# GBPI

Georgia Budget and Policy Institute

# TAX REFORM FACTS

## MAJOR CHANGES TO HOUSE BILL 388 STILL REDUCES REVENUES AND BENEFITS TOP EARNERS

When fully implemented, tax changes in HB 388 will result in an annual revenue loss of \$141 million to \$185 million—revenue losses Georgia can't afford. Tax reform should not be a revenue-loser. Instead, comprehensive tax reform should at least keep revenues where they are, or provide additional revenues to assist the state in making the investments necessary to assure Georgia's economy prospers.

### HB 388 WILL HAVE MINIMAL IMPACT ON JOB GROWTH.

Georgia's long-term economic growth depends on a well educated workforce and quality infrastructure. Additional budget cuts to necessities like education, health care, and public safety will hurt Georgia's economic prospects—not create jobs in the long run. In an article with *The Florida Times-Union*, Standard & Poor's Chief Economist David Wyss noted that there is little states can do to instigate the labor market.

"It doesn't work well on the state level because states can't run budget deficits," Wyss said. "So anything you do in reducing taxes has to come back with a reduction in spending, which basically wipes out any stimulus you get."

Georgia is 49th in per capita state tax revenues. To attract businesses, Georgia needs skilled workers, a good transportation system and other building blocks of a strong economy.

### HB 388 PROVIDES THE MAJORITY OF TAX BENEFITS TO THE WEALTHIEST GEORGIANS.

Forty-six percent of the income tax benefits included in HB 388 would go to those earning at least \$500,000 (0.6

"Overall, Georgia's taxes are low, have not increased over the past 30 years as measured by taxes as a share of personal income, and are competitive. Research on business firm location finds that while taxes matter, other factors seem to play a larger role. Factors such as functioning transportation systems, availability of water, and the quality of public education are more important components of the decision-making process."

- Special Council on Tax Reform and Fairness for Georgians

percent of all tax filers) at an average tax break of more than \$10,300. Those making less than \$100,000 (89 percent of all tax filers) will receive an average income tax cut of \$44. Coupled with the taxes on proposed services such as car repairs and telecommunication services, those making less than \$100,000 could actually see a tax increase with HB 388.

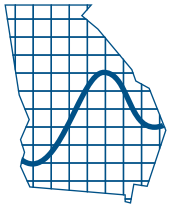
### DISTRIBUTION OF INCOME TAX CHANGES IN HB 388

Income	Number of Filers	Percentage of Filers	Average Tax Change
Less than \$100,000	3,134,894	89.3%	(\$44.74)
\$100,000 to \$240,000	307,272	8.8%	(\$233.89)
\$240,000 to \$500,000	46,148	1.3%	(\$1,006.51)
More than \$500,000	21,292	0.6%	(\$10,339.82)

Source: GBPI calculations based on data from Georgia State University Fiscal Research Center

## THOUGHTFUL ANALYSIS...RESPONSIBLE POLICY

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## SIGNIFICANT CHANGES INCLUDED IN REVISED HOUSE BILL 388

The Special Joint Committee on Revenue Structure met on Monday, April 11th and provided an alternate proposal for tax reform. The committee substitute to House Bill 388 includes the following:

### INCOME TAXES

- Replacement of the current rate structure with a single income tax rate of 4.6 percent in 2012 and 4.55 percent in 2013 and beyond;
- A restructured dependent exemption from the current \$3,000 exemption. The new exemption would be \$5,300 per dependent for those with adjusted gross income (AGI) below \$60,000; \$3,650 for those with AGI between \$60,000 and \$70,000; \$2,000 for those with AGI between \$70,000 and \$200,000; and no dependent exemptions for those earning more than \$200,000.
- A limit on itemized deductions of \$15,000 for single taxpayers earning \$37,500 or less and \$8,500 for single taxpayers earning between \$37,500 and \$80,000. The allowable itemized deductions phase-out dollar-for-dollar thereafter, with no itemized deductions allowed for single taxpayers earning more than \$88,500. Those amounts are doubled for married filing jointly.
- A new tax credit would replace the existing Low Income Credit and go to single taxpayers earning less than \$33,000 and married filing jointly earning less than \$52,000;
- Retirement income exclusion of \$35,000, which is the current rate that was supposed to increase to a full exclusion over the next few years; and,

“[House Bill 388] combines a cut in the personal income tax rate with a couple of tax exemptions sought by business interests. Unraveling a patchwork quilt of special-interest exemptions was a key tenet of reform — a point seemingly forgotten by legislators. Exemptions and tax cuts only make sense if the tax burden is spread more broadly. Adding a few isolated sales or service taxes doesn’t bring Georgia anywhere near that goal.”

- Andre Jackson, *The Atlanta Journal-Constitution*, “Tax Reform: Timidity will get us nowhere,” (April 1, 2011)

- Continuation of deduction for non-reimbursed business expenses in the amount of the federal deduction in excess of \$2,500 up to a net deduction of \$8,000.

### SALES TAX

- New sales tax on casual sales of cars, boats, and aircraft;
- New sales tax on automotive repair services;
- Sales tax exemption on energy used in manufacturing, mining, and agriculture;
- Revised sales tax exemptions for agricultural businesses; and,
- Communications services tax of 7 percent to replace existing franchise fees and other related taxes.

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