Fact Sheet

How Tax Shift Plans Raise Taxes on Most Families

By Wesley Tharpe, Policy Analyst

A seismic shift from income taxes to sales taxes would raise total state taxes for as many as four in five Georgia taxpayers, as explained in a Georgia Budget and Policy Institute (GBPI) comprehensive report published this month.

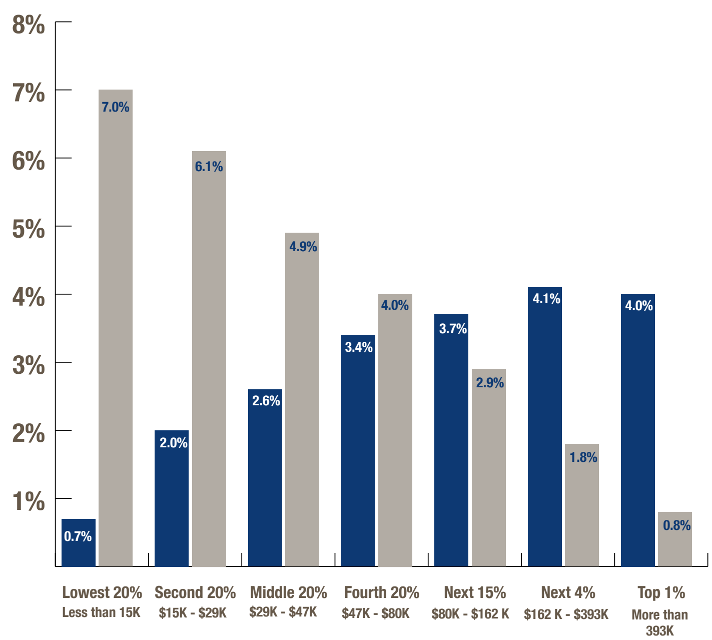
How can cutting income taxes actually increase taxes on most families? It's because different taxes affect different taxpayers in a variety of ways. Shifting the balance between income tax and sales tax collections alters how much various taxpayers owe. Lower income taxes mean wealthier taxpayers and corporations pay less, while higher sales taxes mean middle- and low-income families pay more. Here is why:

- **Personal and corporate income taxes ask more from the well-off than they do low- and middle income families.** Georgians making less than $15,000 per year pay an average of 0.7 percent of their annual earnings in personal income taxes, compared to 4 percent for those making $393,000 per year. The state's corporate income tax follows a similar track. In 2011, the most recent year of data available, corporations with more than $1 million in taxable income owed Georgia an average of $452,148 in corporate income taxes. Those with $25,000 to $50,000 in taxable income only owed an average of $2,161.

- **Sales and excise taxes take a harsher bite from those who earn less.** Unlike income taxes, state and local sales taxes, as well as excise fees on goods such as motor fuel, take a larger share of income from lower-income earners and a smaller share from wealthy taxpayers. This is because working families spend more on everyday needs such as clothes, school supplies and utilities. Georgia taxpayers with less $15,000 in annual income pay 7.0 percent of their earnings in sales taxes each year, compared to less than 1 percent of income for those making more than $393,000.

Georgia's Income Taxes Fall More on Well-off, Sales Taxes Take More from Typical Families

State and local taxes as share of income, by income group



Source: Institute on Taxation and Economic Policy

Shifting further toward sales taxes increases government's reliance on levies that are already disproportionately shouldered by lower- and middle-income people. Shifting away from income taxes decreases the state's use of taxes that take a greater share from large corporations and well-to-do individuals. This pattern played out in every state that passed or explored tax shift plans:

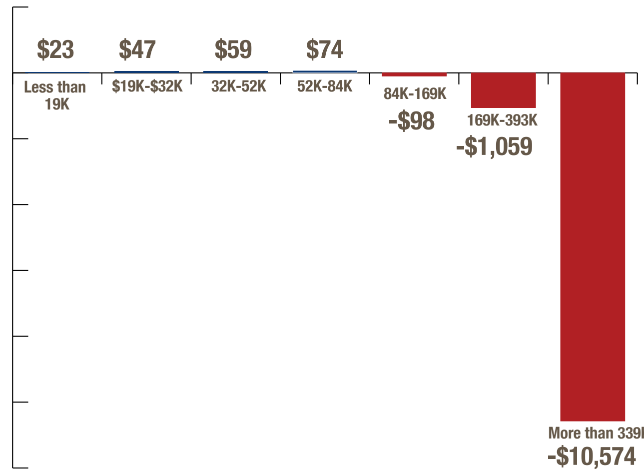
- **North Carolina** recently passed tax shift legislation raising taxes on an estimated 80 percent of the state's families. Those with incomes above $393,000 will get an average tax cut of more than $10,000, while most taxpayers earning less than $84,000 per year will pay more.

- **Louisiana** Gov. Bobby Jindal recently pushed a plan to swap income taxes for higher sales taxes that would have raised taxes for an estimated 60 percent of Louisianans and increased the yearly tax bill for in-state businesses by $500 million.

- **Kansas** passed a massive tax cut in early 2012 that increased taxes by an average of $148 per person for workers making less than $20,000 per year. Because lawmakers did not raise the sales tax high enough to offset the tax cut, the legislation also blew a quarter-billion dollar hole in the state's yearly budget.

North Carolina Law Caused Similar Tax Shift

Average annual tax change per person



Source: Institute on Taxation and Economic Policy

- **Missouri's** governor vetoed a plan in 2013 that proposed to raise taxes on 80 percent of that state's taxpayers while opening an annual budget gap of nearly $800 million.

- **Nebraska** defeated a tax shift plan after nonpartisan analysts showed it would raise taxes for the poor and middle class and cut them for the most affluent. The plan would have hiked total taxes by an average of $631 a year for people earning less than $21,000 a year and $722 a year for those making from $37,000 to $59,999 a year. It would have cut taxes by $4,851 for people earning more than $91,000 a year.

The extent of the tax shift in Georgia will depend on the details of any final plan. Tax shift legislation is set to be considered by the 2014 General Assembly and GBPI will update its estimates as lawmakers add specifics.