Fact Sheet

Tax Facts: Shifting from Income to Sales Taxes Would Raise Taxes for Many

By Wesley Tharpe, Policy Analyst

Some state lawmakers and interest groups push for Georgia to drastically cut or even eliminate its state income tax. But a seismic shift from income taxes to sales taxes could actually raise total state taxes for as many as four in five Georgia taxpayers, as explained in a comprehensive 2013 Georgia Budget and Policy Institute report, "Tax Shift Plans Threaten Georgia."

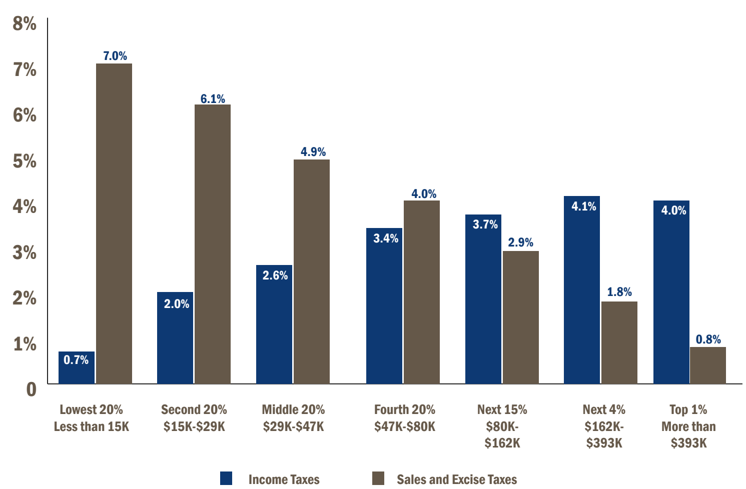
How could *cutting* income taxes increase taxes on most families? For lawmakers to avoid massive cuts in education and other important services, they must replace the lost revenue from income tax cuts with other levies. Georgia's personal and corporate income taxes account for about half of the state's tax revenue each year. Higher sales taxes and excise fees are the most likely source of replacement revenue, since higher property taxes are politically infeasible and Georgia lacks unique sources of revenue like oil and gas extraction available in some states. But sales taxes and excise fees on goods like gasoline take a larger chunk of income from low-wage workers and middle class families than the wealthy. Income taxes, on the other hand, fall more sharply on the affluent.

So, shifting the balance between income and sales taxes changes which taxpayers pay and the amount they pay. Wealthier taxpayers and corporations pay less with lower income taxes, while middle- and low-income families pay more when sales taxes increase. Here is how it works:

Fact No. 1: Personal and corporate income taxes collect more from the well-off than the average working family. Georgians who make less than $15,000 per year, for example, pay an average of 0.7 percent of annual earnings in personal income taxes, compared to 4 percent for those making more than $393,000 per year. The state's corporate income tax follows a similar track. Corporations with more than $1 million in taxable profit owed Georgia an average of $396,000 in corporate income taxes in 2012, the most recent data available. That compares to an average $720 for businesses with taxable profits between $1 and $50,000.

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: Governor's Budget Reports and U.S. Bureau of Economic Analysis

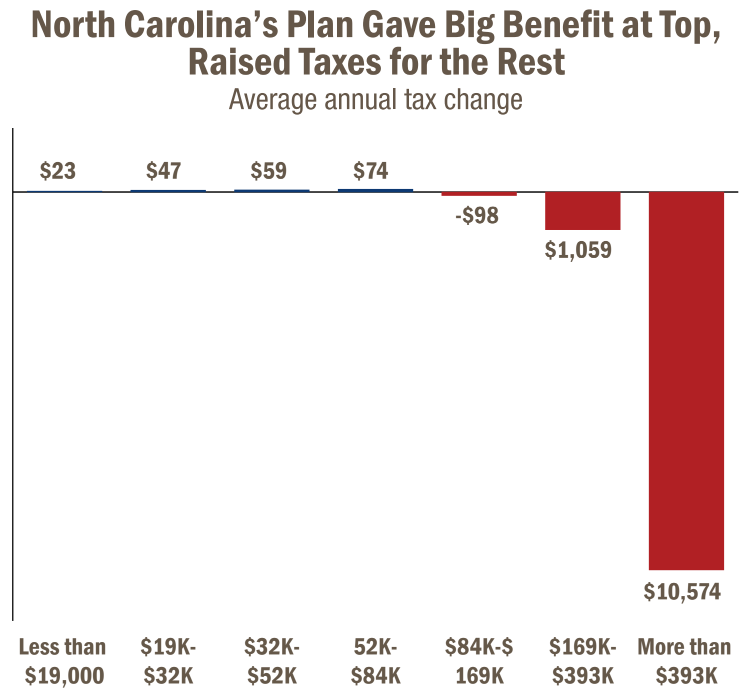
Fact No. 2: Sales and excise taxes take a bigger bite from people who earn less. Unlike income taxes, state and local sales taxes and excise fees take a larger share of income from low-wage workers and the middle class than the affluent. This is because working families usually spend most or all their earnings on basic necessities, while wealthier taxpayers have money left over to save or invest. Georgia taxpayers with less $15,000 in annual income pay an average of 7 percent of their earnings in sales taxes each year, compared to less than 1 percent for people making more than $393,000.

Recent income tax debates in other states illustrate the tax shift dynamic at work.

- **North Carolina** cut income taxes in 2013 and planned to replace the revenue through other means. But lawmakers failed to fully pay for the change, leading to a funding shortfall that will cut up to $1.1 billion per year from public services. Shifting away from income taxes raised taxes on an estimated 80 percent of North Carolina families, with most taxpayers who earn under $84,000 per year now paying more. North Carolinians with incomes more than $393,000 per year got an average yearly tax cut of more than $10,000.

- **Kansas** passed a massive income tax cut in early 2012 that increased taxes by an average of $148 for taxpayers with less than $20,000 in annual income. Meanwhile, the state's wealthiest 1 percent received an average tax cut of more than $21,000. Lawmakers did not raise the sales tax high enough to offset the tax cut, so the legislation also caused a quarter-billion dollar shortfall in the state's annual budget. Kansas now suffers from the fallout of the plan, including a new round of cuts to K-12 education at a time when most states are increasing that funding. Credit rating agencies also downgraded Kansas as a direct result of the plan, so taxpayers will pay a higher rate on the state's debt.

- **Louisiana** Gov. Bobby Jindal pushed a plan in 2013 to swap income taxes for higher sales taxes. The plan would have raised taxes for 60 percent of Louisianans, most of them in households that make less than $53,000 per year. Louisiana businesses would have paid an estimated $500 million more in taxes. Support for the plan quickly withered as the public learned if its flaws, and the governor withdrew it in the face of vocal opposition from the business community and general public.



Source: Institute on Taxation and Economic Policy

Both the underlying tax dynamics and the record from other states is clear. Cutting income taxes and filling the gap with higher sales taxes would shift the cost of government more onto average Georgia families that are less able to pay.