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Policy Report

Tax Shift Plans Threaten Georgia's Future

Proposals Would Hurt Families, Businesses, Communities and the Economy

By Wesley Tharpe, Policy Analyst

Introduction

Currently in vogue in several states, plans to drastically cut or abolish state income taxes and replace them with higher sales taxes are under discussion in Georgia. But these proposals would raise taxes on most Georgia families, harm businesses and communities and critically undermine the state's economy.

Although Georgia could use some form of fundamental tax reform, trading state income taxes for higher sales taxes is really only a *tax shift*, rather than real reform. It simply changes the responsibility for funding state government by raising taxes on low- and middle-income people, dropping them for wealthy households and large corporations and making up the difference through deep budget cuts for schools, roads, hospitals and other ingredients of economic growth. If enacted in Georgia, such a tax shift plan would:

- **Raise taxes on most Georgia families** – Swapping Georgia's personal and corporate income taxes for higher sales taxes would raise the average statewide sales tax to as much as 14.5 percent and increase total taxes on up to 80 percent of Georgia taxpayers, depending on details of the final plan.

- **Cripple Georgia's shared investments** – Recent tax-slashing plans in other states led to deep cuts in public services, such as education and health care, that help fuel a strong economy and high quality of life. Passing tax shift legislation in the state would likely prompt similar budget cuts, on top of those already enacted in Georgia in recent years.

- **Weaken Georgia's economy** – Big income tax cuts are not a proven roadmap to boost the economy or create jobs, nor do states that lack income taxes consistently outperform their peers. Drastically slashing income taxes would, in fact, hobble Georgia's economy by leading to deep cuts in the public pillars of economic growth, including education, transportation and public safety.

- **Harm, not help, most Georgia businesses** – Contrary to popular belief, such a radical tax shift would not be a boon to Georgia businesses. It could raise the taxes of many small businesses and hurt the private sector in other ways, such as driving Georgia shoppers across state lines and shrinking the income consumers have to spend in local shops.

Despite support from powerful out-of-state interests, tax shift plans are misguided roadmaps for change. Georgia's lawmakers should ignore the siren's call and firmly reject the fringe, copycat idea during its likely appearance in the 2014 legislative session that begins in January.

Background: Tax Shift Legislation under Discussion in Georgia

Deeply slashing income taxes could become a priority during Georgia's 2014 legislative session. State lawmakers have already introduced two proposals meant to accomplish that goal during the upcoming assembly and some state leaders speak approvingly of the idea.[1] One of the plans, House Bill 688, proposes to immediately eliminate the state's personal and corporate income taxes and replace them with higher sales taxes. The other, Senate Resolutions 412 and 415, seeks to accomplish the same goal over a longer-term by inserting a complicated formula into the state's constitution. The details of these bills are in Appendix A, "Description of House Bill 688 and Senate Resolutions 412 and 415."

These plans are similar to tax shift efforts in other states, including North Carolina and Louisiana. Proposals of this kind are often pushed by powerful national interests, such as the American Legislative Exchange Council (ALEC), Americans for Prosperity and economist Arthur Laffer.[2] Nonpartisan analysts consistently determine these plans raise taxes on low- and middle-income families and lead to sizable budget cuts for vital state services. For example:

- **North Carolina** recently passed anti-tax legislation that raises taxes on an estimated 80 percent of the state's families while paving the way for more than $600 million worth of annual cuts to state services – an amount roughly equal to that state's entire budget for technical schools. Those with average incomes of around $1 million will get a tax cut of nearly $10,000, while low- and middle-income families will pay higher rates on housing, electricity and other basic essentials.[3]

- **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.[4] He eventually abandoned the plan after polling revealed widespread opposition from both business interests and voters.[5]

- **Kansas** passed a massive tax cut in early 2012 that is scheduled to withdraw $4.5 billion in state funds over six years for state services, while also sharply raising taxes on most families.[6] Two leading tax experts who typically have opposing views on fiscal policy recently dubbed the Kansas plan the country's "worst" tax reform effort of recent years. [7]

- **Missouri's** governor vetoed a plan in 2013 that would have raised taxes on 80 percent of that state's taxpayers while blowing a nearly $800 million hole in the state's yearly budget.[8]

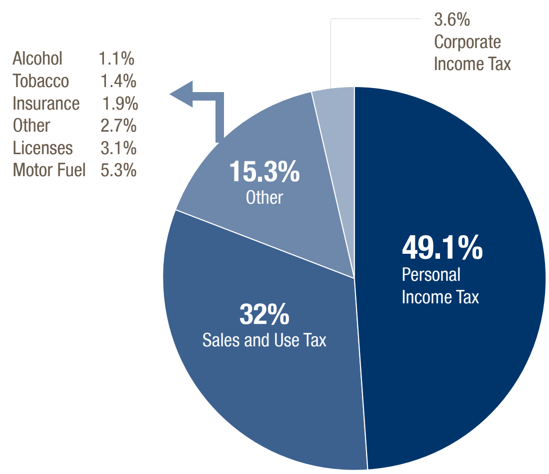
- **Nebraska** defeated a tax shift plan after nonpartisan analysts showed it would raise taxes by more than $700 a year on the middle class while cutting the obligations of higher income taxpayers by nearly $5,000 a year.[9]

Where Do Georgia's Taxes Stand Now?

Georgia's is one of the lowest-taxing states nationwide. Georgia is among the nation's lowest taxed states any way you measure it. The state's treasury collected the second lowest amount of tax money per person in 2012, with the average Georgia taxpayer owing $1,671 in state taxes – $1,164 less than in the typical state.[10] Once local taxes are taken into account as well, Georgians' tax bills are still among the lowest – sixth lowest nationwide as of 2011, the most recent data available.[11] The state's taxes are comparatively low for businesses as well. In 2012 Georgia businesses paid a smaller share in state and local taxes than did businesses in 43 other states.[12]

Georgia's tax system is diversified. Unlike some states that overly rely on a single tax, Georgia levies a mix of different taxes and fees. This helps make Georgia one of only eight states with a AAA bond rating – the highest a state can have – from all three credit agencies.[13] This saves taxpayers millions each year through lower interest payments on state bonds and other debts.[14]

Georgia Income Taxes Generate More Than Half of Tax Revenues



Source: U.S. Census Bureau 2012 State Government Tax Collections

Income taxes are the pillar of Georgia's finances. Even though Georgia's revenue stream is diverse, personal and corporate income taxes are the primary source of its public funds. Out of $16.6 billion collected in state taxes in 2012,

$8.7 billion – or 53 percent – came from income taxes.[15]

Georgia's income and sales tax rates are about average. Georgia is one of 41 states that tax personal income and one of 46 that tax corporate income.[16] On both personal and corporate income taxes, Georgia's 6 percent top rate is similar to most other states in the South. Georgia's average state and local sales tax rate is lower than most of its neighbors, including Tennessee which has the highest average sales tax rate in the country.

Table 1 Georgia's Income and Sales Tax Rates Similar to Southern Neighbors

	Personal Income Tax (top rate)	Corporate Income Tax (top rate)	Sales Tax Rate (state & local average)
Georgia	6.0%	6.0%	7.0%
Alabama	5.0%	6.5%	8.5%
Arkansas	7.0%	6.5%	8.6%
Florida	No-Income-Tax	5.5%	6.6%
Mississippi	5.0%	5.0%	7.0%
North Carolina	7.8%	6.9%	6.9%
South Carolina	7.0%	5.0%	7.1%
Tennessee	No-Income-Tax	6.5%	9.4%
Texas	No-Income-Tax	1.0%	8.1%

Sources: Federation of Tax Administrators, Tax Foundation as of January 2013
Notes: (1) Texas technically does not impose a corporate income tax but its "margin tax" on businesses serves a similar function. (2) North Carolina's top rates are scheduled to change to 5.8 percent for personal income tax and 6.0 percent for corporate income tax in 2014.

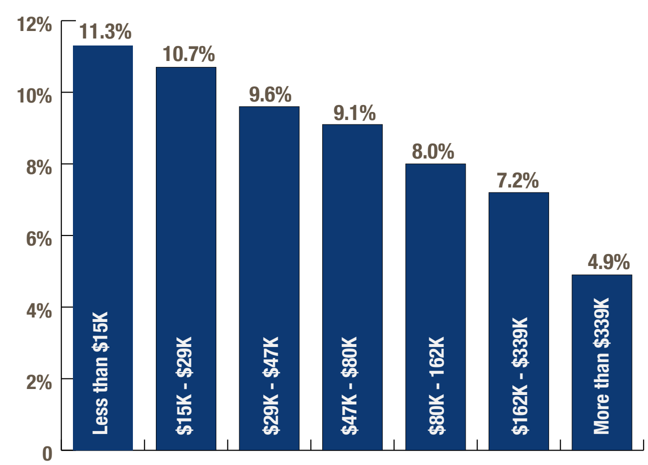
Georgia taxes the poor and middle class more heavily than the wealthy. Once all of Georgia's state taxes are considered, its tax system falls more heavily on low- and middle-income people than on the well-to-do. Georgians making less than $15,000 per year pay 11.3 percent of their annual income in state taxes, for example, while those making more than $393,000 per year pay only 4.9 percent.[17]

Tax Shift Plan Would Raise Taxes on Most Georgia Families

The potential tax shift options available to state lawmakers could increase taxes on up to 80 percent of Georgia taxpayers, which includes most households making less than $85,000 per year. This increase in tax bills would occur, in short, because changing the balance between income and sales taxes drastically alters how much various taxpayers owe. Lower income taxes mean wealthier taxpayers and large corporations pay less, while higher sales taxes mean that middle- and low-income families pay

Low- and Middle-Income Georgians Pay More of Their Income in Taxes

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



Source: Institute on Taxation and Economic Policy more. The technical dynamics of why this occurs are explained in Appendix B, "Why Tax Shift Proposals Raise Taxes on Poor Families and the Middle Class."

Tax shift legislation in Georgia could raise the average sales tax rate to as much as 14.5 percent statewide, depending on assumptions about what will be included in the final plan. That would more than double Georgia's current average rate of 7 percent – 4 percent statewide plus 3 percent in most counties. Fully eliminating the income tax would require the highest sales tax rate, while tweaking certain aspects of it would lead to slightly lower rates. It appears unlikely that there is a feasible way for Georgia lawmakers to replace all of the revenue lost by halving or eliminating the state's income taxes without enacting a new state-level sales tax of at least 6.6 percent. That would bring the combined state and local sales tax rate to 9.6 percent in most counties.[18]

While the exact impact of slashing Georgia's income taxes will depend on details of the final plan, information now available permits reasonable estimates of potential effects. Three of the likelier scenarios are outlined below. All estimates of their potential impact on tax rates and degree of tax increase or decline are generated from the microsimulation model of the Institute on Taxation and Economic Policy (ITEP), a nonprofit, nonpartisan research organization based in Washington, D.C.[19] View the prior endnote for further methodological details.

Table 2 Three Potential Options for Revenue Neutral Tax Shift Plans

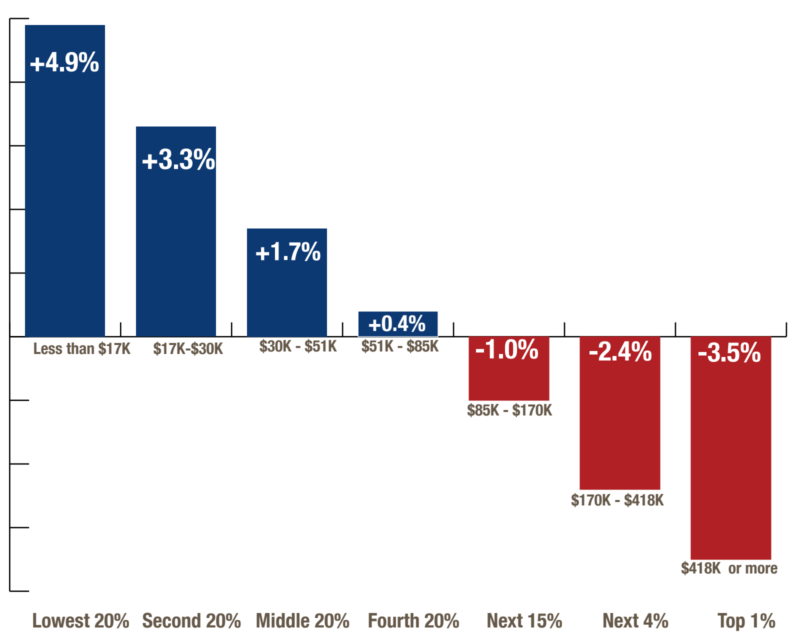
Potential Tax Plan	Change to Income Taxes	Tax Groceries?	Tax Prescriptions?	Tax Services?	New State and Local Average Sales Tax	% of Georgians with Tax Increase
Option 1	Eliminate	No	No	No	14.5%	80%
Option 2	Eliminate	Yes	Yes	No	13.5%	80%
Option 3	Cut in Half	Yes	No	Yes	9.6%	80%

Source: Institute on Taxation and Economic Policy (ITEP) Microsimulation Model, July 2013

- **Option 1: Eliminate income taxes, replace revenue with higher sales taxes and keep all current exemptions** – The first scenario assumes state lawmakers will eliminate Georgia's income taxes and replace all of the lost revenue with higher sales taxes, without extending the sales tax to groceries or any other new items. Under this plan, lawmakers would need to increase the state sales tax rate to an estimated 11.5 percent, raising Georgia's *combined state and local rate* to 14.5 percent in most counties. This plan raises annual taxes on the 80 percent of Georgia households that make less than $85,000 per year.

Shifting from Income Taxes to Sales Taxes Would Raise Tax Bill for Up to 80 Percent of Georgians

Changes in annual taxes as percentage of income, under Option 1

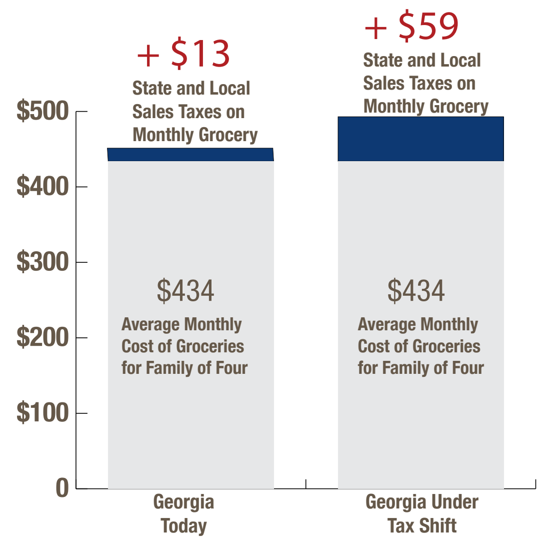


Source: Institute on Taxation and Economic Policy (ITEP) Microsimulation Model, July 2013

- **Option 2: Eliminate income taxes, replace revenue with higher sales taxes and remove exemptions for groceries and prescription drugs** – A second possibility is state lawmakers could eliminate the income tax and replace the lost revenue by both raising the sales tax rate and eliminating current exemptions for groceries and prescription drugs. Supporters of slashing Georgia's income taxes say removing the state's grocery exemption could help recover some of the lost revenue, and like-minded legislators in neighboring North Carolina recently considered eliminating that state's prescription drug exemption as part of a similar plan.[20]

  To make this plan revenue neutral, lawmakers would need to increase the state sales tax rate to an estimated 10.5 percent, making Georgia's combined state and local tax rate 13.5 percent in most counties. This version raises the monthly grocery bill for an average Georgia family of four by an estimated $46 per month[21] and raises the average cost per prescription in Georgia by nearly $8.[22]

Grocery Bills for Georgia Families Could Spike Under New Tax Plan



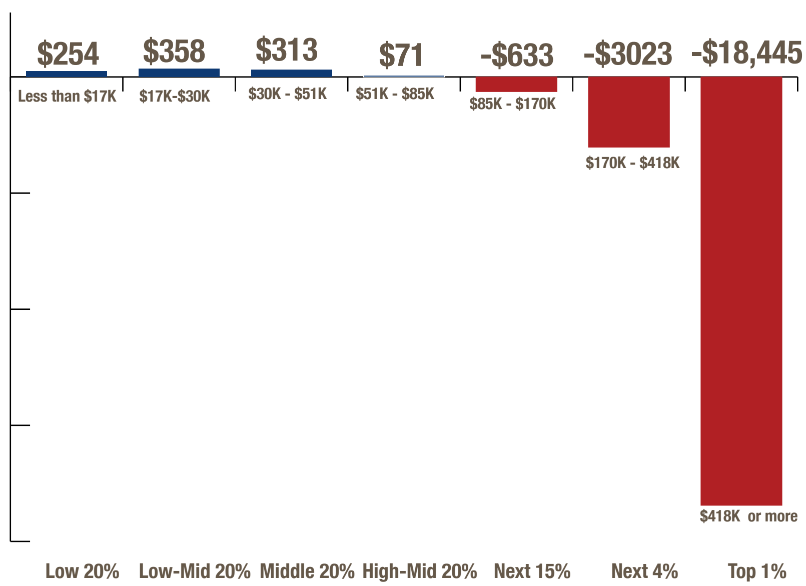
Source: Bureau of Labor Statistics Consumer Expenditure Survey
Note. Local governments in Georgia presently retain the option to apply local sales tax rates to groceries. The $13 estimate on the left is derived from Georgia's 3 percent average local sales tax rate statewide.

- **Option 3: Cut income tax in half and offset it by taxing groceries and some services** – The third likely scenario is rather than eliminate Georgia's income taxes entirely, state lawmakers will seek to halve them by reducing the top rate to 3 percent from 6 percent. Some suggest replacing revenue in this option by taxing groceries and extending the sales tax to cover services, such as haircuts, financial planning and car repair.[23] While taxing some additional services is widely viewed as good tax policy, Georgia lawmakers balked at the idea of extending the sales tax to personal services during the failed tax reform process of 2011.

  This plan would create an estimated annual budget shortfall of nearly $3 billion and increase yearly taxes for 40 percent of Georgia taxpayers if implemented without changing the sales tax rate. If it were made revenue neutral, the plan would require a new state sales tax of 6.6 percent, boosting Georgia's overall rate to 9.6 percent in most counties. The revenue neutral version would raise taxes on 80 percent of Georgia taxpayers.

Halving Georgia's Income Tax Would Shift Taxes From Top To Bottom

Change in annual tax bill under Option 3, if revenue neutral



Source: Institute on Taxation and Economic Policy (ITEP) Microsimulation Model, July 2013

Tax Shift Plans Would Cripple Georgia's Shared Investments

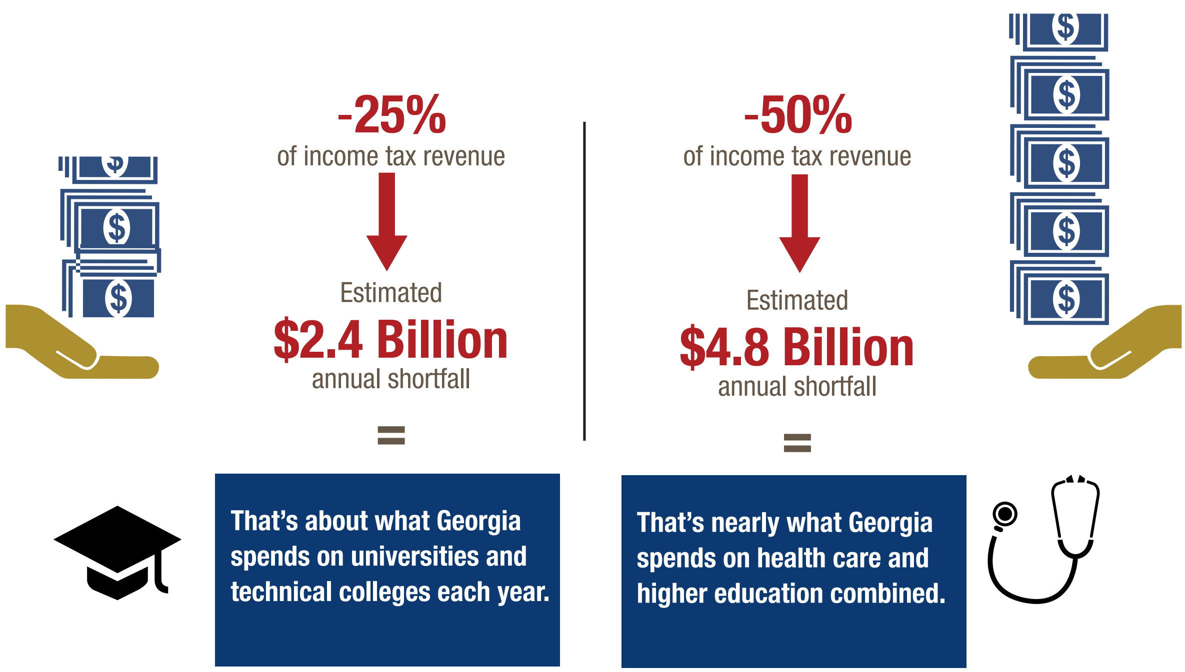
Because the steep sales tax increases discussed in this report would face fierce political opposition, lawmakers are unlikely to hike sales tax rates that high. As a result, making plans revenue neutral will likely require either increasing other taxes or enacting new cuts to core state services. Since lawmakers typically find raising taxes unpalatable, they would likely choose to fill the budget shortfall with cuts to state services, such as education, health care and criminal justice.

It is difficult to impossible to eliminate or drastically reduce Georgia's income taxes without creating a huge budget gap every year. For example:

- Losing **25 percent** of Georgia's income tax revenue would create an annual budget shortfall of about $2.4 billion, *which is more than Georgia's entire yearly budget for higher education.*[24] If the state completely eliminated its personal and corporate income taxes, recovering the other three-quarters of revenue would require Georgia lawmakers to raise the state sales to 9.6 percent. That means the state and local sales tax would combine for a 12.6 percent rate in most counties.

- Losing **50 percent** of Georgia's income tax revenue would create an estimated budget shortfall of nearly $5 billion each year, which is nearly as much as Georgia spends on health care and higher education combined. If the state completely eliminated its personal and corporate income taxes, recovering the other half of revenue would require Georgia lawmakers to raise the state sales tax to 7.8 percent, bringing the total statewide rate to 10.8 percent in most counties.

Falling Income Tax Revenues Would Imperil State Budget



Source: Georgia Budget and Policy Institute

In short, losing even a portion of the money that Georgia collects from income taxes would prove disastrous. It would mean fewer dollars for hospitals, roads, prisons, economic development, the courts and many other state investments. That is stacked on top of the cuts already made in recent years. The exact size of future cuts would depend on how much revenue is lost from tax shift legislation.

Income Tax Cuts Do Not "Pay for Themselves"

Supporters of tax shift plans often argue large budget cuts will not be needed because tax cuts "pay for themselves" with new economic activity. But such claims are not based on empirical research or common sense. Because the economic impact of state income tax cuts is small, cuts do not stimulate enough new taxable economic activity leading to enough new revenue to fully offset the money lost from the tax cut.[25]

Both mainstream economists and nonpartisan experts in other states say the "dynamic impacts" of income tax cuts are small and slashing taxes results in considerable budget shortfalls. For example, N. Gregory Mankiw, former chairman of President George W. Bush's Council of Economic Advisors and a Harvard economics professor, wrote in his well-regarded 1998 textbook that there is "no credible evidence" that "tax revenues … rise in the face of lower tax rates." He says an economist who claims tax cuts can pay for themselves is akin to a "snake oil salesman trying to sell a miracle cure."[26]

Tax Shift Would Weaken Georgia's Economy

Radically reshaping Georgia's tax structure would likely inflict serious damage on Georgia's economy, despite assurances swapping income taxes for higher sales taxes will unleash economic growth and create jobs. Both the academic and real-world evidence is clear that states without income taxes do not consistently outperform their peers and deep state tax cuts do not boost economic growth, job creation or entrepreneurship. Tax shift proposals would result in huge budget cuts to the public foundations of successful state economies, such as good schools, well-maintained roads and functioning courts.

- **Slashing income taxes would weaken the foundations for economic growth.** Budget cuts of the magnitude created by tax shift legislation would critically undermine Georgia's economy. Public investments are essential for Georgia to build a strong economy that creates jobs and to ensure local communities have a high quality of life. For example, sufficient funding for education and job training allows Georgia to provide enough skilled workers for a rapidly changing economy, while state support for roads and ports helps businesses get their goods to market.

  Business owners consistently cite the importance of quality public services to the broader economy and the bottom line of their companies. As economist Robert Lynch observes:

  > "Businesses need to know that they can rely on high-quality, well-administered public services to facilitate the conduct of their enterprises. Snow removal and flood control must be reliable and timely; roads, bridges, and highways must be maintained in good repair; fire protection and police services must be there when needed; the justice system must be professional, impartial, and quick to resolve contract disputes; and the schools and colleges must help to generate a skilled and well-trained workforce."[27]

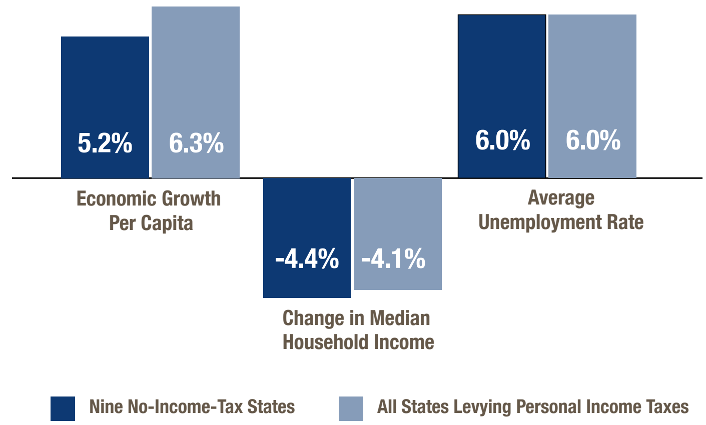
  Companies often pay the price in unforeseen ways when states' shared investments decline. For example, a company might decide to hire private security to compensate for cuts to public safety.

- **Eliminating personal income taxes would not put Georgia on a proven path to prosperity**. One of the central claims of tax shift supporters is states without income taxes have much stronger economies than their income-taxing peers and that the only road to economic growth is to copy the no-income-tax model. But this platitude is contradicted by both mainstream economics and the best available real world evidence. For one, the claim is largely based on a small number of deeply flawed studies thoroughly debunked by independent economists and experts.[28] One of these reports, written at the request of anti-tax advocates in Oklahoma, is described by one economist this way:

"There are many problems with the report. Between data inconsistencies, omitting things that matter, and not asking about relevant impacts, the Arduin, Laffer and Moore assessment of the impact of eliminating the Oklahoma Income Tax does not constitute economic analysis in any real sense."[29]

Income-Tax-States Slightly Outperform No-Income-Tax States on Key Economic Measures

Changes in economic measure from 2002-2012



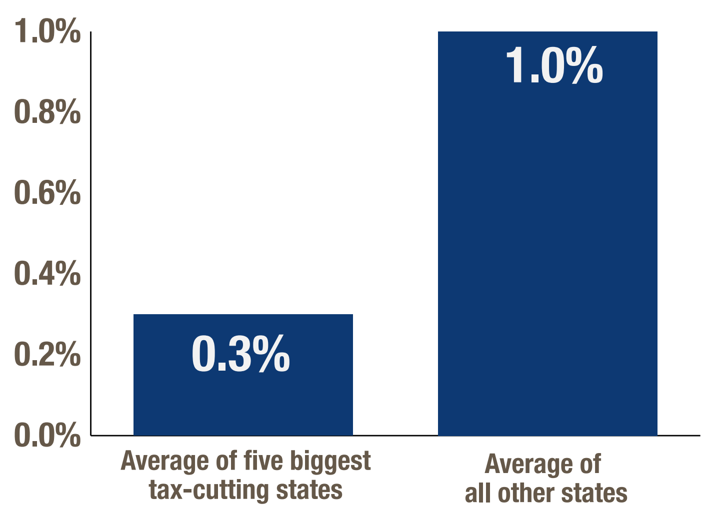
Source: Institute on Taxation and Economic Policy (ITEP)

More importantly, the theory of the zero-income-tax miracle is directly contracted by evidence from the real world. The most rigorous analysis of the issue found that economies of states with personal income taxes performed at least as well, if not better, than no-income-tax states over the last decade.[30] States with income taxes saw slightly higher economic growth[31], a smaller decline in median household income and an identical average unemployment rate than the no-taxing states. Put another way, the income-tax states had somewhat stronger economies and their residents made more money.

- **Cutting income tax rates would not unleash economic growth or job creation.** Another anti-income tax argument is that even if states cannot eliminate their incomes taxes entirely, cutting them as much as possible will automatically boost economic growth. But the evidence does not support that claim.

  For example, states that enacted major personal income tax cuts in the 1990s, before the two most recent recessions, fell behind the nation as a whole in subsequent years. Five states[32] reduced their overall taxes by more than 10 percent of revenue during that decade, and as a whole they later experienced average annual job growth of less than 0.3 percent compared to 1.0 percent for other states. Personal income in those five states also grew more slowly than the average of other states. States that adopted big tax cuts in the 2000s also saw underwhelming results.[33]

Five States with Biggest Tax Cuts in the 1990s Had Slower Job Growth in the Following Years



Source: Center on Budget and Policy Priorities

  On the corporate income side, there is only one recent example of a state eliminating its tax. Ohio phased out its corporate income tax from 2005 to 2009 and also eliminated taxes on business machinery, equipment, and inventory. That effectively cut business taxes by $1 billion per year. Nonetheless, Ohio's shares of national income, employment and private investment all *fell* slightly during those years.[34]

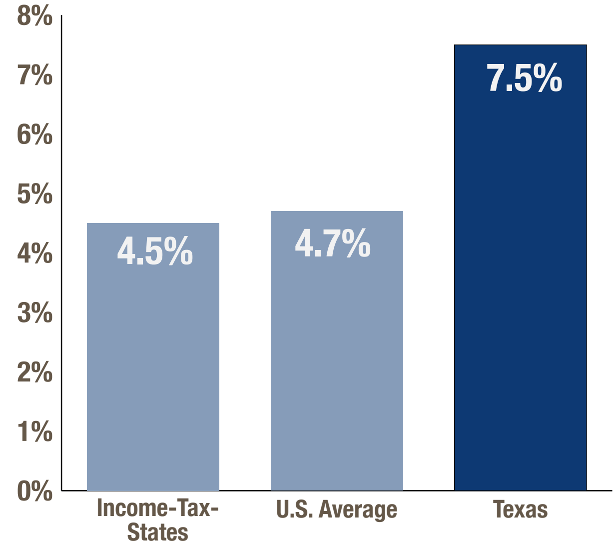
- **The "Texas miracle" is not all it seems and a model Georgia cannot follow.** Despite the mediocre track record of big income tax cuts nationwide, anti-tax activists often point to Texas as a model for how low state income taxes are key to economic growth. But the Texas model is overrated and, due to the unique characteristics of that state, is a model Georgia cannot copy even if it wanted to.

Much of Texas' recent success is attributable to outside factors state officials cannot control, rather than to state policy choices such as taxes or regulation. For example, Texas' abundant supplies of natural resources positioned it to benefit from a recent oil and gas boom. Its border with Mexico provides a consistent supply of new workers, customers, entrepreneurs and trade opportunities.[35]

And its natural size advantage provides abnormally large amounts of affordable land, which keeps housing prices low, makes it cheaper for businesses to purchase property and helped Texas avoid the housing crash that crippled Georgia and other states during the Great Recession.[36]

Texas Overly Dependent on Low-Wage Jobs

Percent of Hourly Workers Paid at Minimum Wage, 2012



Source: Bureau of Labor Statistics

Even if Georgia *could* create a copy of Texas' economy, there is a strong case that it should choose not to. Texas' economy embodies what is often called the "race to the bottom" strategy of economic development, marked by high levels of poverty, an overreliance on low-wage jobs and below-average investments in education, health care and other drivers of broad-based opportunity. For example, 7.5 percent of Texas' hourly workers were paid at or below minimum wage in 2012, the second highest share in the nation. Texas also ranks 43rd on educational spending per pupil, 46th on highway spending and 47th on healthcare spending per person, which limits the ability of many Texas families to benefit from economic growth.[37]

- **By some measures, states with income taxes enjoy stronger economies.** Other data reveal income-taxing states often perform better than no-income-tax states on various measures of economic strength and quality of life, contrary to the claims of anti-income tax activists. For example, the nine states with the highest personal income tax rates have on average more Fortune 500 companies, higher household incomes, higher wages and far smaller shares of people without health insurance than do the nine no-income-tax states. These statistics are further detailed in *Appendix C, "Highest-Income-Tax States Outperform No-Income-Tax States on Important Measures."*

Table 3 Highest Income Tax States Outperform No-Income-Tax States on Several Measures

On Average	Personal Income Tax Top Rate	Number of Fortune 500s	Median Household Income	Median Hourly Wage	Percent without Health Insurance
Highest Income Tax States	9.4%	17	$55,353	$17.16	11.9%
No Income Tax State	0.0%	10	$52,918	$16.41	17.3%

Source: CNN Money, Federation of Tax Administrators, U.S. Census Bureau, Bureau of Labor Statistics (most recent data available

- **Deep tax cuts could drive businesses away from Georgia – not attract them.** Another argument that anti-income tax activists lob to support a case for cuts is that lower income tax rates will supposedly make Georgia more attractive to new businesses and entrepreneurs. But this is a false promise, and deep tax cuts could, in fact, have the opposite effect.

Research shows interstate business relocation is surprising rare, with most new jobs and businesses within a state grown organically by in-state firms and entrepreneurs. But even when businesses do choose to relocate, state tax levels have very little bearing on where they choose to move. The reason taxes play such small role is that *total* state and local taxes amount to 2-3 percent of business cost for the average company. That includes not only income taxes but all other levies and fees as well. Even big tax differences between states are usually overwhelmed by larger considerations, including the costs of labor, property, equipment and transportation.[38] As Georgia's Special Council on Tax Reform and Fairness described the issue in 2010:

> "Research on business firm location finds that while taxes matter, other factors seem to play a larger role. Factors such as a functioning transportation system, availability of water, and the quality of public education are more important components of the decision-making process."[39]

In fact, tax cuts could actually decrease the amount of new business investment in a state if the resulting budget cuts in services such as education made the state less attractive overall. Mobile business owners, entrepreneurs and professionals do not want to live in states where the roads and hospitals are crumbling and where their families cannot find high-performing schools. As the author of one recent study says, "These low-tax, low-spend fiscal policy experiments suggest that reductions in certain types of government spending, required by a tax cut, have an adverse effect on business location."[40]

- **State income tax rates do not drive "job creators" or entrepreneurs to leave the state.** It seems every time the issue of income tax cuts is raised, opponents offer anecdotes of business owners or wealthy individuals threatening to leave Georgia due to current tax rates. But the idea that taxes cause many "job creators" to abandon their home state is a myth. The reality is costs of living, job prospects and a desire to be closer to family play a much larger role in location decisions than small differences in state and local taxes. In the most rigorous review of this issue, two Princeton University researchers found when New Jersey recently increased taxes by nearly $1 billion per year, *fewer than one-tenth of 1 percent* of that state's millionaires chose to leave.[41]

  The same holds true for entrepreneurs, which as a rule do not relocate due to state and local tax rates. As the U.S. Small Business Administration says in one of the most comprehensive studies on the issue, "[there is] no evidence of an economically significant effect of state tax portfolios on entrepreneurial activity."[42] Other studies confirm income tax rates also have little effect on states' number of self-employed people, new manufacturing companies or fast-growing startups.[43]

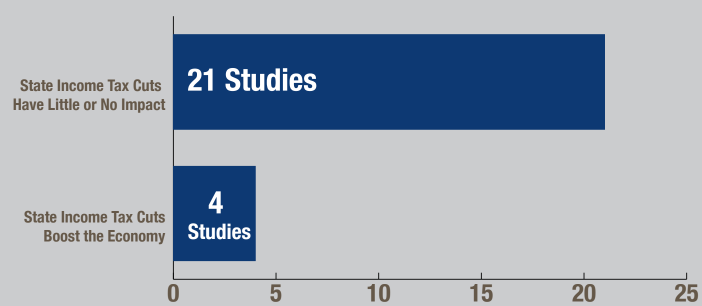
  This helps explain why actual businesses rarely list state and local taxes as their primary concern when asked. For example, a recent national survey of 8,000 small businesses found that state licensing requirements, the availability of networking opportunities and access to a trained workforce are all more important than taxes. Nearly 60 percent of survey respondents with 10 or fewer employees called their tax levels "about right." [44]

Newest Studies Confirm: Tax cuts have little impact on economic growth or jobs

The poor track record of massive income tax cuts in other states is supported by a broad consensus of mainstream economic research, which shows that state tax cuts have, at best, a small and inconsistent impact on economic growth and job creation. Out of 25 major studies published since the beginning of 2000 on the question, 21 either conclude state and local tax levels have no significant effect on economic performance or that any negative impacts are negligible.[45] As the author of one report explains, "Income tax burdens do not have a [statistically] significant effect on growth."[46]

Most Recent Studies Debunk the "Economic Boon" Myth

Number of peer-reviewed articles in relevant academic journals or books since 2000



Source: Center on Budget and Policy Priorities

Tax Shift Would Harm, Not Help, Most Georgia Businesses

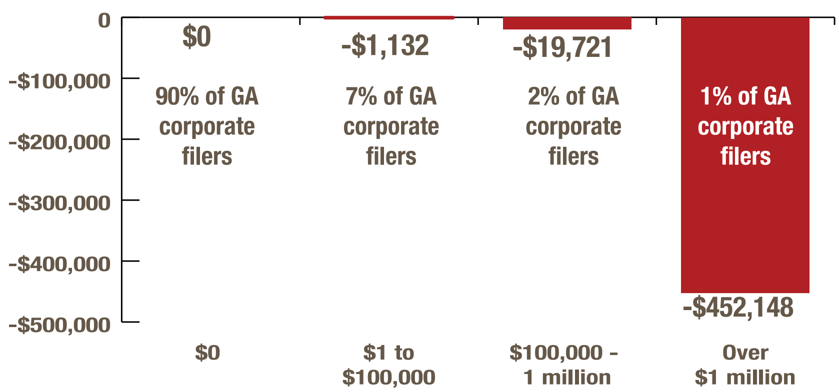
Radically shifting Georgia's tax system from income taxes to sales taxes would not be a boon for in-state businesses, contrary to popular belief. It would actually hurt many Georgia companies, especially newer and smaller ones. Many Georgia companies would face higher taxes overall due to massively increased sales taxes and potential hikes in other levies, such as property taxes. Deep funding cuts in public investments would also increase business costs and make it harder to attract talent to Georgia communities. Georgia consumers would have less disposable income to spend in local shops, further weakening the consumer economy that drives business success.

- **Corporate income tax cuts would not benefit many Georgia businesses – though a few would get a windfall.** Most in-state businesses do not pay the state's corporate income tax, due to the intricacies of how that tax works.[47] Estimates suggest that only about 3 percent of Georgia businesses have corporate income tax liability in a given year, mostly because smaller businesses are generally exempt from the tax.[48]

  Most corporations that *are* subject to the tax have extremely small tax liabilities. In 2011, the most recent year of data available, 90 percent of businesses filing corporate returns in Georgia had no income tax liability at all. A full 96 percent of filing businesses reported less than $25,000 in taxable profit, the point at which a business would owe, at most, $1,500 in corporate income taxes.

Corporate Tax Cuts Would Only Benefit a Narrow Few

Average tax-cut per corporation, by taxable income group, 2011



Source: GBPI analysis of Georgia Department of Revenue data

  Most of Georgia's corporate income taxes are, in fact, paid by a small group of large companies. In 2011, 87 percent of Georgia's corporate income taxes were paid by a mere 1,655 businesses, or less than 1 percent of corporate tax filers that year. This means that if lawmakers eliminate Georgia's corporate income tax, less than 1 percent of corporate filers will receive nearly nine-tenths of the benefit. That small group of beneficiaries would receive an average windfall of $452,148 each, compared to an average tax cut of only $434 for the other 99 percent of corporate tax filers.[49]

- ***Personal* income tax cuts would not help many small businesses.** Some anti-government groups contend that even if *corporate* income tax cuts only benefit a handful of companies, *personal* income tax cuts are a boon to the rest – since small businesses are typically taxed at the individual level. But in truth the direct financial benefit for small businesses from personal income tax cuts would be meager, at best. Only 13 percent of small businesses nationwide bring in $50,000 or more in taxable income in a given year. The rest make less, or lose money.[50] The personal income tax bill for small businesses in Georgia is already so low at this level of yearly revenue that even eliminating the tax completely would generate a negligible benefit – $3,000 per business at most.[51] This is not enough money to be the deciding factor in whether a business hires a new employee or invests in future growth.

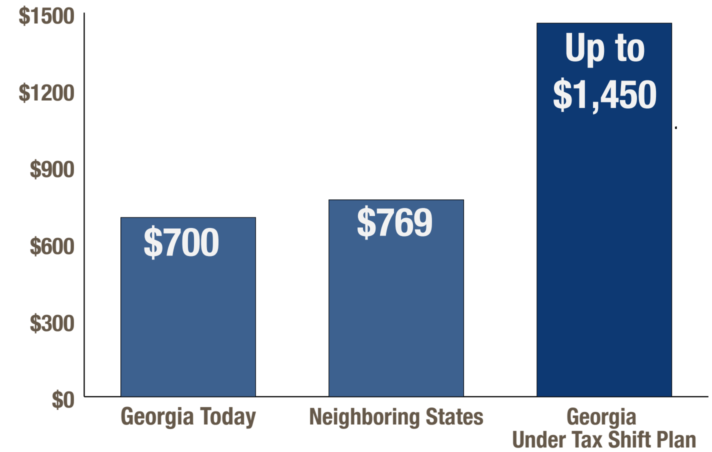
- **Many businesses would likely see an overall tax increase, especially newer and smaller ones.** Whether they received a direct benefit from income tax cuts or not, many Georgia businesses would likely see their overall tax bill increase after the potential hikes in other taxes needed to recover the lost revenue. Companies' sales tax bills would spike substantially and many could face higher property taxes as well. In Texas, for example, 65 percent of state and local taxes are paid by businesses, as opposed to an average of 48 percent nationwide.[52]

Companies would pay higher sales taxes under a new system on items they use for everyday business purposes, such as office furniture and stationary. Businesses might also have to pay new sales taxes on certain services not currently taxed in Georgia, such as accounting and legal advice. A scuttled tax shift plan in Louisiana proposed for businesses to pay an estimated 80 percent of the cost of cutting that state's income tax rates, due to the fact it included new taxes on many business-to-business services. Had the effort passed, Louisiana businesses would have experienced an estimated annual tax increase of $500 million.[53]

Businesses might also find themselves paying higher property taxes. Property taxes already cost Georgia businesses more than income taxes.[54] And states that lack income taxes consistently collect higher property taxes than those that do not.[55]

Businesses Would Face Higher Sales Tax Bills Under New Plan

State and local sales taxes on $10,000 of non-exempt business purchases



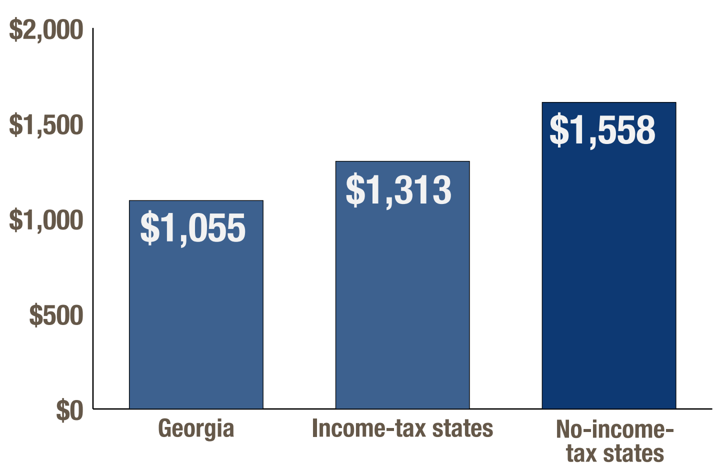
Source: Federation of Tax Adminstrators

The risk of higher property taxes arises because when state government drops its support for critical local services such as education, city and county officials often seek to replace what is lost through their main funding tool at hand – the property tax. For many communities, the alternative to higher property taxes would be additional cuts, such as teacher furloughs or shuttering libraries. Deep income tax cuts on the state level could force this painful choice on many Georgia locales.

Higher sales and property taxes are particularly problematic for newer small businesses because rates do not vary with profits. That means a new and marginally profitable business struggling to get off the ground must pay the same rates as larger, more established businesses with better profit margins. The income tax, on the other hand, is low or nonexistent in the early years of a business when profits are low. The bill only becomes due once a business is on firmer footing.

No-Income-Tax States Have Much Higher Property Taxes, on Average

Average state and local property taxes per capita



- **Adopting a tax shift would squeeze businesses' customer base.** In addition to higher sales and property taxes, tax shift legislation would likely hurt businesses' bottom lines by shrinking the consumer base. Because the tax change raises taxes on most Georgia families, customers are left with less disposable income to spend in local shops or on homegrown goods. Some Georgia businesses, especially those in border communities, would also lose customers outright. If Georgia is the new home of one of the country's highest sales tax rates, customers will cross state lines to shop and turn more often to online shopping. Strong consumer demand is widely considered to be the driving force behind business success. Surveys show a shortage of paying customers is now one of the most pressing concerns of business owners.

Tax Shift Would Make Georgia More like Tennessee – an Unattractive Model

If Georgia embraces the radical tax shift legislation under discussion, the state it will most likely come to resemble is its neighbor to the north, Tennessee. Transforming Georgia's tax and budget structure to match Tennessee's is unappealing for several reasons.

Of the nine states that do not tax personal income – Alaska, Florida, Nevada, South Dakota, Texas, Washington, Wyoming, Tennessee, and New Hampshire[56] – Tennessee is the most similar to Georgia in geography, population and economic resources. Both Georgia and Tennessee lack the natural attributes that allow certain other states to forego the income tax. Alaska, Texas and Wyoming generate significant shares of revenue from taxes on oil and gas – 82 percent, for example, in Alaska in 2012. Florida and Nevada, meanwhile, rely heavily on money raised from unique tourism markets. Adjusted for population, Florida's annual tourism spending is nearly twice as high as Georgia's, while Nevada's spending is more than six times as high.[57]

The remaining four states without personal income taxes – New Hampshire, South Dakota, Tennessee, and Washington – rely on abnormally high sales or property taxes.[58] Of these four states, three are remotely separated from Georgia and have vastly different economies and populations. Tennessee is a regional neighbor with economic and demographic similarities. But following the Volunteer State's lead on taxes would put Georgia on an unappealing path.

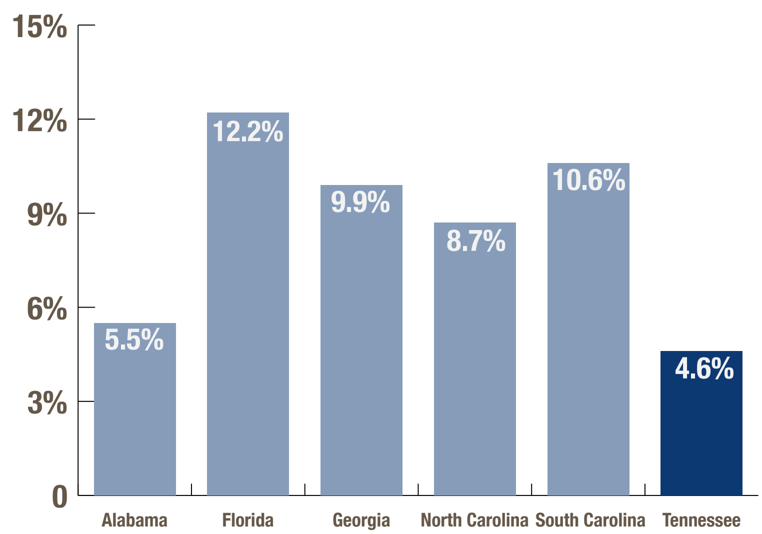
- **Tennessee is home to the highest sales taxes in the country – unless Georgia takes away the title.** Today, Tennessee relies more heavily on sales taxes than any other state. Its average combined state and local sales tax rate is 9.4 percent, compared to Georgia's average rate of 7 percent. Any tax shift plan in Georgia that is revenue-neutral, however, would push Georgia's sales tax rates to the highest in the nation.

- **Tennessee places a greater burden on the basic necessity of groceries.** In Georgia, groceries are exempt from state sales taxes, although counties can still choose to apply local sales taxes. In Tennessee, groceries are taxed at both the state and local levels, albeit at a slightly lower rate than on other goods. As a result, an average family of four in Tennessee spends $25 more per month on basic food staples than the average family in Georgia.[59]

- **Tennessee lags behind in job creation.** Despite a lower unemployment rate than some nearby states, Tennessee's economy actually created jobs more slowly over the past decade than Georgia and its other neighbors. From 2001 to 2011, the most recent full year of data available, Tennessee's total employment (including farm jobs) grew by only 4.6 percent – lower than Georgia's other adjacent states.

Tennessee Trailing Region in Job Creation

Percent Change in Employment, 2001-2011



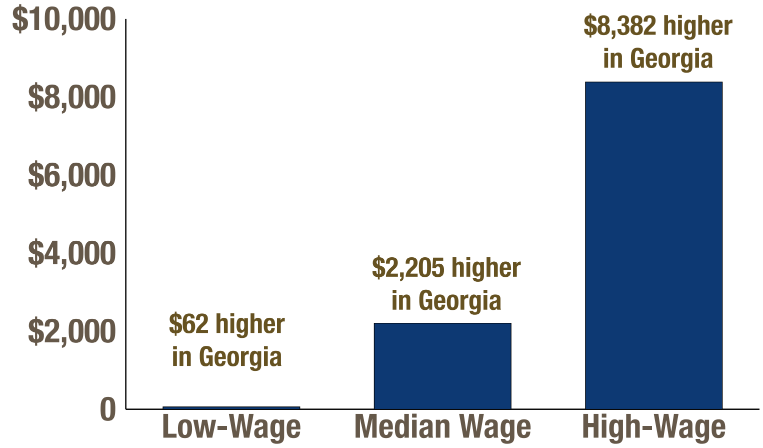
Source: Bureau of Economic Analysis

- **Tennessee's economy does not generate broad-based prosperity.** Georgia already ranks well-below the national average for key measures of families' economic well-being, such as household income and worker wages. Emulating Tennessee would make it even harder for Georgia to get on the right track. Workers in Tennessee generally earn less than those in Georgia, especially in higher-wage industries. This contributes to a lower annual income for the typical middle class family. Median household income was about $4,314 higher in 2011 in Georgia than it was in Tennessee.

- **Tennessee does not raise enough revenue for pro-growth investments**. As in other no-income-tax states, Tennessee spends far less than the national average on public investments necessary for a strong economy. For example, only one state spent less per person than Tennessee on transportation from 2000 to 2011.[60] And in 2011, the most recent year of data available, Tennessee spent less on per pupil K-12 education than all but five other states.[61] The state's persistent lack of revenue is one reason why the Tennessee Tax Structure Study Commission – a group of experts assembled by that state's legislature in 2002 – recommended the state create an income tax in order to meet its growing needs.

Workers Earn More in Georgia than Tennessee, Especially at the Top

DIfference between Georgia and Tennessee Annual Wages at 20th, 50th, and 80th Percentile, 2011



Source: Economic Policy Institute analysis of Current Population Survey

Conclusion

Proposals to dramatically reduce or eliminate the income tax would not improve Georgia's economy or communities and instead would prove counterproductive to the state's well-being.

Deep tax cuts would hurt families and businesses by eroding investment in schools, transportation, public safety and other ingredients crucial to a strong economy. Middle- and low-income Georgians would pay more of their earnings in less equitable sales taxes, while upper-income Georgians and large, profitable corporations would get a significant tax break. Businesses would face higher sales tax rates and potentially higher property taxes, while communities would suffer a lower quality of life. Families, communities, businesses and the economy would all come out behind.

Georgia needs to modernize its tax code, but recent proposals to swap personal and corporate income taxes for higher sales taxes should not be viewed as a serious reform option. Whether in the upcoming legislative session or future years, Georgia's governor and legislators should fend off misguided tax fads and move on to create a more reasonable approach.

Appendix A: Description of House Bill 688 and Senate Resolutions 412 and 415

There are two pending tax shift proposals under consideration in Georgia. Both were introduced during the 2013 legislative session. The authors of the legislation say they will work to pass their bills into law in 2014.

- **House Bill (HB) 688** – Dubbed the "Fair Taxation Act of 2014," this bill is a straight swap from personal and corporate income taxes to higher sales taxes. It would entirely repeal both of Georgia's income taxes starting in January 2015. Georgia's 4 percent state sales tax rate would change to "a percentage to be determined by the General Assembly." The bill does not propose altering Georgia's various local sales tax rates, which on average are 3 percent statewide.

  The 2013 bill creates the basic framework to abolish Georgia's income taxes, while leaving specific decisions about how to replace the lost revenue until 2014. These future decisions include the specific state sales tax rate, whether to include new goods and services such as groceries or business-to-business sales, and whether to eliminate certain exemptions – such as those for manufacturing equipment or farm supplies. The bill's authors have suggested the new state rate needs to be between 7 percent and 8.8 percent and that reform would likely include taxing groceries.[62]

- **Senate Resolutions (SRs) 412 and 415** – Though more complex than HB 688, the second proposal is aimed at achieving a similar tax swap over a longer period. The plan consists of two amendments to Georgia's state constitution, which voters would have to approve. The first, SR 415, would permanently prohibit Georgia state lawmakers from raising the income tax rate beyond its current level of 6 percent. The second, SR 412, would prohibit any future increases in state or local sales tax rate, with two exceptions: *Local* governments could increase sales taxes if approved through a public referendum on specific projects, while *state* lawmakers could increase sales taxes if the new revenue is used to decrease income tax rates.

  Put another way, this plan would use a complicated formula to lock the preference for sales taxes over income taxes into Georgia's state constitution. Over time, lawmakers charged with meeting Georgia's public needs would be forced to adopt higher sales taxes. Those new sales taxes automatically will trigger lower income taxes, permanently locking Georgia into static or declining levels of revenue.

Appendix B: Why Tax Shift Proposals Raise Taxes on Poor Families and Middle Class

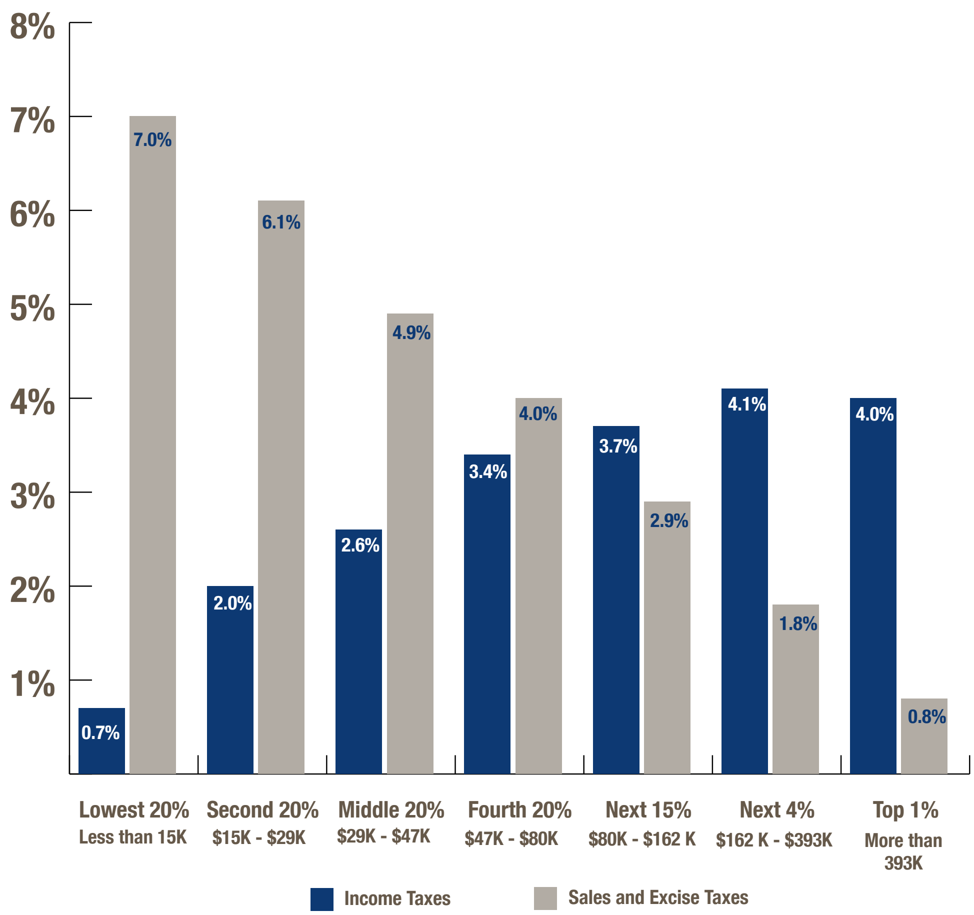
In Georgia, as in other states, plans that swap personal and corporate income taxes for higher sales taxes and other fees increase overall taxes for most low- and middle-income taxpayers, while drastically cutting them for wealthy individuals and profitable corporations. Here is why:

- **Personal and corporate income taxes ask more from the well-to-do than they do working families.** They are, after all, taxes on income. Georgians making less than $15,000 per year, for example, 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.[63] The state's corporate income tax follows a similar track. For example, 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 between $25,000 and $50,000 in taxable income only owed an average of $2,161.[64]

- **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 the wealthy. This is mainly because working families pay a greater share of their income on everyday needs such as clothes, school supplies and utilities. Georgia taxpayers with less than $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.[65]

Georgia's Income Taxes Take More from the Well-to-Do, Sales Taxes Take More from Typical Families

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



Source: Institute on Taxation and Economic Policy

Appendix C: High-Income-Tax States Outperform No-Income-Tax States

State	Personal Income Tax Top Rate	Number of Fortune 500s	Median Household Income	Median Hourly Wage	Percent Without Insurance
Georgia	6.0%	15	$46,007	$15.64	19.2%
States with Highest Individual Income Tax Rates					
California	12.30%	53	$57,287	$17.14	19.7%
Hawaii	11.00%	0	$61,821	$16.89	7.8%
Iowa	8.98%	3	$49,427	$15.62	10.0%
Minnesota	7.85%	19	$56,954	$18.13	9.2%
New Jersey	8.97%	21	$67,458	$19.74	15.4%
New York	8.82%	50	$55,246	$17.47	12.2%
Oregon	9.90%	2	$46,816	$17.00	13.8%
Vermont	8.95%	0	$52,776	$16.47	8.6%
Wisconsin	7.75%	9	$50,395	$16.01	10.4%
Average	**9.39%**	**17.4**	**$55,353**	**$17.16**	**11.9%**
States with No Individual Income Tax Rates					
Alaska	None	0	$67,825	$18.87	18.2%
Florida	None	16	$44,299	$15.82	19.8%
Nevada	None	4	$48,927	$15.00	22.6%
New Hampshire	None	0	$62,647	$18.37	12.5%
South Dakota	None	0	$48,321	$14.78	13.0%
Tennessee	None	9	$41,693	$14.58	13.3%
Texas	None	52	$49,392	$15.12	23.8%
Washington	None	8	$56,835	$18.04	14.5%
Wyoming	None	0	$56,322	$17.07	17.8%
Average	**0.0%**	**9.9%**	**$52,918**	**$16.41**	**17.3%**

Sources: CNN Money, Federation of Tax Administrators, U.S. Census Bureau, Bureau of Labor Statistics

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Appendix D: How Georgia's Personal Income Tax Works

Perhaps the most common misconception about the income tax is how a tax system's rate structure works. The main source of confusion is the distinction between **effective tax rates,** which tell us what share of a taxpayer's income goes to income tax payments, and **marginal tax rates**, which tell us the tax rate applied to the last dollar of income. Many taxpayers believe if their top marginal rate is 6 percent, then they pay 6 percent of their overall income in taxes. That is not how it works:

1. The income tax only applies to **taxable incom**e, which is the amount of income subject to taxes after all deductions and exemptions are claimed. For example, when taxpayers check the boxes for the standard deduction or for dependent exemptions, they are shielding some of their income from taxes. For most single Georgians, the income tax does not apply at all to their first $5,000 of annual income ($2,700 personal exemption plus $2,300 standard deduction). For married Georgians filing jointly, the income tax does not apply to the first $10,400 of income ($7,400 personal exemption plus $3,000 standard deduction).

2. Income tax brackets are structured so that increments of income (or **marginal** amounts of income) are subject to different tax rates. For example, in Georgia, every dollar of **taxable income** a single person makes above $7,000 is taxed at a rate of 6 percent, whereas the first $7,000 is taxed at lower rates. As a result, Georgia's 6 percent top rate does not kick in until a couple reports $17,400 of annual income ($10,400 of deductions plus $7,000 of taxable income).

As a result, even though most Georgians pay the same marginal rate, their effective rate – *or share of their earnings taken by income taxes* – varies considerably. For example, the bottom 20 percent of Georgia taxpayers – those making less than $15,000 per year – pay 0.7 percent of their earnings in income taxes, while the top one percent of state taxpayers – those making more than $393,000 – pay 4.1 percent.

Endnotes

[1]"Why Cut Taxes Further," Atlanta Journal Constitution. 6/23/2013.

[2]Arthur B. Laffer and Stephen Moore. "The Red-State Path to Prosperity," The Wall Street Journal. March 27, 2013.

[3]"Preliminary Analysis of Joint Tax Plan: Still a big tax cut at the top," North Carolina Tax and Budget Center. 7/16/2013.

[4]"Governor Jindal's Tax Plan Would Increase Taxes on Poorest 60 Percent of Louisianans," Institute for Taxation and Economic Policy. April 2013.

[5]One widely cited poll found that the governor's tax plan was opposed by voters 63 percent to 27 percent. "A Governor Retrenches on a Big Idea," New York Times. 4/8/2013.

[6]Sullivan, Martin. "Brownback's Derailed Tax Plan Becomes a Fiscal Train Wreck," State Tax Notes. 6/4/2012.

[7]" Analysts, from left and right, call Kansas tax plan worst in nation," The Wichita Eagle. 4/15/13.

[8]"Missouri governor vetoes bill halving corporate tax rate," Reuters. 6/5/2013; and "Missouri's Kansas Envy is Self-Destructive," Citizens for Tax Justice

[9]Taxes under the Nebraska plan would have gone up by an average of $722 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. Taxes would go down by $4,851 for people earning more than $91,000 a year. "Governor Strikes Out with Tax Plan for Nebraska," Citizens for Tax Justice. February 22, 2013.

[10]2012 State Government Tax Collections, US Census.

[11]2011 State and Local Government Finances, US Census.

[12]"Total state and local business taxes: State by State Estimates for Fiscal Year 2012," Ernst & Young and Council on State Taxation (COST). July 2013.

[13]All eight of these states have personal income taxes. "Deal touts Georgia's Bond Rating," PolitiFact Georgia. April 2011.

[14]Because of its high rating, Georgia is able to borrow money at a lower cost and ensure taxpayers receive a good deal on new capital investments like improved roads or deepening the Savannah port. Revenue diversity is important to a top rating. As one major agency put it: "Moody's expects that states that impose all three of the broad-based taxes – corporate income tax (CIT), personal income tax (PIT), and sales tax – and a broad array of more narrowly-based taxes and fees often have the best defense should revenues weaken. A broader tax base also generally does a better job of generating tax revenue growth that keeps pace with the state's economic growth, which aids structural budget balance." Kurttner, Robert and Timothy Blake. "Rating Methodology: Moody's State Rating Methodology." Moody's Investors Services, Inc. November 2004. p. 6.

[15]2012 State Government Tax Collections, US Census.

[16]Texas and Ohio technically do not levy corporate income taxes, but they have alternative business taxes – the margin tax and commercial activities tax, respectively – that serve similar functions. The four states not taxing corporate income at all are Nevada, South Dakota, Washington and Wyoming.

[17] "Who Pays? Fourth Edition," Institute on Taxation and Economic Policy (ITEP). January 2013.

[18]The average combined local sales tax rate in Georgia is 2.99 percent as of January 2013. "State and Local Sales Tax Rates in 2013," The Tax Foundation.

[19]The ITEP Microsimulation Tax Model, developed in 1996, is a tool for calculating revenue yield and incidence, by income group, of federal, state and local taxes. The ITEP model is capable of calculating the impact of current tax law and tax change proposals on taxpayers and can also project potential revenue yields of tax law changes. The model is unique in its ability to produce analysis at the federal and state levels and to analyze income, consumption and property based taxes. In computing its estimates, the ITEP model relies on one of the largest databases of tax returns and supplementary data in existence, encompassing close to three quarters of a million records. To forecast revenues and incidence, the model relies on government or other widely respected economic projections. Estimates of state tax changes are provided to GBPI by request.

[20]"Far-reaching Senate tax plan closes loopholes, adds sales taxes," The News & Observer Publishing Company. 5/30/2013.

[21]Bureau of Labor Statistics' Consumer Expenditures Survey. Estimate uses 2011 national data on 'food at home' purchases for a four-member household adjusted to reflect cost of living in Atlanta, Georgia.

[22]"State Health Facts: Health Costs and Budgets," Kaiser Family Foundation. Accessed 7/16/2013.

[23]"Did Anybody ask Zell about This?" Columbus Ledger Enquirer. 6/30/2013.

[24]Combined state funding for Regents and Technical Colleges in FY 2014 is $2.2 billion.

[25]"Claim That Tax Cuts "Pay For Themselves" Is Too Good To Be True ," Center on Budget and Policy Priorities. 7/26/2006.

[26]N. Gregory Mankiw, Principles of Economics, Dryden Press, Fort Worth, TX, 1998, pp. 29-30.

[27]Lynch, Robert G. "Do State and Local Tax Incentives Work?" Economic Policy Institute. 1996.

[28]See "Five Critiques of Arthur Laffer's Supply-Side Model Shows Tax Cuts as Junk Economics," Institute on Taxation and Economic Policy. Accessed 6/17/2013; and "Selling Snake Oil to the States," Good Jobs First. November 2012.

[29]Willner, Jonathan. "Putting Real Economics into an Economic Assessment of the Oklahoma Income Tax." Accessed 6/24/2013.

[30]"States with 'High Rate' Income Taxes are Still Outperforming No-Tax States," Institute on Taxation and Economic Policy. February 2013.

[31]"Economic growth per capita" technically refers to the annual change in gross state product (GSP) per capita, a broad measure of the value of goods and services produced in a state – adjusted for population.

[32]Specific states are Colorado, Connecticut, Delaware, Massachusetts and New York. New Jersey also cut taxes by this amount, but they are excluded

because they raised state taxes enough in the 2000s to fully offset their previous cuts.

[33]"State Personal Income Tax Cuts: A Poor Strategy for Economic Growth," Center on Budget and Policy Priorities. 3/21/2013.

[34]Mazerov, Michael. "Cutting State Corporate Income Taxes is Unlikely to Create Many Jobs," Center on Budget and Policy Priorities. 9/14/2010.

[35]Texas benefits in many ways from its shared border with Mexico, such as increased retail sales in its many border cities. As much as 50 percent of retail sales in Texas border cities such as El Paso are attributable to residents of Mexico, according to one study. Perhaps the primary way that Texas benefits is the constant supply of new residents from Mexico and points south. Only an estimated 27 percent of Texas' population growth is due to people moving there from other states, with the other three-quarters due to international migration and the natural birth rate. Elizabeth McNichol and Nicholas Johnson. "The Texas Economic Model: Hard for Other States to Follow and Not All it Seems," Center on Budget and Policy Priorities. 4/3/2012.

[36]Texas has one of the largest supplies of available land in the country, and its population density is less than a quarter of New York or Florida and only slightly more than half that of Georgia. This natural benefit helps keep Texas' housing prices and cost of living low and makes it more affordable for businesses to purchase land. Partly as a result, housing prices in Texas did not spike during the 2000s – meaning it did not suffer the massive housing crash that crippled Georgia and other states. Katz, Alyssa. "How Texas escaped the real estate crisis." The Washington Post. 4/4/2012.

[37]"Texas Model Isn't All That it Seems," Center on Budget and Policy Priorities. 6/11/2013.

[38] Lynch, Robert. "Rethinking Growth Strategies: How State and Local Taxes and Services Affect Economic Development," Economic Policy Institute. 2004.

[39]"Recommendations," 2010 Special Council on Tax Reform and Fairness for Georgians. 1/7/2011.

[40]Todd M. Gabe and Kathleen P. Bell, "Tradeoffs between Local Taxes and Government Spending as Determinants of Business Location," Journal of Regional Science. 2004.

[41]Cristobal Young and Charles Varner. "Millionaire Migration and State Taxation of Top Incomes: Evidence from a Natural Experiment," National Tax Journal. June 2011. For more information on this issue, see "Tax Flight is a Myth," Center on Budget and Policy Priorities. 8/4/2011.

[42]Part of that core finding was that having a graduated income tax structure where tax rates rise with income – such as in Georgia – did not reduce the share of taxpayers engaged in small business. Indeed, it appears to have a small positive impact. Donald Bruce and John Deskins. "Can State Tax Policies be Used to Promote Entrepreneurial Activity," Small Business Economics. 2012.

[43]Specific studies described and listed on pages 10 through 14 of "Cutting State Personal Income Taxes Won't Help Small Businesses or Create Jobs and May Harm State Economies," Center on Budget and Policy Priorities. 2/19/2013.

[44]"Survey Ranks Most (and Least) Small Business-Friendly States," Governing Magazine. 4/2/2013.

[45]For similar studies, see Mazerov, Michael. "Academic Research Lacks Consensus on the Impact of State Tax Cuts on Economic Growth," Center on Budget and Policy Priorities. 6/17/2013.

[46]Chernick, Howard. "Redistribution at the State and Local Level: Consequences for Economic Growth," Public Finance Review, 2010.

[47]State corporate income taxes generally apply only to businesses legally registered as C-corporations, most of which are large companies with multistate or international operations. Many smaller businesses are legally considered sole proprietorships LLCs, partnerships or S-corporations – which are all mostly exempt from corporate income taxes.

[48]No precise estimate on the total number of businesses in Georgia exists. However, this 3 percent estimate combines the most recent data available from the Georgia Department of Revenue and Internal Revenue Service. Estimates generated from other available sources, such as the National Establishment Time Series (NETS) database, result in similar findings.

[49]GBPI calculations using unpublished data from the Georgia Department of Revenue's 2012 Statistical Report. Provided by request via email, 6/20/2013.

[50]Matthew Knittel, Susan Nelson, Jason DeBacker, John Kitchen, James Pearce, and Richard Prisinzano. "Methodology to Identify Small Businesses and Their Owners," Office of Tax Analysis, U.S. Department of Treasury. August 2011.

[51]Mazerov, Michael. "Cutting State Personal Income Taxes Won't Help Small Businesses Create Jobs and May Harm State Economies," Center on Budget and Policy Priorities. 2/19/2013.

[52]"Fill in the Blank: Texas is a ____ Tax State," Texas Taxpayer and Research Association. January 2013.

[53]"Jindal tax plan shifts $500 million in costs to businesses, administration official says," New Orleans Times Picayune. 3/26/13.

[54]In the 2012 fiscal year, state and local property taxes cost Georgia businesses an estimated $5.7 billion. The corporate and personal income taxes combined cost them an estimated $1.5 billion. "Total state and local business taxes: State by State Estimates for Fiscal Year 2012," Ernst & Young and Council on State Taxation (COST). July 2013.

[55]Nicholas Johnson and Erica Williams, "Without a State Income Tax, Other Taxes are Higher." Center on Budget and Policy Priorities. 3/22/2012.

[56]The first seven states listed collect no income tax revenue at all. Tennessee and New Hampshire do not tax wage income, but collect a small amount of income tax revenue from capital interest and dividends.

[57]"The Impact of Travel on State Economies," U.S. Travel Association. 2009.

[58]In Georgia, the sales tax accounted for 32 percent of revenue in 2012, compared to 54 percent in Tennessee, 55 percent in South Dakota and 60 percent in Washington. In New Hampshire, state and local governments levy the fourth highest per capita property taxes in the nation – nearly $2,500

per person compared to about $1,100 per person in Georgia.

[59]Bureau of Labor Statistics' Consumer Expenditures Survey. Estimate uses 2011 data on 'food at home' purchases for a four-member household taxed at Tennessee's average combined state and local sales tax rate on groceries of 7.44 percent (new rate as of July 1, 2013). Costs of groceries are adjusted to match cost of living differences between Atlanta, Georgia and Chattanooga, Tennessee.

[60]GBPI analysis of National Association of State Budget Officers (NASBO) data.

[61]It is important to note, however, that simply having a state income tax does not guarantee that state lawmakers will spend enough on essential services. Georgia, for example, spends significantly less per person on healthcare than does Tennessee and, partly as a result, lags behind on certain health outcomes.

[62] "Legislators want to eliminate Georgia income tax," Morris News Service. 3/28/2013.

[63] Radical tax shift plans also increase the relative tax responsibility of lower- and middle-income taxpayers because, without an income tax, families can no longer claim various deductions, exemptions and credits that are designed to partially shield their earnings from taxation. For example, the personal exemption and standard deduction in Georgia's income tax shield's $10,400 of annual income for a married couple filing jointly, while the dependent exemption shields another $3,000 for each child in the family. Some families, depending on income, can also take advantage of benefits such as the Low Income and Child and Dependent Tax Credits. The sales tax makes no such distinctions – in other words, it does not shield any family income from taxation.

[64]GBPI calculations using unpublished data from the Georgia Department of Revenue's 2012 Statistical Report. Provided by request via email, 6/20/2013.

[65] "Who Pays? Fourth Edition," Institute on Taxation and Economic Policy (ITEP)