

Tax Shift Could Hit Most Georgia Seniors with a Tax Increase

By Wesley Tharpe, Policy Analyst

Plans to drastically cut or abolish state income taxes and replace them with higher sales taxes are gaining traction in Georgia. Georgia's seniors are more likely to be financially hurt by the proposed tax shift than younger people.

Most seniors would gain little or nothing from income tax cuts. Georgia's income tax structure holds financial benefits for citizens after they turn 65. Social security benefits are exempt, as is up to \$65,000 per retiree of annual retirement income, such as payments from pensions and IRAs. About one-third of Georgians 65 and older still work to earn income and are still subject to the income tax. But even they would scarcely benefit from income tax cuts. For example, a Georgian 65 or older working part time for \$15,000 per year stands to gain less than \$200 from elimination of the state's income tax.

Replacing income taxes with higher sales taxes hits seniors hard. If lawmakers move forward with legislation to dramatically cut the income tax, the state will need to replace the lost revenue with a much higher sales tax rate, possibly reaching into the double-digits. Prescription drugs and groceries could possibly lose their current sales tax exemptions to fill the state budget hole created by lost income tax revenue. Tax shift advocates in North Carolina recently proposed taxing these basic goods as part of a plan similar to ones proposed in Georgia. Adding state sales tax to groceries could cost an older Georgia couple up to \$48 per month and hike the average cost of each prescription filled in Georgia by nearly \$8. Nearly 54 percent of older Georgians already struggle to afford food, shelter and other necessities – worse than 47 other states.

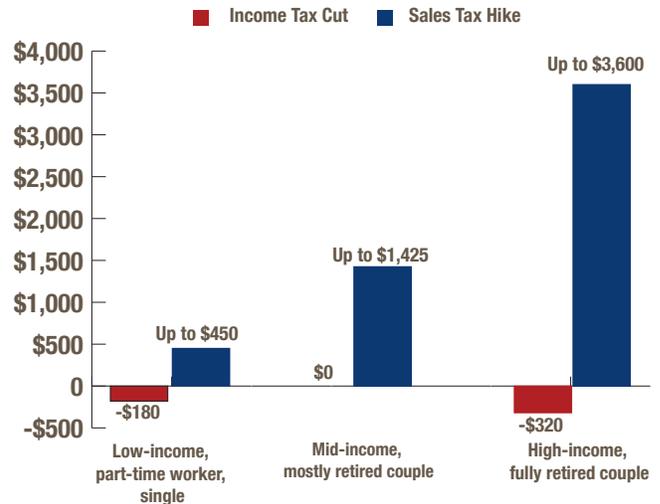
Tax shift delivers overall tax hike for most seniors. For most Georgians 65 and older, swapping income taxes for sales taxes would mean at best a small income tax cut, in exchange for a potentially drastic sales tax hike. Take for example a semi-retired couple, both 65 or older. They have \$30,000 in Social Security income, \$30,000 in pension income and \$16,000 in earned income per year. They would not benefit at all from income tax cuts, since most of their income is already shielded from taxes. At the same time, the amount the couple pays annually in sales taxes could spike by up to \$1,425 per year, assuming they spent one-fourth of their income on taxable items.

Cuts to Georgia's senior services could follow a tax shift. Georgia lawmakers could decide to slash income taxes but only partially replace the lost revenue with higher sales taxes. Critical senior services already slashed in recent years could face deeper budget cuts as a result. The budget for family services workers in Adult Protective Services, a state division that prevents abuse and exploitation of Georgia seniors, was cut in half during the 2013 legislative session.

For more information download GBPI's full report, "[Tax Shift Plans Threaten Georgia's Future](http://www.gbpi.org)" at www.gbpi.org.

Tax Shift Would Raise Taxes for Most Georgia Seniors

Estimated change in annual taxes for three representative taxpayers*



Source: GBPI calculations using Elder Index and Institute on Taxation and Economic Policy (ITEP) data

*Note: Assuming revenue-neutral switch from income to sales taxes