GBPI
Georgia Budget & Policy Institute

Bill Analysis

Tax Resolution Could Put Georgia Lawmakers in a Bind

Bill Analysis: Senate Resolution 415

By Wesley Tharpe, Policy Analyst

Georgia legislators are proposing a constitutional amendment that would limit the state's ability to adequately meet the needs of its people in the future. The proposal, Senate Resolution 415, would call for a referendum to create a permanent income tax cap in the state Constitution. Adopting this amendment could deliver several unintended consequences.

Approving such an amendment would place an arbitrary limit on the tools lawmakers can use to adequately fund the people's business. The new tax cap would place a formidable roadblock in front of future tax reform efforts and would prevent lawmakers from even considering options now available. The cap would hinder lawmakers' ability to fully fund education and other public services, especially in the event of an emergency such as a natural disaster, or in response to a deep economic downturn.

The resolution would also set Georgia on a long-term path that shifts the state from its reliance on a balanced system that includes income taxes to one where public needs are funded almost entirely by the sales tax. The Georgia Budget and Policy Institute outlined the dangers of that approach in the recent report, "Tax Shift Plans Threaten Georgia's Future." Enacting "tax shift" plans, even if implemented over time, would cause sales tax rates to soar, raise taxes on most families and weaken Georgia's ability to pay for its growing needs.

Resolution Creates Partial Tax Cap for Future Lawmakers

S.R. 415 would permanently cap the state's top marginal income tax rate at its current level of 6 percent. Senate Pro Tempore David Shafer introduced the resolution during the 2013 session and it is progressing in the 2014 Legislature. Because the resolution is a constitutional amendment, a two-thirds majority vote of General Assembly members is required to place it in front of voters in a statewide referendum. The law would take effect after Georgia voters approve it.

Resolution Would Hinder Georgia's Ability to Meet Future Challenges

The amendment, if passed, would limit state lawmakers' ability to adjust Georgia's levels of tax revenue and public investment in response to the public's wishes or the policy needs of the day.

- **Resolution limits available options for future tax reform** – Georgia lawmakers worked to modernize the state's outdated tax system several times in recent years but the need for reform remains. Georgia's income tax is much as it was in the 1930s, its sales tax is based on the 1950s economy and the system as a whole fails to collect enough revenue to meet Georgia's needs.

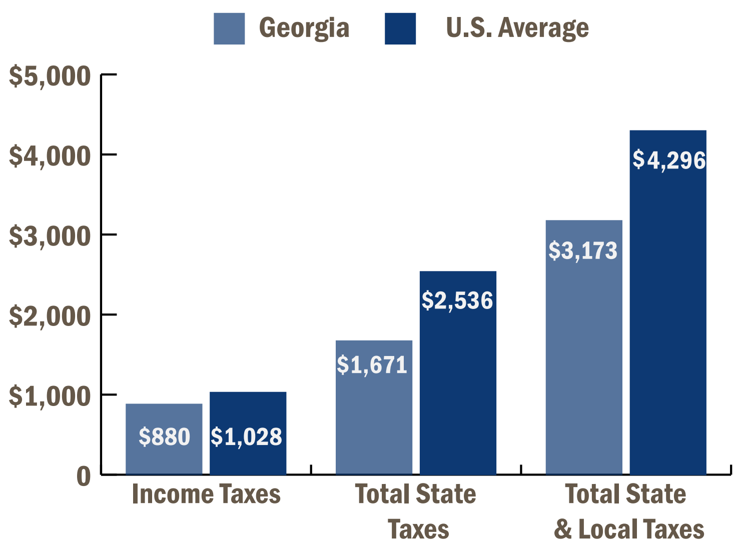
  This tax resolution, if passed into law, would prevent future legislators from accessing the full range of tools necessary to bring Georgia's tax system up to date. The cap would prevent lawmakers from considering reasonable options like slightly increasing the income tax to offset sales tax cuts, as Minnesota recently did. The new restrictions would also steer future tax reform toward more regressive options, such as higher fees for small business licenses or eliminating Georgia's sales tax exemptions for groceries and prescription drugs.

- **Resolutions jeopardize Georgia's ability to make public investments, especially in emergencies** – Georgia is a very low tax state by any measure. It collects the second-lowest amount of state revenue per capita in the country and ranks sixth lowest for state and local revenue collected per capita. Georgians also now pay less in state taxes as a share of their income than in the past. Georgians paid only 4.7 percent of their income in taxes in 2012, compared to an average of 5.9 percent during the 1990s. As a result, Georgia invests less in core public services than other states. Georgia ranked next to last in Medicaid spending per person in 2012 and next to last in transportation spending per person in 2011.

  The proposed amendment would create a hurdle for lawmakers who later want to reverse these trends by raising new revenue to pay for Georgia's growing needs, such as steadily increasing school enrollment. If the tax caps became law, the state constitution would bar lawmakers from considering even small, temporary rate increases in the income tax.

Georgia's Taxes are Already Below Average

Annual tax collections per capita



Sources: Federation of Tax Administrators, Center on Budget & Policy Priorities
Note: Income and total state taxes are for fiscal year 2012. State and local taxes are averages for fiscal years 2010 and 2011. The difference is unavoidable due to how the U.S. Census reports the data.

A cap could prove especially burdensome during an emergency, such as a natural disaster or a deep and prolonged recession. For example, 33 states chose to enact targeted tax increases as part of their response to the unprecedented economic crisis of the Great Recession, which helped those states avoid some of the worst cuts to services such as education, according to a 2010 report by the Center on Budget and Policy Priorities. Georgia chose to shun revenue-raising options during that crisis, which led to lasting damage to the state's investments.

Resolution Would Put Georgia on a Path toward More Extreme Tax Changes

The tax resolution is also intended to put Georgia on a long-term path toward drastic cuts to the state income tax, or even its elimination over time. Although the senate resolution itself would not cause immediate income tax cuts, it would create a constitutional preference that gradually moves Georgia in that direction.

Replacing a balanced tax system that includes income taxes with one that disproportionately relies on the sales tax would increase taxes on most Georgia families and require a state sales tax rate of as much as 11.5 percent, according to GBPI research. Ongoing budget shortfalls and deep cuts in Georgia state services seem sure to follow. An ambitious tax shift law recently enacted in North Carolina, for example, is projected to cost the state at least $650 million in revenue per year once fully implemented.