

## Georgia Work Credit an Ambitious yet Affordable Investment

By Wesley Tharpe, Research Director

Georgia is missing out on a time-tested tool that helps hardworking families, boosts small businesses and strengthens local economies. Twenty-six states and the District of Columbia give a critical boost to families that work but struggle to make ends meet through a state Earned Income Tax Credit (EITC). For full details on the case for enacting a state EITC in Georgia, see “A Bottom-Up Tax Cut to Build Georgia’s Middle Class” at [www.gbpi.org](http://www.gbpi.org).

Enacting a state EITC, or Georgia Work Credit, would be an ambitious investment in more than 1 million families striving to break the cycle of poverty and ascend the economic ladder. As with any other public investment, it carries a cost in lost state revenue. That cost depends on two factors. First, the size of Georgia’s state match. Most state EITCs are set at a percentage of the federal credit, ranging from a low of 3.5 percent in Louisiana to a high of 40 percent in Washington, D.C. Second, lawmakers can choose whether a Georgia EITC is refundable or non-refundable. In all but three states with an EITC, lawmakers chose the refundable option to let working families keep the full value of the credit even if it exceeds their state income taxes.

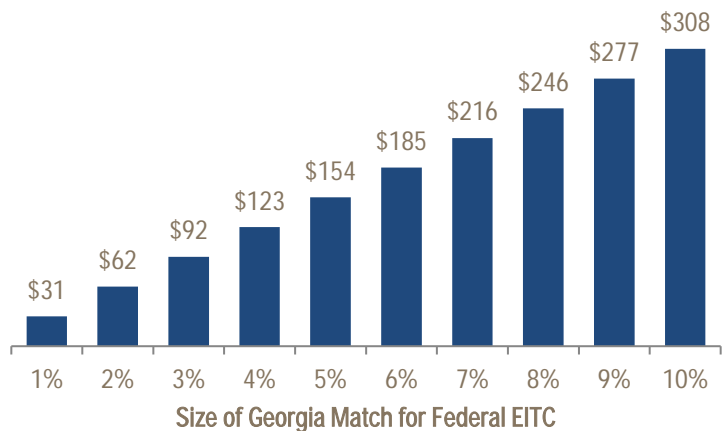
The chart illustrates the estimated costs of a refundable Georgia Work Credit. A refundable state EITC set at 5 percent of the federal credit would cost \$154 million in the state’s 2017 budget year, for example. Lawmakers can limit the cost of a refundable credit by adjusting the state match.

A nonrefundable option also carries lower costs, but letting families keep the credit’s full value is critical to its success. Workers with very low wages pay little in state income taxes, despite significant contributions through sales taxes and various fees. Taking away the option for a refund significantly limits whether a state EITC can reach those hardworking families who need a hand the most.

Rather than remove refundability, lawmakers concerned about potential costs can select a lower percentage for Georgia’s state match. Lawmakers can also consider phasing in a refundable credit’s selected value over a few years, as is common with other state tax credits. In order to keep the program affordable, some other states started small and then built on the program over time.

### Costs of Georgia Work Credit Vary Based on Size of State Match

Revenue impact of Georgia refundable EITC at varying shares of federal credit, millions, FY 2017



Source: Center on Budget and Policy Priorities analysis of IRS data

## A menu of options available for lawmakers to offset potential costs

A new Georgia Work Credit carries a predictable and manageable cost to the state budget and delivers a solid return on investment for taxpayers. Prudent lawmakers can offset the lost revenue from a new EITC so they can adequately fund education, public safety and many other vital services. Georgia lawmakers can choose from a range of viable options. Here are some possibilities.

### Preferred Option: End the Double Deduction Loophole for State Income Taxes

The most strategic way to offset lost EITC revenues is for Georgia lawmakers to join the growing number of states closing an unjustifiable loophole in the state's income tax, referred to by some as the **double deduction loophole**. Georgia is **one of four states** that allow taxpayers to claim this lucrative tax break, available only to households that itemize deductions. Oddly enough, Georgia taxpayers who itemize can now write off their state income tax payments when calculating how much state income tax they owe. This circular deduction exists largely by accident. Georgia lawmakers simply inherited this quirk in the code because the state offers the same package of itemized deductions made available at the federal level.

Forty-six states disallow this practice, including Oklahoma where Republican Gov. Mary Fallin pushed for its repeal in 2016. Ending the policy could net Georgia as much as an estimated \$460 million a year.

### Review unproven tax breaks for effectiveness

Each year, Georgia foregoes hundreds of millions of dollars through various credits and exemptions for private companies in the state. Some tax breaks probably provide a good return on investment but others likely fail to deliver enough benefit to offset the state's lost revenue. Unlike the state's investments in education or health care, these tax breaks are rarely reviewed to ensure effectiveness. Lawmakers can take a close look at tax breaks, such as those provided to insurance companies, which stand to claim about \$300 million worth in 2017.

### Extend the sales tax to cover some personal services

Georgia's state sales tax policies are mostly unchanged from the 1950s and lag behind changing consumer spending patterns. The sales tax applies to most physical goods people purchase but few household services. A working class Georgia family that buys a new lawnmower for their own yard pays sales taxes, while an affluent family that hires a lawn service company does not. Georgia can look for strategic ways to gradually extend the sales tax to more services without overburdening consumers. Applying the sales tax to repair and installation services for things like appliance installs, home renovation or car towing could net \$270 million a year. North Carolina recently enacted a similar reform.

### Modernize the sales tax to fit today's online economy

Lawmakers can update the application of Georgia's sales tax to suit the 21st century economy. Downloaded merchandise is now untaxed in Georgia, unlike physical counterparts bought in brick-and-mortar stores. Georgians pay sales taxes on DVDs but not on movies they download from the internet, even though value to the buyer is the same. That hurts both Georgia businesses and the state's treasury. Georgia today forgoes about \$50 million in state revenue a year by not taxing digital goods, including software, music files, movie files, apps, games and e-books. Revenue from digital purchases could rise substantially in future years as consumers continue to make more and more of their purchases online.