

Five Ways to Deliver Georgians a Win on Tax Reform

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Georgia House and Senate members are set to consider the final version of House Bill 329, a multipart income tax package that could spell big changes for families, businesses and the state's finances. Below are five core policy points to inform discussions in the 2017 Legislature's closing days over what makes the cut and what gets left on the cutting room floor. A common sense tax package that delivers a winning solution for Georgia is still possible.

Reject the drastic shift to a flat tax. The House proposal to toss out Georgia's longstanding, proven graduated income tax system with rates from 1 to 6 percent for a new flat tax at 5.4 percent poses undue risk to families and the state's financial health. Personal income taxes account for nearly half of Georgia revenues and in recent years allowed lawmakers to protect the state's AAA bond rating and give troopers and teachers a raise. Flat-rate income taxes also fall more sharply on low-wage workers and the middle class than do traditional graduated rates.

Accept a sensible rate cut but avoid slashing too deeply. A modest rate reduction within Georgia's traditional graduated system is a reasonable way to give taxpayers a break. But it is important to balance the desire for tax cuts with the responsibility to fund Georgia's growing needs. The proposed 5.65 percent rate that cleared the state senate could cost Georgia's treasury an estimated \$233 million in the first year according to the nonpartisan Institute on Taxation and Economic Policy. Tweaking the Senate plan to 5.7 percent could lower the cost to \$139 million a year and changing it to 5.75 percent could drop it to \$44 million a year.

Close the double deduction loophole. Both the House and Senate versions of HB 329 eliminate an unusual tax break that Georgia's 2010 special council on tax reform recommended ending. Only four states still allow taxpayers who itemize to write off their state income tax payments to calculate how much state income tax they owe. Removing the quirk is key to offsetting revenue losses in the bill and keeping the package fiscally sound.

Don't mistake theoretical revenue for cash in hand. State senators combined the income tax changes in HB 329 with a separate measure, House Bill 61, which seeks to levy sales taxes on online retailers located out of state. Combining the two measures creates the illusion the lost income tax revenue is offset, but the losses and gains are unlikely to balance out in reality. Georgia probably won't collect much online sales tax revenue anytime soon since taxing purchases from out-of-state sellers appears to conflict with federal law.

Boost families and workers with targeted credits and exemptions. Both the House and Senate versions of the tax package index Georgia's standard deduction, personal exemption and dependent exemption to inflation so that they keep up with economic changes over time. Stronger exemptions are a sensible way to help families over the long haul. Lawmakers can also consider a nonrefundable Earned Income Tax Credit (EITC) like the one approved by House members and removed in the Senate's version of the plan. Twenty-six states and Washington, D.C. use the EITC to give a bottom-up tax cut to low-wage workers trying to pull their families into the middle class. A nonrefundable version of the credit can at most zero out an eligible family's tax bill; it does not spill over into a refund exceeding what families would otherwise owe.