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UPDATE: Deciphering the Tax Rankings

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In talking about taxes, GBPI often says that Georgia is a low tax state. We cite data from the Census Bureau and Bureau of Economic Analysis that ranks Georgia between 37th and 43rd in several state and local revenue measures in 2006, the most recent year available. This seemingly contrasts with rankings by the Tax Foundation, which place Georgia 20th in tax obligation among the states in 2006 and 16th highest in 2008. So, who's right about Georgia taxes? Actually, they are not seeking to measure the same thing. Here are the details:

1. *Census Bureau* – The Census Bureau measures total state and local tax collections by gathering data from governments. When divided by the Bureau of Economic Analysis's personal income data, we receive the state and local taxes as a percent of personal income. That is, this measure shows what percentage of a state's personal income goes to actual state and local tax collections. The Census Bureau also provides a measure beyond just taxes, called "own source revenue." In addition to taxes, governments are funded through numerous fees and charges. The "own source revenue" measure includes both taxes and fees/charges to gather a more complete picture of how much revenue a state has to invest in services.
2. *Tax Foundation* – The Tax Foundation measures how much a resident of Georgia pays in state and local taxes. The key here is that it is not how much that resident pays in Georgia state and local taxes, but rather how much a resident pays in taxes to any state. They use Alaska as an example of a state tax system that reaches residents in other states. Alaska taxes oil companies, who then pass their tax obligation on to consumers. A Georgian who is the end-user of that oil company's product pays a part of the company's Alaska state tax through the price of the product.¹ Thus, a Georgian's tax obligation under this measure includes taxes to a multitude of state and local governments across the country, which are beyond the reach of any Georgia policy or tax changes.

Rankings for Georgia on State and Local Revenues (1 is highest obligation)			
<i>Census Bureau, Bureau of Economic Analysis</i> 2006			<i>Tax Foundation</i> 2008
Taxes as a % of Personal Income	Own Source Revenue Per Capita	Own Source Revenue as a % of Personal Income	Taxes as a % of Personal Income
37	43	39	16
<i>Source: Federation of Tax Administrators; Tax Foundation</i>			

¹ Prante, Gerald and Andrew Chamberlain. "Legal vs. Economic Incidence: Comparing Census Bureau Figures with Tax Foundation Tax Obligations." Tax Foundation: Fiscal Fact No. 59. www.taxfoundation.org/publications/show/1656.html.

One of the main concerns over the Tax Foundation ranking is the sizable revisions to the rankings. In an April 2007 report released by the Tax Foundation, Georgia ranked 32nd in state and local tax obligation for 2007. However, in August 2008, the Foundation revised that ranking, moving Georgia from 32nd to 16th highest for 2007.² The ranking remained as 16th highest for 2008. These significant annual revisions to the rankings raise serious concerns over the soundness of the data.

Another concern is the possible misinterpretation that Georgia's state and local taxes are too high. With a ranking of 16th, it would be easy to think that Georgia is a high tax state. Quite the contrary, Georgia is consistently ranked among the lowest tax states by the Census Bureau. To achieve a low ranking in the Tax Foundation system, states must have a tax system that is highly "exportable" (e.g. tax systems more heavily focused on businesses that export or on tourists). Thus, to achieve a low ranking, Georgia would need to shift its tax system away from residents and onto export businesses. Or, Georgia could lobby Alaska to decrease its taxes on oil companies and other states to decrease their taxes on businesses from which Georgians buy products. As neither of those options – significantly shifting taxes to big businesses or lobbying other states to alter their systems – is realistic for Georgia legislators, the Tax Foundation ranking should not be used to guide public policy around Georgia's tax system.

² Tax Foundation. *Georgia's State and Local Tax Burden: 1977-2008*. <http://www.taxfoundation.org/taxdata/show/448.html>.