Georgia Budget & Policy Institute

Policy Report

Reimagining Revenue: How Georgia's Tax Code Contributes to Racial and Economic Inequality

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Executive Summary

From the 18th century to the present day, state taxation policies have regularly contributed to worsening income inequality, with the bulk of tax and revenue measures enacted from the Great Recession of 2009 to the present day (2021) also primarily benefitting wealthy interests and corporations while harming the state's lowest-income residents, who are most likely to be people of color. The structure of Georgia's revenue system—which primarily relies on the personal income tax and sales and use tax—remains extremely outdated. Although Georgia's tax laws no longer explicitly mention race or ethnicity, state fiscal policy is not neutral with respect to how Georgians of different races fare when calculating the amount and type of taxes paid, or the ways those tax dollars are ultimately used by government.

Going forward, Georgia should begin to address the state's income and wealth gap by enacting robust antiracist, equitable and inclusive policies to support economic opportunity for all Georgians by dismantling racial, ethnic, gender and economic inequities and through strengthening state revenues to improve the quality and efficacy of core government programs and services. These policies should include strong support for low- to middle-income Georgians, more fairly tax areas of the economy dominated by wealthy residents and corporations and ensure that the wealthiest and corporations pay a greater share to finance government programs and services that reflects their ability to contribute to state government.

In enacting these forward-looking reforms, state leaders must understand how tax and revenue measures also serve as fundamental components of other core policy areas. Education and health care, for example, need an equitable and adequate tax and revenue system in order to meet the needs of the state's people. When our state does not have adequate revenues, the underfunding of state programs exacerbates inequities faced by people of color and Georgians with low incomes.

Introduction

For much of Georgia's history, public policy has helped to create and widen disparities across income and wealth between white Georgians and people of color, with Black Georgians in particular enduring systematic and state-sanctioned subjugation and unequal treatment from the state's founding through the modern era. Beyond obvious barriers to equity, such as the struggle for basic civil rights and obstacles that keep people of color from participating equally in fundamental arenas of American society such as the housing market, tax policy decisions at the state level have played a unique role in helping to enrich white Georgians and corporate interests, while placing an unequal burden on Black Georgians and people of color.

This foundation of racial and economic inequality is compounded by the implementation of modern regressive tax laws that ask Georgians in poverty to pay a disproportionately greater share of their income to finance state government while the state has simultaneously maintained a relatively low level of spending as compared to the national average and made little effort to meaningfully address disparities between race and income through proactive public policies. Indeed, the state's tax code remains highly antiquated, and policies that were put into place during the 20th century to govern the state's primary sources of revenue—namely the income tax and the sales and use tax—continue to actively harm people of color by creating barriers to building wealth while also actively redistributing resources to benefit the wealthy, corporations and established interests that have long been advantaged by the exploitation of Black and Brown people across the state. In fact, from the structure of the sales tax to corporate tax breaks that drain resources from many Georgians to benefit relatively few, the state of Georgia continues to maintain a range of fiscal policies that worsen or extend longstanding racial inequities, while often ignoring the long history of governmental and private sector actions that held back people of color and the continuing harms of racial bias and discrimination.

Today, state and local taxes consume a greater share of income earned by Georgians in poverty—who are more likely to be people of color—while the richest pay a far lower share of their income in taxes.[1] As such, Georgians who are among the bottom 20 percent of income earners, those who make less than $20,000 per year, pay approximately 10.4 percent of their income in state and local taxes, while those in the top 1 percent, making more than $481,000 per year, pay approximately 7 percent of their income in state and local taxes, a difference of nearly 33 percent.[2]

As Georgians make more in annual income, they can expect to pay a lower share of their overall earnings in state and local taxes. Due to historic racist policies and practices that have contributed to less wealth and lower incomes for people of color, this means Georgia's tax code inequitably taxes people of color while giving an advantage to predominantly white filers of means.[3]

Due to Racist Policies and Practices, People of Color in Georgia Have Less Wealth, Lower Incomes

Race/Ethnicity of Household	Median U.S. Wealth (2019)	Median U.S. Income (2019)
White	$188,200	$69,000
Black	$24,100	$40,300
Hispanic	$36,200	$40,700
Other/Multiple Races	$74,500	$55,700

Source: U.S. Federal Reserve, 2019 Survey of Consumer Finances.
Note: GBPI relies on various other data sources for analysis and thus are analysis is limited to the demographic information those sources use. We recognize there are race/ethnic groups not explicitly listed and that too many fall into the "other" category in this analysis.
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Correcting these disparities not only requires a comprehensive effort to address tax policies and other inequities perpetuated by policies relating to public education, housing, labor and criminal legal systems—among other broader areas of society—but also necessitates an honest evaluation of how centuries of racial discrimination backed by the forces of government have contributed to cementing a massive wealth gap that today places the median net worth of Black families at just 13 percent of that held by their white counterparts. As of 2019, the median U.S. wealth of Black households stood at just $24,100, as compared to the median wealth of white households at $188,200. This report aims to provide a historical lens to evaluate how state tax policies in Georgia have contributed to considerable differences in income and wealth between Georgians across race and ethnicity, while also providing a roadmap for ways to address the history and status quo of discrimination that continues to plague the state.

Although tax and revenue measures are just one component of the state's public policy infrastructure that have contributed to present-day racial and income inequality, a close examination of Georgia's history finds that these policies are closely intertwined with other barriers to economic security, such as housing, the state's criminal legal system and Georgia's vast network of subsidies that effectively take resources from low- to middle-income Georgians to boost corporate profits. Above all, this analysis demonstrates that state tax and revenue policies are not race-neutral and that Georgia's highly antiquated system of taxation, alongside the state's contemporary practice of directing billions in public funds to corporate interests, contributes to a further widening wealth gap between white Georgians and people of color.

Early Racist State Tax Policies: From the Poll Tax to the Property Tax

Throughout much of the first half of the 19th century, until 1843, Georgia generated much of its state revenue from the state-owned railroads, which provided the infrastructure for major shipping routes from the port of Savannah to the rest of the nation, rather than taxing most state residents.[4] When the state did begin to tax residents, policymakers aimed to disenfranchise Black Georgians and bar them from accumulating wealth. For example, one of the state's earliest sources of revenue is the poll tax that largely served to disenfranchise potential Black voters. At the end of the 19th century, property taxes—which were weaponized against Black landowners—made up approximately 74 percent of state revenue and the state's poll tax represented about 9 percent of revenue collections, with most of the remainder generated from taxes on railroads, liquor and insurance companies.[5,6]

Georgia's Poll Tax Disenfranchised, Overtaxed Black Georgians

Georgia's poll tax, which was formalized as part of the Tax Act of 1804 and applied a rate of 31.25 cents (approximately $7 adjusted for inflation to 2021 dollars) to white adult males, people under 60 who were enslaved and free people of color.[7] In 1807, the poll tax was revised to increase the rate on free non-white Georgians to $4 (approximately $94 adjusted for inflation), or nearly 13 times the amount charged to white Georgians, and accompanied by a variety of intimidation efforts intended to preclude those who could afford to pay from actually voting.[8] By 1852, the poll tax was lowered to 25 cents for white males between 21 and 60 years of age, while a tax of $5 (approximately $178 adjusted for inflation) was imposed on all free Black residents under 50 years of age.[9] For enslaved people under 60, a poll tax of $150 (approximately $5,329 adjusted for inflation) was enacted, whereas those over the age of 60 were considered "valueless."[10] Under the 1852 tax legislation, enslaved people were also taxed as property under state law.

In the aftermath of the U.S. Civil War and the adoption of the 15th Amendment to the Constitution, which guaranteed former male enslaved people the right to vote, Georgia deliberately ingrained in its state Constitution of 1877 a cumulative poll tax designed to disenfranchise Black Georgians. Although the poll tax existed previously, Georgia was the first southern state to enact a cumulative version to further disenfranchise Black citizens by requiring the payment of all previously due taxes before an individual could vote.[11] Despite these restrictions, during the Reconstruction Era of the late 19th Century, there were instances in which Black voters were able to meaningfully affect the political process.[12]

However, these limited gains were met with an even more comprehensive effort to exclude Black citizens from the electoral process and state government. For example, in 1869, Georgia was placed under federal military rule and lost the right to representation in Congress after expelling 33 Black and mixed-race members of the General Assembly and preventing Black citizens from voting in the 1868 presidential election.[13]

In 1908, voters approved an amendment to the state Constitution to add a literacy test as another barrier to disenfranchise Black Georgians, while also requiring that voters be of “good character and understand the duties and obligations of citizenship.”[14] The amendment also included a “grandfather clause” designed as an exemption to allow poor white Georgians to vote if their ancestors served in the Civil War or another major American conflict or were previously registered to vote.

This move essentially nullified the poll tax and literacy test for many white men while continuing to disenfranchise Black men. A parallel amendment adopted in 1908 also imposed the same restrictions on participating in any party primary or convention. In 1931, the requirement that all taxes due were paid was dropped to leave the poll tax in place as the sole levy attached to the right to vote. Finally, in 1943, the age to vote was lowered from 21 to 18 years of age, and by 1945, the poll tax was fully repealed.

The history of Georgia’s poll tax runs parallel with a centuries-long effort to use the power of state law in order to disenfranchise Black Georgians and to prevent them from electing leaders to represent their interests in state government.[15] These policies were reinforced by vigilante efforts, such as those by the Ku Klux Klan that added violence and intimidation to further prevent Black Georgians from exercising the right to vote under the 15th Amendment.[16]

Furthermore, the state also utilized minimum property and asset thresholds, requirements that voters present receipts for other tax payments such as property tax assessments and a variety of discriminatory criminal laws to further restrict Black Georgians from casting ballots.[17] Until the mid-20th Century, Black Georgians were not only explicitly excluded from participating in the electoral process that is the foundation of America’s democracy but were also exposed to other deliberate efforts to extend the legacy of economic subjugation that white Georgians took advantage of to build Georgia’s early economy.[18] Through the force of the state Constitution, Black Georgians were held back from accumulating either political power or wealth over the course of much of Georgia’s history, setting the stage for the modern era.

Property Taxes Weaponized to Tip Scales Against Black Homeowners

State property taxes in Georgia have evolved considerably over time, from the adoption of the statewide property tax in 1775 to its elimination in 2016.[19] Before the enactment of the Fair Housing Act of 1968, discrimination in real estate was almost ubiquitous, and the vast majority of non-white Georgians were largely shut out of the opportunity to build wealth and equity through homeownership.[20]

Nevertheless, the state's property tax system was weaponized throughout the early 20th century to further tip the scales against the relatively few Black Georgians who managed to become property owners.

Throughout the 19th century, the property tax grew in importance as a source of revenue for the state of Georgia. By the end of the 19th century, the statewide property tax was the primary revenue source for Georgia, accounting for $1.9 million ($61.9 million adjusted for inflation in 2021), or approximately 74 percent of the state's $2.6 million ($84.7 million adjusted for inflation) in annual revenue.[21]

During the 20th century, the property tax was weaponized to target people of color. At a basic level, records demonstrate that property values were assessed differently for Black and white residents.[22] For example, in 1919, reported assessments of Black- and white-owned land of similar value were nearly equal. However, in subsequent years, the state tax assessor's office reassessed the white-owned properties to signal a decrease in value.

Meanwhile, Black-owned properties were not reassessed and remained at a higher-than-accurate assessment relative to their white-owned counterparts. By 1934, Black landowners were paying significantly greater rates than white landowners for similar land.[23] These assessment disparities were used in part to force Black property owners to sell their assets during the Great Depression, preventing them from generating wealth that would instead be claimed by those who purchased or seized their assets.

Another crucial element in the weaponization of property taxes against Black homeowners was delivered through the assessment process by county officials, where Black residents were disenfranchised and therefore restricted from holding officials accountable through the electoral process.[24] For instance, between 1960 and 1980, an estimated 160,000 white residents left the City of Atlanta and moved to the suburbs as part of a pattern commonly referred to as "white flight" in reaction to the city's growing Black population.[25] This departure of white residents from neighborhoods in Atlanta resulted in a devaluation of the properties where Black residents remained.

However, tax appraisals were slow to change, so Black property owners in Atlanta were over-taxed for their property, while white property owners who relocated to the suburbs of Fulton County were under-taxed. Even by 1990, the property tax yield in Fulton County stood at less than 31 percent of the fair market value of property, while the state requirement is to maintain taxes at 40 percent—meaning that Fulton County property tax assessments, on average, were only 75 percent of the legally required level.[26] The benefits of lower tax assessments, however, were not equally distributed. This racially biased practice of valuing Black-owned properties, in addition to neighborhoods with a significant share of Black residents, at different amounts than their white counterparts reinforced and helped to cement the negative effects of earlier federal housing laws that explicitly sought to maintain racial segregation.[27]

A 1990 study estimated that Atlanta families with an income of $50,000 spent about 10 percent of their income on state and local taxes.[28] Meanwhile, families with an income of $100,000 spent less than 1 percent of their income on state and local taxes, likely paying less in raw dollars than lower-income families living in homes with lower sale prices.

This trend demonstrates how inequitable tax appraisals "effectively subsidized affluent residents of majority-white areas at the expense of the poor, minorities and the public sector."[29] To address the problem of unequal assessment and avoid potential litigation, Georgia HB 1279 was passed in 1988. This legislation extended the power of the state revenue commissioner to enforce uniformity among all property appraisals to get as close to 40 percent of market value as possible.

Property taxes have historically been regressive, where lower-income Georgians are asked to pay a greater share in taxes than higher-income residents, partially because the assessments of lower-priced properties are overvalued, while higher-priced properties are undervalued.[30] Although people of color earning low incomes are more likely than white households to be renters, those who rent homes still pay some property taxes indirectly in the form of rent while not being able to enjoy the same benefits of homeownership.[31] Most assessments have historically been based on conditional averaging, so the value of a property is based on the average value of other properties with similar characteristics. Under this system, many features of a property are difficult for an assessor to accurately value, so assessors can easily over-value some properties while undervaluing others.

In terms of assessments completed for the purposes of buying or selling homes, this phenomenon is not unique to Georgia, and there have been documented instances up through the present day in which Black property owners have received far lower valuations than their white counterparts when selling their house. For example, in September 2021, a Black family in Ohio reported experiencing a $100,000 jump in the appraised value of their property after replacing family photos with those of a white neighbor and asking them to stand in to meet the appraiser.[32]

Statewide, the property tax gradually faded in importance as a source of revenue. As part of the Income Tax Acts of 1929 and 1931, the state initiated a shift in which property tax rates were reduced at a level commensurate with new revenue from the income tax. This shift has ultimately contributed to a system in which wealthier property owners experienced a decrease in their tax burden, while the bulk of lower-income Georgians simultaneously saw an increase in their overall tax burden with the subsequent implementation of the more regressive sales and use tax.

In 1966, the intangible property tax, which included property such as bank deposits and shares in corporations, was repealed. By 1979, the statewide property tax comprised just 0.36 percent of state revenue. The tax was phased out from 2014 to 2016, with its final elimination effective on January 1, 2016.[33]

Ultimately, the history of Georgia's state property tax demonstrates how Black Georgians were systematically prevented from building generational wealth through homeownership in the way their white counterparts could. In many cases, Black homeowners were actively harmed by those charged with administering and managing the state's property tax assessment system under policies that levied higher taxes on Black homeowners than their white peers, while valuing their properties at lower levels.[34]

Further scholarship also demonstrates how Black Americans were simultaneously excluded from government-backed programs designed to make homeownership more accessible, such as the New Deal Public Works Administration housing program and the GI Bill's mortgage programs for veterans. Moreover, racist practices have historically affected the value of Black-owned homes and communities where a significant share of people of color reside, further compounding barriers to building wealth.[35] From the large-scale disenfranchisement of non-white males through the poll tax to the disenfranchisement of Black Georgians that weakened their ability to hold accountable elected officials overseeing property tax assessments, there is a clear link between policies enacted between the 18th and 20th centuries and the widespread exclusion of people of color from building wealth through real estate and homeownership.

Modern Regressive Policies Harm People of Color

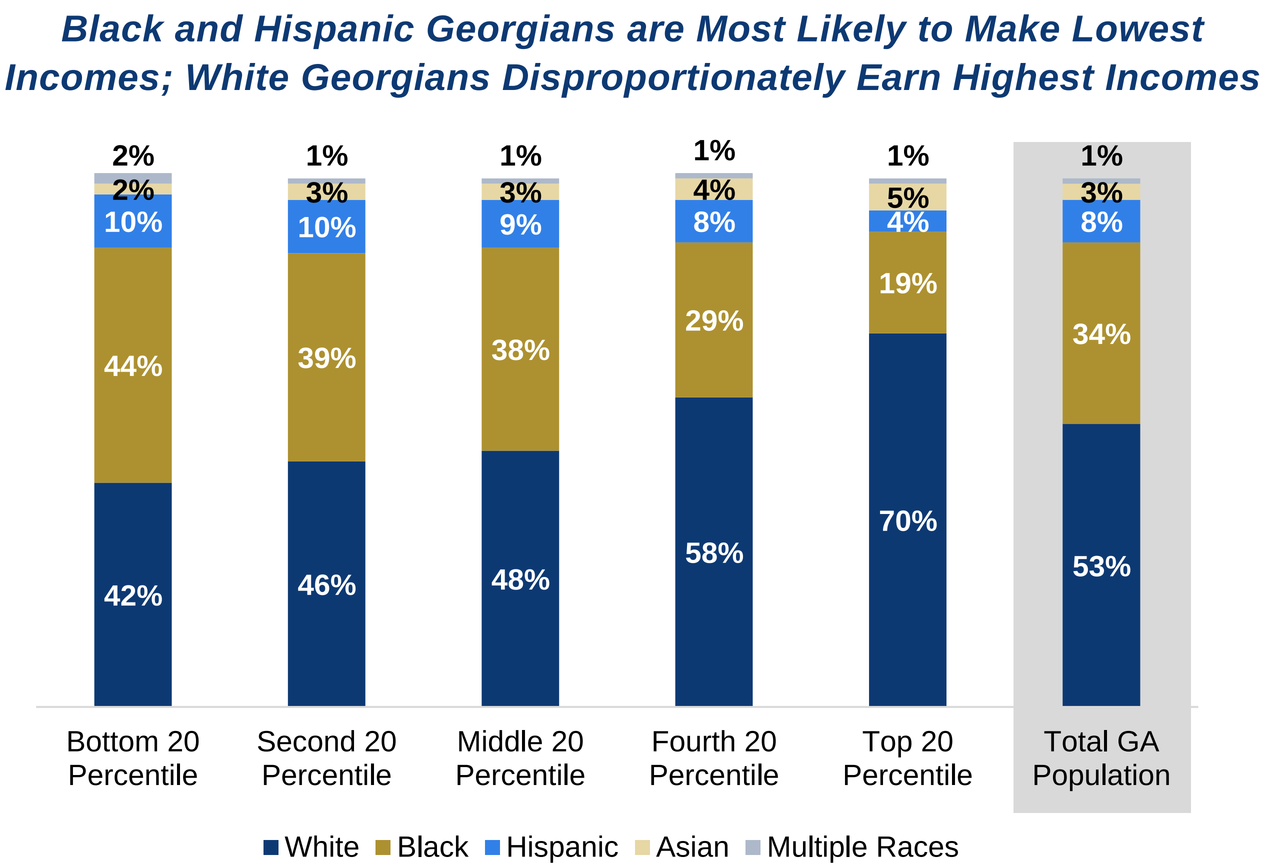
Regressive tax policies place a disproportionate burden on people of color in Georgia because racist policies and practices have led to people of color being overrepresented among Georgians with lower incomes. A June 2021 analysis by McKinsey & Company finds that Black American workers are highly underrepresented in fast-growing, high-wage industries, have lower odds for advancement and higher attrition in front-line and entry-level jobs, with low representation in executive roles and a lack of support from employers.[36]

This persistent trend of occupational segregation stems from long-standing factors such as inequitable resources directed to state public education institutions, systemic barriers to accessing higher education, racial discrimination in hiring and managerial promotions and a failure to meaningfully address other persistent inequities. These disadvantages contribute to an estimated $220 billion annual disparity between Black wages in the current U.S. economy, with Black workers earning 30 percent less than if on equal footing with their white peers and approximately 1 million Black workers excluded entirely from employment.[37]

Georgia's minimum wage of $5.25 per hour is among the lowest in the nation, set below the federal minimum wage of $7.25 which applies to all employers subject to the Fair Labor Standards Act. As of 2018, approximately 53,000 Georgia workers were paid rates at or below the minimum wage.[38] Nationally, among hourly workers, 2 percent of white workers make incomes at or below the minimum wage, compared to 2.6 percent of Black workers.[39] Owing to a history of systematic discrimination and public policies that have acted to reenforce and widen gaps in income between Black and white workers, clear patterns in the U.S. labor force demonstrate that a disproportionally large share of Black workers is concentrated across low-wage service roles, rather than the professional and managerial roles dominated by white workers.

Other scholarship has also found that, among children, Black boys are the least likely of any demographic group to escape poverty and the most likely to fall into it in adulthood, faring worse than their white peers across 99 percent of American households.[40] As of 2010, people with felony convictions comprised approximately 8 percent of all adults, but 33 percent of Black adult males.[41] Scholarship finds that those convicted of a crime can expect to earn an average of 16 percent less than their peers.[42] Black people with a criminal record earn significantly less than similarly situated white people, making an annual average of $39,000 versus $49,000.[43]

Making matters worse, the COVID-19 pandemic has widened gaps between Black and white Americans in life expectancy, while pushing a significantly larger share of Black Georgians out of the workforce and into unemployment.[44] Rather than meaningfully addressing the significant gap in average annual income between white Georgians and people of color, the state's income tax code is primarily structured to reward corporations and top income earners through tax credits and deductions designed to lower the amount of taxes due by those at the top of the economic ladder. Among those in the top 20 percent of earners, 70 percent are white, 19 percent are Black, 4 percent are Hispanic, 5 percent are Asian and 1 percent are of multiple races.[45] This stands in contrast to overall statewide demographics in which an estimated 53 percent of Georgians are white, 34 percent are Black, 8 percent are Hispanic, 3 percent are Asian and 1 percent are of multiple races.[46]

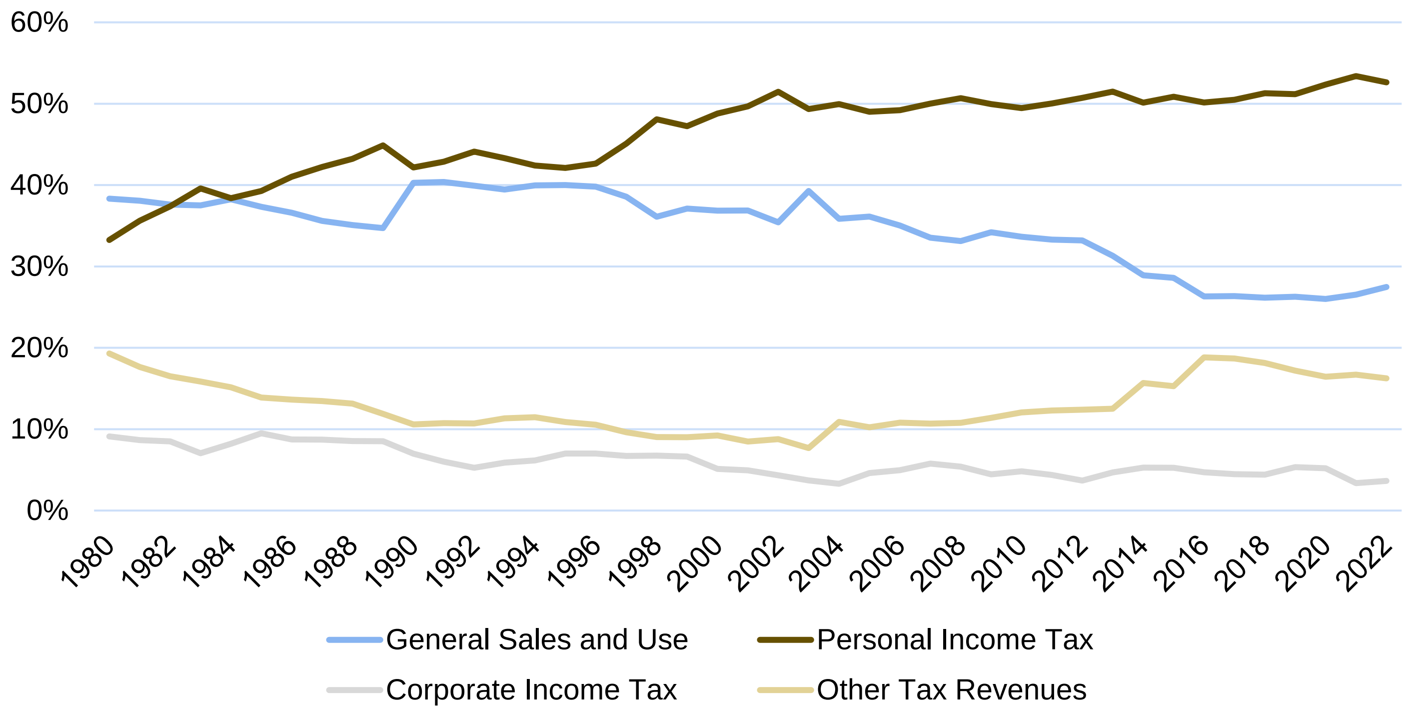


Source: Institute on Taxation and Economic Policy, May 2021.
Note: GBPI relies on various other data sources for analysis and thus are analysis is limited to the demographic information those sources use. We recognize there are race/ethnic groups not explicitly listed and that too many fall into the "multiple races" category in this analysis.

Georgia's Sales and Use Tax Contributes to Widening Income Inequality

Adopted in 1951 at a rate of 3 percent, Georgia's state sales and use tax was increased to its current rate of 4 percent in 1989. For just over three decades, the sales tax served as the state's largest single source of revenue until it was eclipsed by the personal income tax in 1982. As a percentage of general revenues in the modern era, the sales tax peaked in the mid-1990s at 40 percent of state tax collections (1994-1996).[47] In the current fiscal year (FY 2022), Georgia's sales and use tax is estimated to generate just 27 percent of state tax collections.[48]

From 1982-2022, Personal Income Tax Revenue Overtakes Sales Tax as Corporate Income Tax Diminishes



Sources: DOR Statistical Reports, 2000-2020; Governor's Budget Report for AFY 2021 and FY 2022.

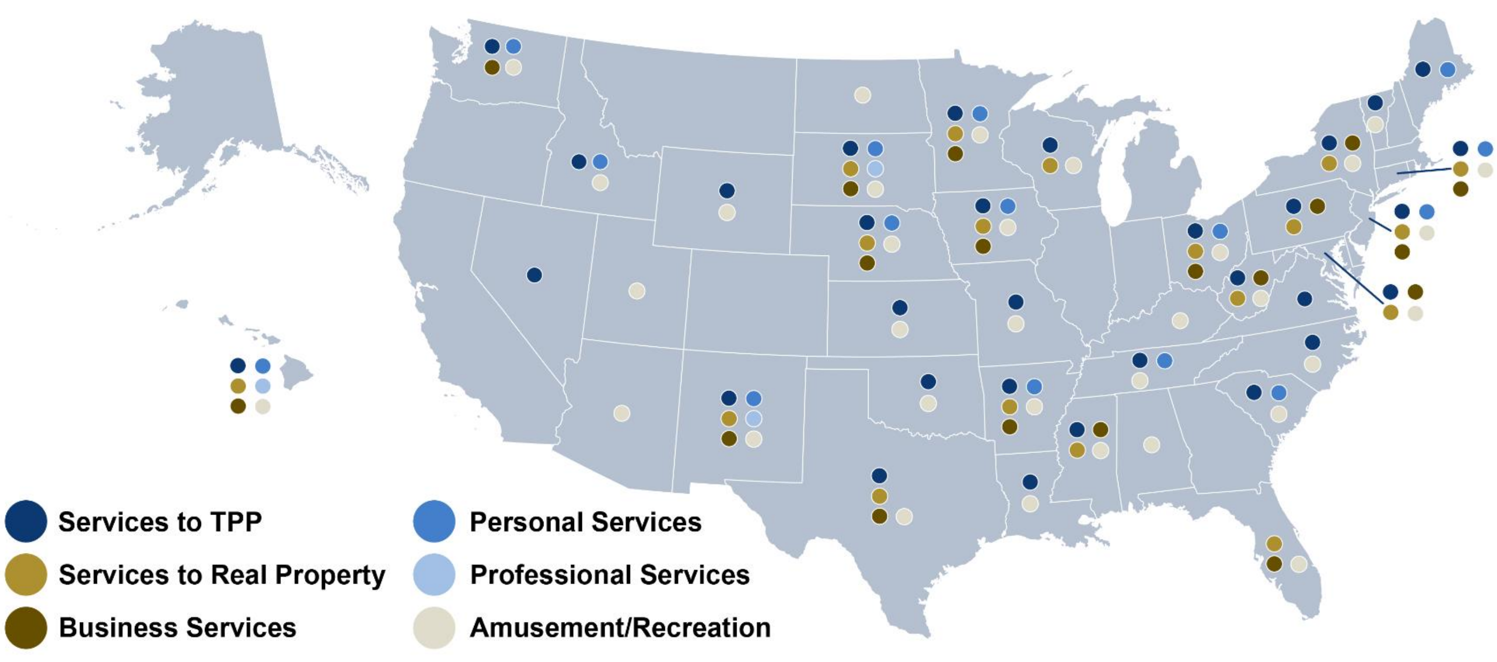
Almost immediately after its enactment in 1951, new sales tax revenues nearly doubled Georgia's state budget, helping to fund much-needed investments in public education while also allowing the General Assembly to enact new income tax exemptions for dependents, along with deductions for capital gains and losses. Although the substantial increase in state revenue was needed to fund a host of essential government services, the enactment of the sales tax on goods rather than services also helped to tilt Georgia's revenue system in favor of the wealthy, while asking low- to middle-income earners to pay a greater share of their earnings to support the functions of state government.

After increasing the sales tax to 4 percent in 1989, the state also enacted a sales tax exemption for select groceries, such as meat, milk, bread and vegetables, in 1996 while maintaining the tax on prepared, canned and frozen foods. The failure to implement a complete exemption on all groceries limited the effectiveness of this exemption for lower-income families with more limited access to grocery stores and fresh food.[49]

Categories of frequently taxed services:

- Services to tangible personal property (TPP): Includes services that improve or repair property, such as car repairs.
- Services to real property: Includes improvements to buildings and land, such as landscaping.
- Business services: Includes services performed for businesses or corporations, such as employment agencies, telemarketing or debt collection.
- Personal services: Includes a wide range of businesses that provide services to individuals, such as tanning parlors, salons and dry-cleaning services.
- Professional services: Includes professional industries and licensed professionals, such as attorneys, architects or accountants.
- Amusement and recreation: Includes items such as admission to entertainment events and recreational activities.

Services Taxed by State



Source: Avalara, A State-by-State Analysis of Service Taxability.

Since the adoption of Georgia's sales and use tax in the mid-20th century, the economy has changed significantly. However, the state has largely failed to account for these changes in how taxes are applied. As a result, the state's sales tax is unnecessarily volatile and regressive, placing the greatest burden on people of color and those with the lowest incomes.

Furthermore, by excluding most services, the state is also giving preferential treatment to businesses and professional services, which predominantly employ white workers at the highest levels rather than people of color.[50] This narrower tax base increases volatility by excluding large sections of the economy from taxation, making the sales tax more vulnerable to spikes or dips depending on underlying economic conditions.

In FY 2019, the state took a positive step toward greater equity by requiring online retailers to collect and remit the same sales taxes as brick-and-mortar retailers, helping to level the playing field between those who shop online and in person. However, digital downloads, such as software and digitally purchased books and music, remain untaxed under current law, maintaining a level of imbalance that likely penalizes lower-income Georgians for making purchases of non-electronic versions in person. Part of the reason is, at last count, over 500,000 households and businesses in Georgia lacked access to reliable, high-speed internet, with 70 percent of those residents in rural areas.[51] Many of the areas without broadband access also overlap with the state's "Black Belt," a constellation of rural communities with a majority-Black population where the majority of people live in poverty.[52]

Another possible explanation for the racial imbalance in access to online commerce is the disparity in access to credit and banking services. Among Black Georgians, 16 percent are unbanked, meaning they did not have access to a bank account, and 30 percent are underbanked, without sufficient access to level of banking services needed to meet their financial needs; as compared to 5 percent of unbanked and 18 percent of underbanked white Georgians.[53] Much remains to be done to rebalance the sales tax while also generating needed revenue to fund programs across public education, health care and economic mobility that will proactively serve to combat racial and income inequality across the state.

While most other states across the nation have at least somewhat modernized sales taxes to keep up with the shift in the broader economy from consumption of goods to a greater emphasis on services, Georgia's sales and use tax does not. Georgia's sales tax excludes almost all services, such as attorneys, accountants, landscaping, interior design and decorating, construction labor, services from banking institutions, and other transactions that do not directly involve the sale of goods. Lower-income people tend to spend a greater share of their income on the goods that are taxed, while those at higher earning levels utilize a greater share of the services that are untaxed.[54]

In effect, this means that lower-income Georgians—and therefore a disproportionate number of people of color—pay sales taxes at a higher effective rate than their higher-income counterparts. In fact, Black Georgians pay an estimated 30 percent more in their effective sales tax rate than their white counterparts. Furthermore, as a share of income, Georgians in the bottom 20 percent of earners pay approximately 6.8 percent of their earnings in sales tax, in contrast to those with incomes in the top 20 percent who pay an estimated 0.8 percent of their overall income in sales tax.[55]

In FY 2022, the state estimates that approximately $8.9 billion in revenue will be lost because of exemptions on services, while just over $6.6 billion is expected to be raised from the current sales tax. Key areas of the economy necessary for the health and well-being of Georgians, such as health care and prescription drugs, along with groceries, should remain untaxed to continue benefiting the vast majority of state residents and to avoid instituting a more regressive distribution of tax burdens. However, under the current tax system, the state unfairly gives preferential treatment to services, which tend to be utilized in greater quantities by higher-income earners, over goods, which lower-income Georgians are reliant on.

Georgia's Personal and Corporate Income Tax Structure Overtaxes Low-Income Georgians, People of Color

In 1931, Georgia enacted its personal income tax, assessed to state residents at one-third of the rate paid in federal income tax. In 1937, the personal income tax was adjusted to consist of seven brackets ranging from 1 to 6 percent, with the top income bracket applied to individuals earning over $7,000 and married couples earning over $10,000. Taxpayers can choose between utilizing the state's standard deduction—which is valued at $5,400 for single filers and $7,400 for married couples filing jointly—or individually itemizing deductions. Those above the age of 65 and blind Georgians are also eligible for a $1,300 boost to the state's standard deduction. Approximately 86 percent of Georgians, those with an average annual income of $57,000, utilize the standard deduction, while 14 percent of filers, those with an average income of $240,000, claim itemized deductions. Regardless of whether filers claim the standard deduction or itemized deductions, all Georgia taxpayers receive an additional personal exemption of $2,700 for single filers, $6,000 for married couples filing jointly and $3,000 for each dependent. Between 2002 to 2012, the state gradually increased its exclusion from income taxes on retirement income up to the current level of $65,000 for single filers and $130,000 for married couples.

Georgia's Personal Income Tax Structure Remains Highly Outdated

In recent years, Georgia has seen its income tax system become more regressive, suffering from a failure to modernize its outdated bracket structure, increasingly preferential treatment given to the highest income earners and a massive uptick in the amount of revenue lost to corporate subsidies. These changes have served to reduce potential revenue collections—thereby weakening the ability of state government to respond to the needs of its residents—while also exacerbating racial and income inequality by widening the gap between Georgia's wealthiest and those in poverty.

Georgia's Personal Income Tax Structure Remains Highly Outdated

Rate	Income threshold (single filers)	Income threshold (married filing jointly)	Single (If adjusted for inflation from 1937 to 2021)	Married (If adjusted for inflation from 1937 to 2021)
1%	$750	$1,000	$13,914	$18,552
2%	$2,250	$3,000	$41,742	$55,656
3%	$3,750	$5,000	$69,570	$92,760
4%	$5,250	$7,000	$97,398	$129,863
5%	$7,000	$10,000	$129,863	$185,519
5.75%	Over $7,001	Over $10,001	$129,882	$185,538

Source: OCGA 48-7-20; U.S. BLS CPI Inflation Calculator, January 1937 to January 2021.

Reducing the top income tax rate paid by individuals and corporations while maintaining the state's antiquated personal income tax bracket structure has also primarily benefitted high-income earners while offering little to the vast majority of Georgians. A recent state audit of personal income tax returns also found that the bottom 40 percent of earners received approximately 5 percent of the total value of tax credits claimed, while those in the top 20 percent of earners claimed 87 percent of the total dollar amount of tax credits issued.[56]

Georgia approved a constitutional amendment to cap its state income tax rate at a maximum of 6 percent in November of 2014. In 2018, in response to changes made to conform with provisions of the federal Tax Cuts and Jobs Act (TCJA), the state reduced its top personal income tax rate from 6 to 5.75 percent. The current structure of Georgia's personal income tax remains highly outdated and effectively operates more like a flat tax, in which residents reach the highest tax rate at a relatively low level of income of $7,000 for single residents and $10,000 for married couples, rather than a true graduated income tax, where households are taxed at higher rates as income increases. If the state's income tax brackets kept pace with inflation from 1937 to 2021, this threshold would be equivalent to nearly $130,000 for single Georgians or $186,000 for married couples.

In 1969, the state's corporate income tax was set at a flat rate of 6 percent. Alongside the TCJA personal income tax changes adopted in 2018, the state lowered its corporate tax rate to 5.75 percent. Approximately 74 percent of the benefits from reducing the state's top income tax rate were directed to those in the top 20 percent of earners, while only 24 percent of tax savings were shared by the nearly 4 million households in the bottom 80 percent of earners.[57] Because people of color are disproportionately represented among those in the bottom 80 percent of income earners, while white Georgians make up a larger share of those in the top 20 percent than would otherwise be expected under an even distribution, reductions in the top income tax rate serve to exacerbate racial inequities.

Corporate Subsidies Grow with Little Transparency

Cost of Georgia's Major Corporate Subsidies Balloon: FY 2013 to FY 2022

Tax Expenditures (in millions)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Exemptions for energy, machinery or equipment, industrial material and consumable supplies used in manufacturing	$2,852	$3,203	$3,374	$3,005	$3,091	$3,297	$3,232	$3,710	$3,845	$3,968
Film Tax Credit	$136	$198	$243	$338	$435	$392	$451	$1,037	$1,014	$1,068
Special deductions for life insurance companies	$126	$133	$141	$152	$166	$179	$197	$209	$215	$214
Insurance abatements	$130	$131	$135	$145	$159	$186	$191	$200	$205	$204
Georgia Job Tax Credit		$68	$70	$87	$122	$115	$118	$186	$182	$186
Exclusion of global intangible low-taxed income (GILTI)						$8	$19	$73	$153	$182
Research Tax Credit	$9	$8	$34	$28	$32	$75	$87	$152	$152	$160
Quality Jobs Tax Credit	$8	$26	$30	$49	$94	$77	$77	$78	$79	$79
Employer's Credit for Approved Employee Retraining	$29	$25	$31	$35	$48	$52	$39	$52	$47	$51
Bank Tax Credit			$10	$15	$36	$33	$26	$26	$33	$34
Manufacturer's Investment Tax Credit	$60	$37	$15	$19	$25	$28	$17	$24	$24	$25
High-Tech Data Center Equipment Exemption							$8	$15	$15	$12
Total	**$3,350**	**$3,829**	**$4,083**	**$3,873**	**$4,208**	**$4,442**	**$4,462**	**$5,762**	**$5,964**	**$6,183**

Source: Georgia Department of Audits and Accounts, Annual Georgia Tax Expenditure Report, FY 2013-2021.

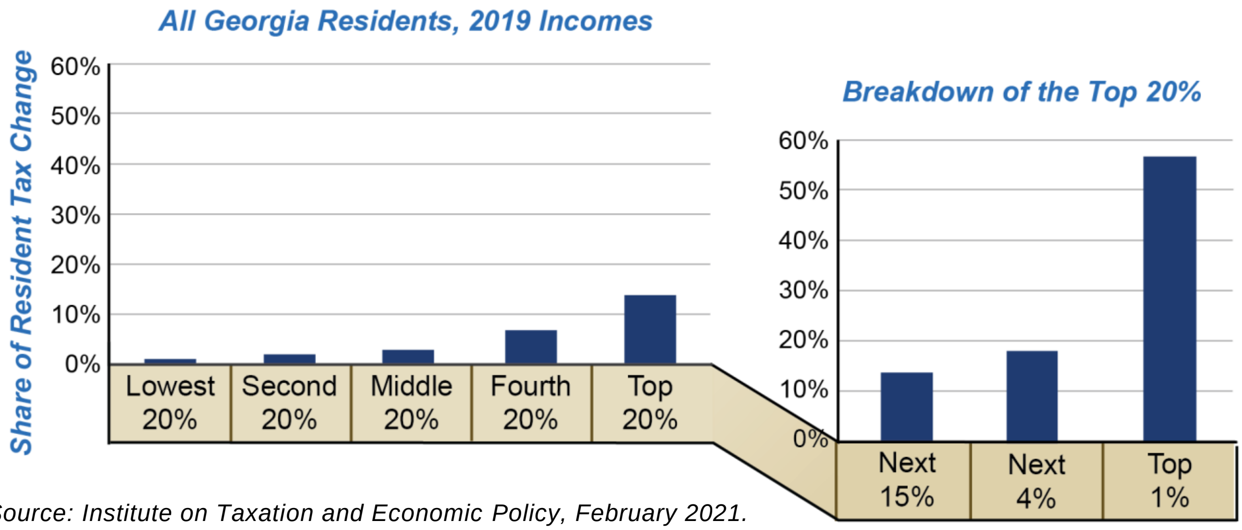
Many corporations can take advantage of a wide range of subsidies, tax credits and loopholes built into state law that allow businesses to reduce the amount of taxes owed to the state. Most state corporate tax credits were instituted between 1990 and the present day.[58] Between FY 2013 and FY 2022, the value of Georgia's largest tax expenditures for corporations has increased from $3.4 billion to $6.2 billion, in large part due to the exponential growth of big business subsidies like the film tax credit and a constellation of other tax credit programs that helped 94 percent of corporations to report a taxable income of $0 or less to the state in 2019. When the state enacts or expands corporate subsidies and incentives, it essentially forces a choice between rolling back government programs and services or redistributing funds from low- and middle-income Georgians to benefit business interests. A mechanism in the state tax code referred to as "transferability" allows some corporations that owe nothing in state taxes to sell credits issued by the state to other businesses or individuals, who are then able to pay their own taxes at a reduced cost despite having no involvement in the economic activity for which the tax credit used was initially awarded. For example, as a result of transferability and deferred-use provisions, which allow the film tax credits to be sold on the open market and used for up to five years after they are earned, only a small fraction of the more than $1 billion in tax credits issued each year will actually go to offsetting taxes by companies directly involved in earning film credits.

Although the state does not currently allow households to receive refundable tax credits, in which the balance after offsetting any income taxes owed could be collected as a payment, transferable tax credits allow corporations to receive more favorable treatment under the law, whereby they can claim the maximum amount of eligible credits regardless of how much is owed in state taxes. A previous state audit suggests that film companies earning the credits use as little as 1 percent of the credits to offset their own taxes and that the vast majority are sold second-hand, weakening the state's broader income tax base.[59] State auditors also found that the single largest expense used to earn tax credits were payments to non-resident workers—those who do not reside in Georgia and are unlikely to spend the bulk of their earnings in-state—and that approximately 88 percent of companies receiving film tax credits are based outside of Georgia.[60]

Transferrable corporate tax credits such as the film tax credit weaken Georgia's revenue system in two major ways that contribute to racial and economic inequality. First, resources are diverted from essential state government programs, such as those that provide access to health care and public education, in order to finance costly tax breaks that primarily go to corporate shareholders and top income earners. Second, when corporations have an excess of transferable tax credits, they are sold on the open market to other corporations and taxpayers that purchase them for the purpose of reducing their own tax liability, so that they can pay those who initially received the credits less than would otherwise be due to the state, further weakening Georgia's revenue stream and ability to fund core government services.[61] Moreover, reductions to the amount of corporate taxes owed primarily benefit industry shareholders, who are predominantly white with nearly 90 percent of corporate equities and mutual fund shares owned by white families.[62] As a share of state tax collections, Georgia's corporate income tax has experienced an alarmingly sharp decline, falling from over 9 percent in 1980 to 4 percent in FY 2022.[63] To make matters worse, most state corporate tax credits have no sunset date or set timeline of expiration that requires lawmakers to evaluate whether to renew rather than allow them to continue indefinitely, and Georgia has no regular process of evaluation to determine the effectiveness of tax credits and corporate subsidy programs in creating jobs or accomplishing their stated goals.

Taken together, Georgia's decision to increasingly shift resources from investments in core government services like public education to corporate tax subsidies has almost certainly contributed to worsening racial and economic inequality, while billions are directed to corporate shareholders. In fact, an analysis of several of the state's largest corporate tax credit programs—including the state's Jobs Tax Credit, Quality Jobs Tax Credit, Employer's Credit for Approved Retraining and Research Tax Credit—demonstrates that nearly 90 percent of benefits go to those in the top 20 percent that earn in excess of $100,000 annually.[64] Approximately 70 percent of those in the top 20 percent of earners are white, while only 19 percent are Black and 4 percent are Hispanic.[65]

Over 75 Percent of Corporate Tax Credits Go to Top 5 Percent—Those Earning $234,000 or More Annually



Source: Institute on Taxation and Economic Policy, February 2021.

Because little information is publicly reported, it is difficult to make firm conclusions or conduct appropriate research on the effect that job creation tax credits have on economic mobility. For instance, due to the state's lack of transparency when it comes to evaluating major job creation tax credit programs, it is unclear how many of the jobs created are paying a meaningful living wage. It is also unclear how many of the jobs are permanently retained in these communities. Consequently, transparency in Georgia's tax subsidy programs is a racial equity imperative. The state must dedicate necessary resources to tracking and publishing data on the racial makeup of taxpayers who benefit from Georgia's constellation of tax breaks, in addition to underlying demographic data for all filers. Rural communities of color need assurance that corporations that are benefitting from $0 in corporate income tax liability are creating high-quality employment opportunities, or simply that these corporations are making any effort to recruit and hire people of color and those who reside in their communities. Otherwise, corporations benefitting from subsidies in these areas are blocking opportunities for economic growth that could benefit both families and businesses.

Fines and Fees Worsen Racial and Income Inequality

Criminal legal system fines and fees imposed by the state, as well as local governments, further worsen racial and economic inequalities and are deeply rooted in a racist history that places a disproportionate burden on people of color.[66] In 2020, an estimated 258,000 Georgians were under state correctional control—equivalent to 2.4 percent of the state's 10.7 million population—with 190,000 on probation, 48,000 incarcerated individuals and 20,000 parolees.[67] Black adults are incarcerated at twice the rate of their white peers, representing 51 percent of the population in state jails and 60 percent of those in prisons.[68] In addition to requiring under state law that all felony-level probationers be supervised by the Georgia Department of Community Supervision, the state assesses costly fees to maintain compliance with this mandate. Furthermore, Georgia is among a handful of states that charges private probation companies with supervising the terms of probation sentencing imposed on those convicted of misdemeanors, levying over $120 million in annual fines through these for-profit corporations.[69] Although publicly available data on state and local fines and fees remains limited, data from across the nation demonstrates that these elements of state revenue systems are highly regressive and unfairly harm people of color through unnecessarily financially punitive policies.[70] While fines and fees make up a relatively low level of state revenues, reliance on these punitive measures has increased as other revenue sources such as the sales tax have diminished as a share of state revenue. To varying degrees, local governments also generate a greater share of revenue from fines and fees, contributing to worsening racial and economic inequality.

Analysis and Policy Recommendations

In recent decades, tax policy decisions at the state level have overwhelmingly contributed to increasing disparities in income and wealth between white Georgians and people of color, and more broadly widened the gap between low- to middle-income taxpayers (who are overrepresented by Black and Brown individuals) and high-income earners and corporate interests (who are overrepresented by white individuals). Moving forward, state leaders must act proactively to address this gap and to prevent it from continuing to grow. Substantive policy changes are needed across Georgia's sales tax, personal and corporate income tax and in creating new avenues to lift incomes and improve economic mobility. Moreover, state leaders should also prioritize increasing new revenue to restore core areas of state spending in education, health care and human services to adequate levels and to make long-overdue investments that will benefit Georgians into the future. An adequately funded budget can help Georgia address and close racial disparities exacerbated by the state's continued underfunding of core services and programs.

It is no coincidence that the state of Georgia maintains one of the lowest levels of state general revenues raised per person—ranking No. 49 nationally—and lags far behind other states in funding core government services from access to health care to supplemental public school funding for students in poverty. By favoring the expansion of corporate tax credits and maintaining an outdated structure in the income tax and sales tax that largely serves to benefit top income earners and corporate shareholders at the expense of most Georgians, the state intentionally limits its revenue-raising potential and effectively caps state spending in line with its historically low level. Raising state spending is key to achieving racial and economic equity, as investments are needed to overcome glaring disparities in health, education and employment outcomes between white Georgians and people of color.[71]

Add transparency to Georgia's tax code

In addition to publishing statistics of income tax filers by race and ethnicity, the state should invest needed resources in publishing broader tax data and regular audits of the sales tax, fines and fees and the personal and corporate income tax to provide the policymakers and the public needed tools to assess the performance of Georgia's tax code and the value or potential harm of maintaining status quo provisions. Greater transparency will only serve to the benefit of Georgians and state leaders in the policymaking process by improving accessibility to information on which tax credits are working as intended and which are not and in ensuring that future reforms are antiracist, inclusive and equitable to benefit residents statewide.

Reform the sales tax to include services

Since Georgia's sales tax was last reformed in the late 1980s, the state has considerably fallen behind national best practices for taxing economic activity. Because of the state's failure to grow the sales tax base, an increasingly large burden is placed on people of color and low-income Georgians through higher state and local tax rates. Policymakers should immediately expand the state sales tax to include business services, personal services, professional services, amusement and recreation and services to tangible personal property or improvements that increase the value of personal assets. Each of these changes should be evaluated to ensure that proposals adopted are targeted to avoid regressivity and that increased revenues are appropriately invested to advance racial and income equity.

Reforming Georgia's sales tax to include business services, professional services and other areas of the economy currently carved out of the sales tax would not only increase state revenues but would also help to create a more stable and equitable system. Under current law, the lack of taxes on services essentially incentivizes their purchase, a consequence of the flawed design of Georgia's tax system that encourages economic behavior without a clear rationale in most cases.[72] As an increasingly large share of the economy is comprised of untaxed services, Georgia's state and local governments will continue to depend on raising revenue from sales taxes that consume a greater share of the income generated by those at lower levels.

If the state of Georgia does not expand the sales tax to include more services, it ultimately risks jeopardizing the long-term adequacy of the sales tax as a major source of revenue. Further, an increasingly high combined state and local sales tax rate on goods is also a likely consequence of the state's failure to include services in its sales tax base, contributing to a widening gap between the expenses more frequently incurred by Georgians at different income levels, and therefore exacerbating racial inequities too.[73]

Adopt robust refundable tax credits

To actively combat wide disparities across income and racial inequality, the state must adopt robust individual income tax credits that are fully refundable and designed to boost the earnings of families. Rather than depending on economic development tax credits to indirectly benefit Georgians, the state should shift resources to directly support low-to-middle income families with credits proven to lift incomes and economic mobility.[74] These credits should include a state counterpart to the federal Earned Income Tax Credit (EITC) and Child Tax Credit (CTC) to aid families and individuals. Tax credits should also be structured so that they are delivered every month to improve their utility and meaningfully boost household incomes.

Over 3.5 million Georgians are currently eligible for the federal EITC, including 1.5 million children. Among this group, 43 percent of dollars invested in a refundable state-level EITC would be directed to Black Georgians, 11 percent to Hispanic Georgians and 41 percent to white Georgians—offering a considerable opportunity to address the gap in income and wealth by race.[75]

Earned Income Tax Credit Has Power to Advance Racial Equity

2019 Income	Lowest 20%	Second 20%	Middle 20%	Fourth 20%
Income Range	< $22,000	$22,000 – $36,000	$36,000 – $59,000	$59,000 – $101,000
Average Income in Group	$14,000	$28,000	$47,000	$76,000
Percent of White (Non-Hispanic) Tax Filers With Cut	52%	45%	31%	6%
Percent of Black (Non-Hispanic) Tax Filers With Cut	58%	49%	34%	7%
Percent of Hispanic Tax Filers With Cut	65%	64%	47%	8%

Source Institute on Taxation and Economic Policy, March 2021.

The federal CTC benefits more than 5 million Georgians while helping to lift nearly 500,000 Black children near or above the poverty line; a state-level CTC would similarly support Black children.[76] Currently, the state offers a non-refundable version of the Child and Dependent Tax Credit valued at 30 percent of the federal level. This credit is designed to offset some of the costs of caring for children and dependent family members. State policymakers should allow taxpayers to claim a fully refundable version of this credit while increasing the value up to 100 percent of the federal level. By adding fully refundable tax credits to Georgia's tax code, the state can take a major step forward to help level the playing field for low- to middle-income Georgians, while helping to reverse the stratification that has reserved the greatest tax benefits for the wealthiest and large corporations.

Effects of Child Tax Credit on Racial Equity in Georgia

	Total	White	Black	Latinx	Asian	Other/multiple races
Number of children under 18 who benefit by race/ethnicity	2,275,000	947,000 (42%)	790,000 (35%)	349,000 (15%)	74,000 (3%)	115,000 (5%)

Source: Center on Budget and Policy Priorities. (2021). House Covid Relief Bill Includes Critical Expansions of Child Tax Credit and EITC.
Note: GBPI relies on various other data sources for analysis and thus are analysis is limited to the demographic information those sources use. We recognize there are race/ethnic groups not explicitly listed and that too many fall into the "other" category in this analysis.

Update the income tax to include distinct graduated tax brackets while establishing correspondingly fair rates for varying income thresholds

Beyond restoring the personal and corporate income tax rates to the previously long-held top rate of 6 percent, the state must modernize its tax code by moving to a true graduated system of brackets that applies higher tax rates to increasing levels of income. The current antiquated bracket system, with its low maximum tax rate threshold of $7,000 for individuals and $10,000 for married couples, no longer appropriately recognizes the ability of Georgians to pay when calculating the amount of income taxes owed.

A system of brackets that more closely mirrors those at the federal level—or at least recognizes the difference in earning levels between those in the bottom income brackets, at the median level and top earners—is fundamentally necessary to fairly assess income taxes going forward. Simply adjusting the state's income tax brackets to keep pace with inflation since they were instituted in 1937 would produce a far more equitable personal income tax code, in which the highest income tax rate would only be reached by individuals earning $130,000 annually and married couples earning over $185,000.

Eliminate state itemized deductions in favor of larger standard deduction

Because of changes already implemented under the TCJA of 2017 and the state's conformity legislation in 2018, less than 15 percent of Georgia taxpayers currently itemize their returns to claim individual deductions, such as those for mortgage interest or state and local taxes paid, and instead utilize the flat standard deduction.[77]

Recognizing that this system is designed to primarily reward those with the highest incomes, the state should abandon the practice of offering most itemized deductions in favor of adopting a larger standard deduction. Furthermore, just as the federal government did under the TCJA, the state should initiate this reform by combining its personal exemption with the standard deduction to ensure that filers are able to claim the largest possible standard deduction, rather than maintaining the current system in which those who itemize are able to claim both the personal exemption and individual itemized deductions.

Roll back costly and ineffective corporate tax credits, eliminate transferability and deferred use and institute a comprehensive system of review

Georgia is forgoing over $10 billion annually to finance a constellation of individual and corporate tax credits that have ballooned in recent years while operating under an opaque system that offers little to no transparency for taxpayers. Existing data suggests that the lion's share of funding directed to corporate subsidies is essentially financing a transfer of wealth from most Georgians to out-of-state corporate shareholders and the wealthiest residents.

The state should seek to pause costly tax credit programs until it can implement a comprehensive system of evaluation, which includes racial equity in job and wealth creation as a key metric, to determine the return on investment, while eliminating those credits that do not create sufficient economic activity and equitable job creation to justify the use of state government resources. Rather than redirecting billions in revenue from hardworking Georgians to corporations, the state can finance programs and services that add real value to residents and the broader economy.

Conclusion

For centuries, the state of Georgia has enacted and perpetuated tax and revenue policies that have actively harmed people of color and contributed to continually increasing disparities between income and wealth across racial and ethnic groups. It is imperative that the state proactively adopt policies to correct this historical legacy of discrimination and to address policies that continue to prevent the accumulation of wealth and income mobility while accelerating the negative transfer of resources from people of color—as well as other low-to middle-income Georgians—to those at the top of the economic ladder, who are predominately white. Recognizing and addressing the root causes of racial and economic inequality are essential to effective and responsive governance. Moreover, adopting policies to unwind racial and economic inequality will help to build a stronger economic and societal foundation for the state as a whole.

Maintaining Georgia's current structure of taxation means asking those who earn the lowest incomes to direct the largest share of their earnings to finance government programs that are often inadequate in achieving equitable outcomes across income and race. Going forward, state leaders must prioritize both increasing revenues to support more robust programs and services in core areas of government, while also making the tax code more equitable to boost take-home pay for low- to middle-income Georgians, who are overrepresented by people of color. Recognizing that state policies have served as a major contributing force to racial and economic inequality across Georgia, proactive public policies must serve to actively address these disparities while requiring those who have benefitted from the status quo to contribute a fair share in state and local taxes that progressively increases with income levels and the ability to pay.

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