



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

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# Introduction

- Georgia's history: For centuries, public policy helped to create and widen disparities across race & ethnicity
- Regressive tax laws ask Georgians with low to middle incomes to pay a higher percentage of their income in taxes than residents with higher incomes & corporations
- Tax policy is not, and has never been, race neutral
- Reversing racial & economic inequality requires policy intervention

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

<b>Race/Ethnicity of Household</b>	<b>Median U.S. Wealth (2019)</b>	<b>Median U.S. Income (2019)</b>
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 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.*



# Early Racist Tax Policies: The Poll Tax

- Georgia's poll tax created in 1804, and explicitly revised in 1852 to prevent Black and non-white Georgians from exercising the right to vote
- Adjusted to 2021 dollars, poll tax of 1852 was: \$9 for white men, \$178 for free Black men, and \$5,329 for enslaved Black men under 60
- In aftermath of U.S. Civil War, GA state officials went to extraordinary lengths to keep Black residents from voting
- 1869: GA placed under federal military rule after expelling 33 Black and mixed-race members of the General Assembly



# Early Constitution Built Around Racist & Antidemocratic Policies

- Georgia's 1908 constitution included a literacy test & grandfather clause to keep Black men from voting, while exempting low-income, non-land-owning white men
- 1908 Constitution expanded poll tax to be cumulative (until 1931)
- 1943: Age to vote lowered to 18 from 21
- 1945: Poll tax repealed
- Literacy test & Jim Crow laws hold back Black Georgians from exercising right to vote until Voting Rights Act of 1965 implements federal oversight, paving way for civil rights gains



# Property Tax Weaponized Against Black Georgians

- Until Federal Fair Housing Act of 1968, widespread discrimination in real estate prevents vast majority of Black Georgians from building wealth through homeownership
- By end of 19<sup>th</sup> century, property tax = 74% of state revenue
- After 1919, records show property tax assessed differently for white and Black households
- By 1934, Black homeowners pay significantly higher rates for similar property, leveraged to seize assets during Great Depression



# Property Tax Weaponized Against Black Georgians

- Disenfranchisement held Black Georgians back from representation in tax assessment process
- Between 1960 to 1980, “white flight” accelerates from City of Atlanta, resulting in increased segregation and devaluation of Black-owned homes and neighborhoods
- Fulton County as case study (1990): Atlanta families w/ avg. income of \$50,000 pay 10% of income in state and local property taxes, families w/ avg income of \$100,000 pay less than 1% in state and local taxes
- 1988: State law changed & property appraisals set at 40% of fair market value





# Property Tax Weaponized to the Benefit of White Georgians

- As part of creation of state income tax in 1929 and 1931, state begins reducing property taxes, benefitting higher wealth Georgians
- 1966: property tax on bank deposits and corporate shares repealed
- 1979: Statewide property tax – less than 1% of total revenue
- 2016: Statewide property tax eliminated
- Unequal treatment in appraisals and valuations continues today

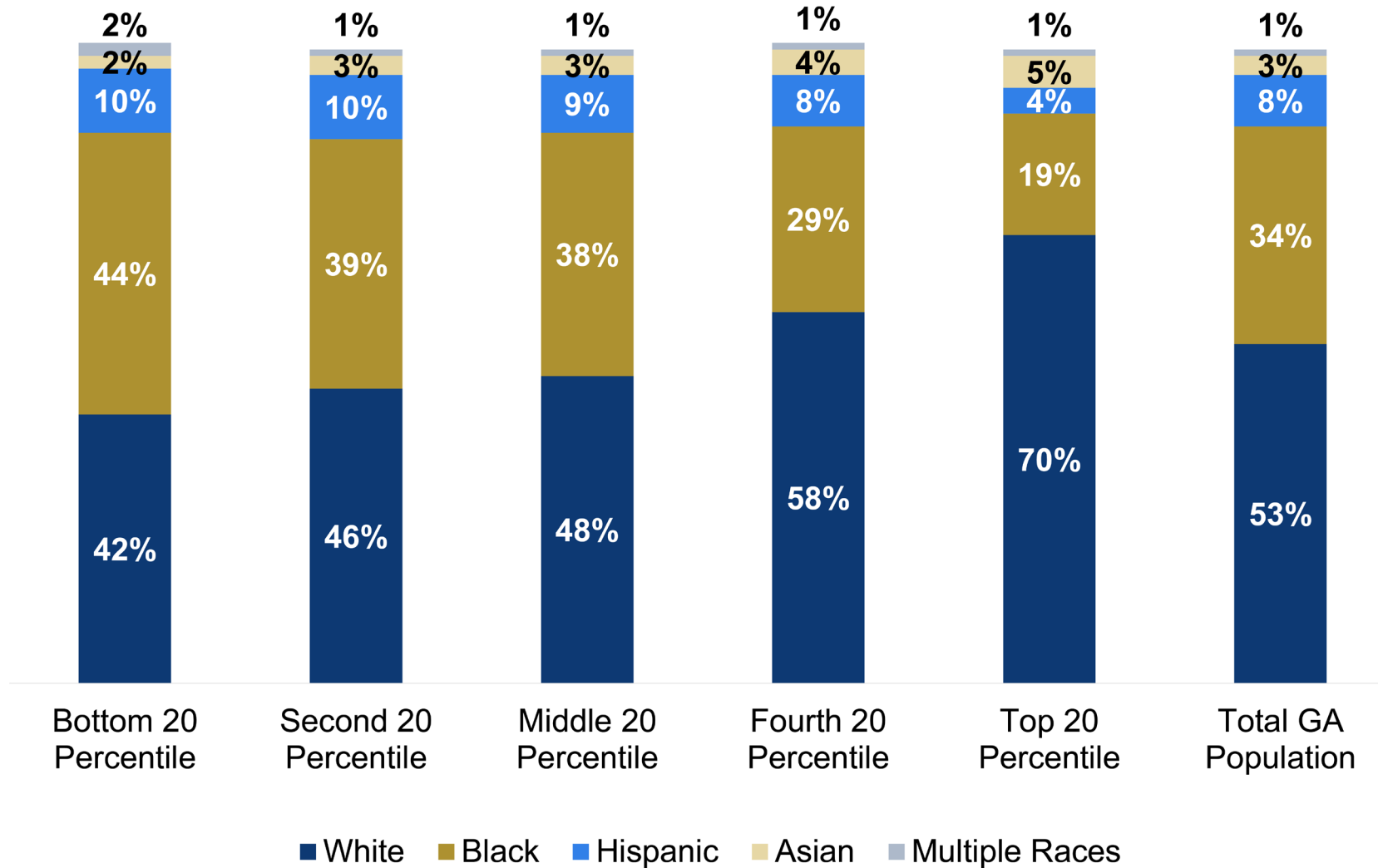




# Modern Regressive Policies Harm People of Color

- Persistent trend of occupational segregation, COVID-19 pandemic exposes wide disparities in employment
- In 2021, estimated \$220 billion annual wage gap between Black and white Americans
- Black workers earn 30% less than white peers, higher rates of unemployment
- In GA, Black Georgians overrepresented among minimum wage workers (\$5.25/\$7.25)

## Black and Hispanic Georgians are Most Likely to Make Lowest Incomes; White Georgians Disproportionately Earn Highest Incomes



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

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# Georgia Sales and Use Tax Adds to Income Inequality

- State sales tax served as largest source of revenue from 1952 – 1982
- Peaks at 40% of tax revenue from 1994 – 96
- In FY 2022, sales tax = 27% of state revenues
- Structure of sales tax, focused on goods over services asks Georgians with low-to-middle incomes to pay greatest share
- Black Georgians pay 30% more in effective sales tax rate than white Georgians

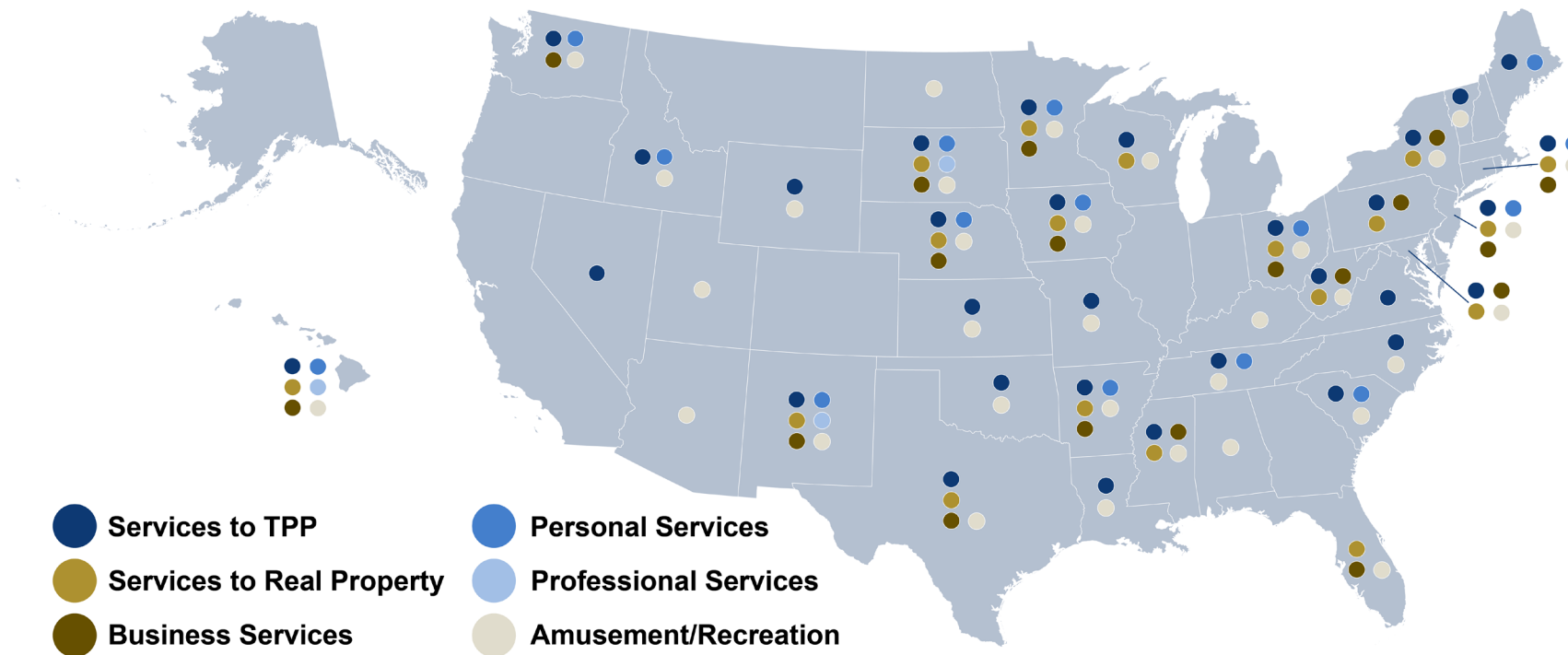


# Georgia Sales and Use Tax Adds to Income Inequality

- Georgians in bottom 20% pay 6.8% of total income in sales tax, those in top 20% pay less than 1%
- 2018-2020: State takes step forward w/ online sales tax, but digital downloads remain exempt, harming Georgians in majority-Black rural areas known as the “Black Belt” with limited broadband access
- Banking divide: 16% of Black Georgians unbanked, 30% underbanked, compared to 5% of unbanked and 18% of underbanked white Georgians
- State projected to collect \$6.6 billion in sales tax revenue in FY 2022, \$8.9 billion estimated to be exempted due to no tax on most services

# Georgia Lags Behind Most States in Taxing Services

## *Services Taxed by State*




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



# Georgia's Personal Income Tax Structure Is Highly Outdated

- Modern Georgia income tax structure created in 1937, brackets largely unchanged since then, making the income tax operate like a flat tax, where low-income earners quickly reach top rate
- 86% of Georgians use standard deduction (avg income of \$57,000)
- 14% of Georgians itemize (avg income of \$240,000)
- State audit: Top 20% of earners receive 87% of tax credits issued
- Failure to modernize weakens revenue collections & increases racial and income inequality by widening gaps

## 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.





# Recent Income Tax Changes Worsen Inequality

- 2002-2012: State exemption on retirement income increased up to \$65k for single filers and \$130k for married couples
- In 2014, GA amended state constitution to cap top income tax rate at 6%
- In 2018, state reduced top income tax rate from 6 to 5.75%, maintaining antiquated bracket structure
- Estimated 74% of benefits from reducing top income tax rate go to top 20% of earners, exacerbating racial inequities

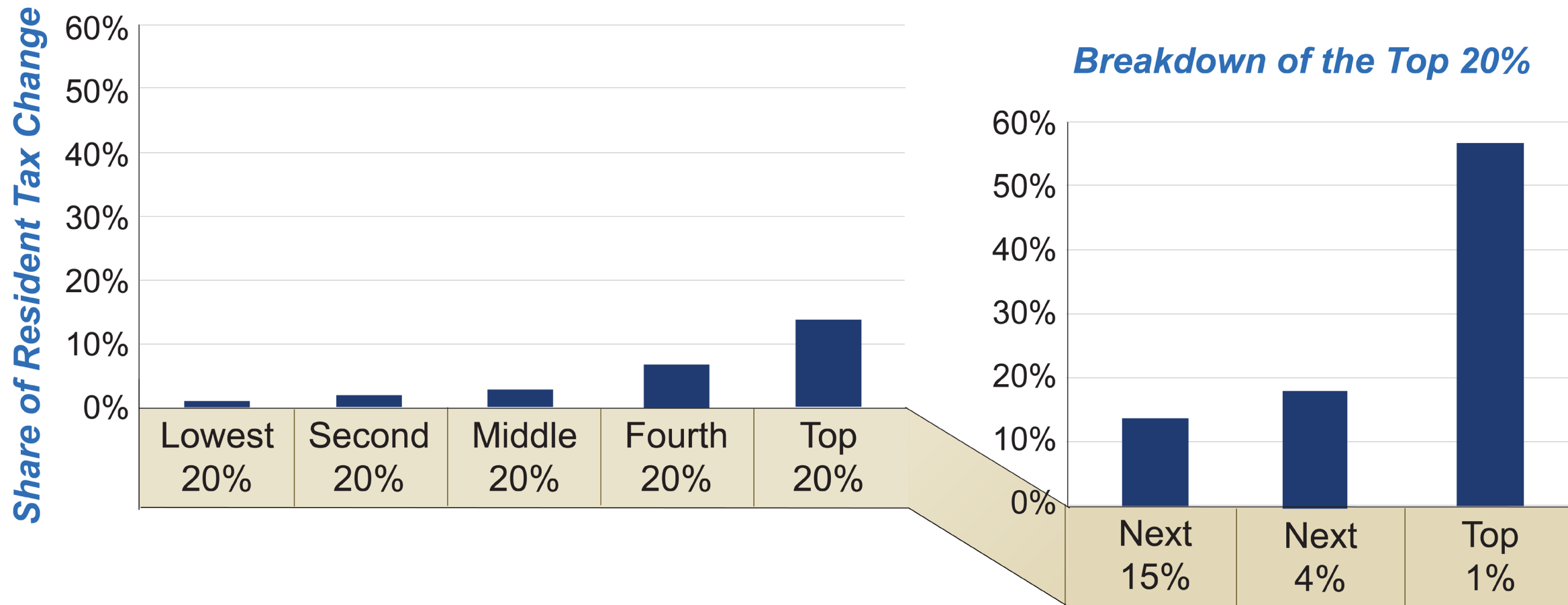


# Georgia Prioritizes Corporate Subsidies Over State Investments

- In 2018, GA reduced flat corporate income tax rate to 5.75%
- In 2019, 94% of corporations in GA reported taxable income of \$0 or less
- FY 2013 – FY 2022: GA corporate tax credits grew from \$3.4 billion to \$6.2 billion
- GBPI analysis demonstrates ~90% of benefits of top corporate tax credits go to those in top 20% (over \$100k annually)

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

*All Georgia Residents, 2019 Incomes*



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



# Fines and Fees Worsen Racial and Economic Inequality

- Black adults incarcerated at twice the rate of white Georgians (51% of population in state jails, 60% in state prisons)
- Black people with criminal record earn annual average of \$39,000 compared to \$49,000 for similarly situated white people
- GA requires all felony probationers be supervised by state, assesses costly fees
- GA charges private probation companies with supervising those convicted of misdemeanors, adding costly private fines and fees



# Key Policy Recommendations

- Add transparency to Georgia's tax code
- Reform the sales tax to include services
- Adopt robust refundable tax credits
- Eliminate state itemized deductions in favor of larger standard deduction
- Roll back costly and ineffective corporate tax credits, eliminate transferability and deferred use, and add review system



## ***Earned Income Tax Credit Has Power to Advance Racial Equity***

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

Source *Institute on Taxation and Economic Policy*, March 2021.



# Key Policy Recommendations

- State policy decisions have contributed to wide disparities in income and wealth between white Georgians and people of color
- GA ranks 49<sup>th</sup> nationally in state general revenues raised per person.
- Increased state funding can further help address and close racial disparities widened by underfunding of core services and programs





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