

# Georgia Public Policy Foundation

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## Commentary

### **New Mexico Provides Model for Georgia Tax Reform**

**By Mark King**

When it comes to the tax climate, Georgia ranks middle of the road or worse in several categories, according to the Tax Foundation. The state ranks 29th (50 being the worst) in the State Business Tax Climate Index, a judge of the state tax structure's promotion of economic growth, and has the 23rd highest top income tax rate at 6 percent. The middle of the road is better than the ditch, but why not strive for the fast lane?

When Georgia is compared with neighboring states, the urgency of tax reform is evident. Tennessee and Florida have no taxes on wages; Georgia taxes 6 percent of income. Georgia ranks worst among its border states in state and local tax burden according to the Tax Foundation. Clearly, it's time to do a better job of encouraging economic growth through tax reform.

For a shining example of tax reform, "Go West" to New Mexico. In 2003, Governor Bill Richardson signed into law a set of income tax reductions. The legislation lowered the top income tax rate from 8.2 percent to 4.9 percent by 2008. Despite dire predictions that the state would lose revenue, during the years of this tax reduction revenues increased and New Mexico experienced a period of substantial economic growth.

The simple explanation could be that the increases in New Mexico's tax revenue reflect the economic boom of the mid-2000s. Yet, when compared with Georgia's economic growth over the same time period, New Mexico shows far superior growth.

Georgia's top income tax remained constant at 6 percent from 2003 to 2008 while New Mexico's top income tax dropped 3.3 percentage points. Analysis of the personal income per capita and gross domestic product (GDP) per capita growth in both states shows that New Mexico experienced significantly higher rates of economic growth.

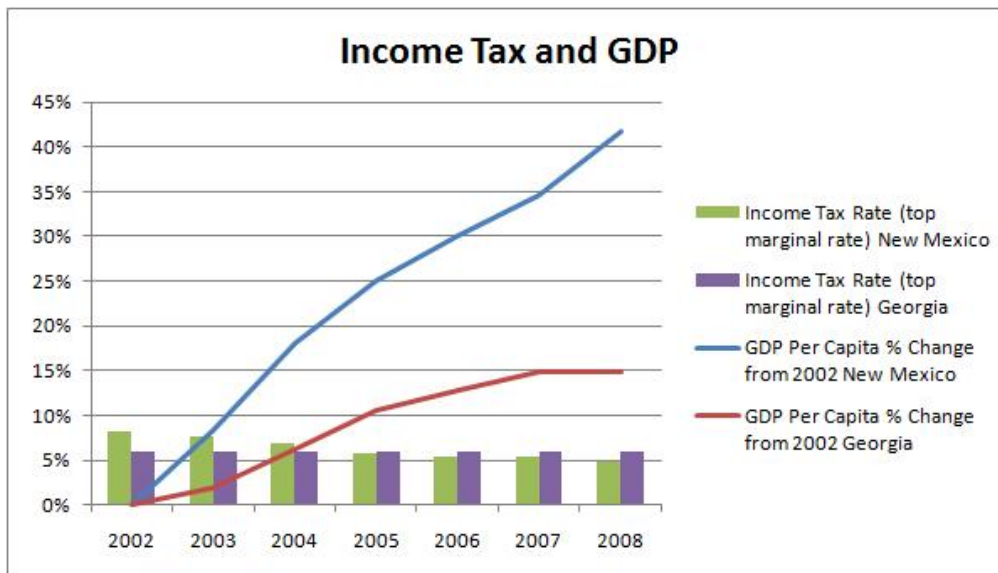
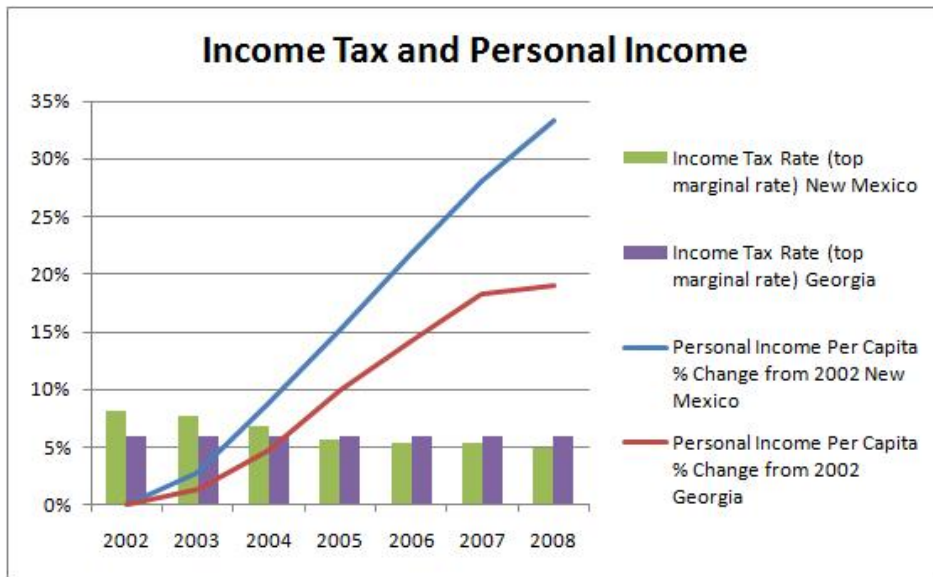
Personal income per capita in New Mexico grew 33 percent, from \$25,049 in 2002 to \$33,385 in 2008. Georgia's personal income increased just 19 percent, from \$29,264 to \$34,849. GDP expansion shows an even more dramatic difference: From 2002 to 2008, GDP per capita grew a whopping 42 percent in New Mexico compared with just 15 percent in Georgia. New Mexico had a lower starting point with both metrics, but has nearly surpassed Georgia with no sign of slowing down.

The Rio Grande Foundation, a free-market policy group in New Mexico, recently proposed phasing out the income tax all together in order to compete with the likes of Wyoming, Nevada and Texas, all zero income tax states. According to a study by the group, a 4.5 percent cap on annual spending growth would enable the state to eliminate the income tax within five years.

Because of the recent recession plans of this nature have most likely been placed on the back burner. Nevertheless, New Mexico has situated itself to better weather the storm by fostering economic growth over the past six years. Economic growth means more jobs, the central need for its citizens in hard times. The remarkable increase in personal income per capita is compelling evidence for lowering income taxes to improve the standard of living. Simply put, people want jobs, and when they have a job they want to increase their income.

To put things in perspective, had Georgia enjoyed the economic growth of New Mexico over the past six years, personal income per capita would be more than \$4,000 greater than the current level. Certainly, many Georgians could desperately use that difference in income. Too, more people would begin to understand the economics in not taxing income, investment and production.

A more viable solution is to focus more on taxing consumption. Consumption taxes incentivize saving, investment and fiscal responsibility. Broadening the tax base would also help reduce volatility in tax revenue. Tough times call for tough decisions. Tax reform is not an easy Sunday drive, it's a hard fought and, hopefully, well thought out process. Georgia's current income tax structure hinders kinds of gains enjoyed by New Mexico and its proactive policies. Now, especially, is a time to change gears and drive economic growth across the state.



Mark King, who is completing his master's degree at the University of Georgia, is a summer intern with the Georgia Public Policy Foundation. The Foundation is an independent think tank that proposes practical, market-oriented approaches to public policy to improve the lives of Georgians. Nothing written here is to be construed as necessarily reflecting the views of the Foundation or the Center for Health Transformation or as an attempt to aid or hinder the passage of any bill before the U.S. Congress or the Georgia Legislature.

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