

# **Advancing Georgia's 1930s Tax System to the Modern Day**

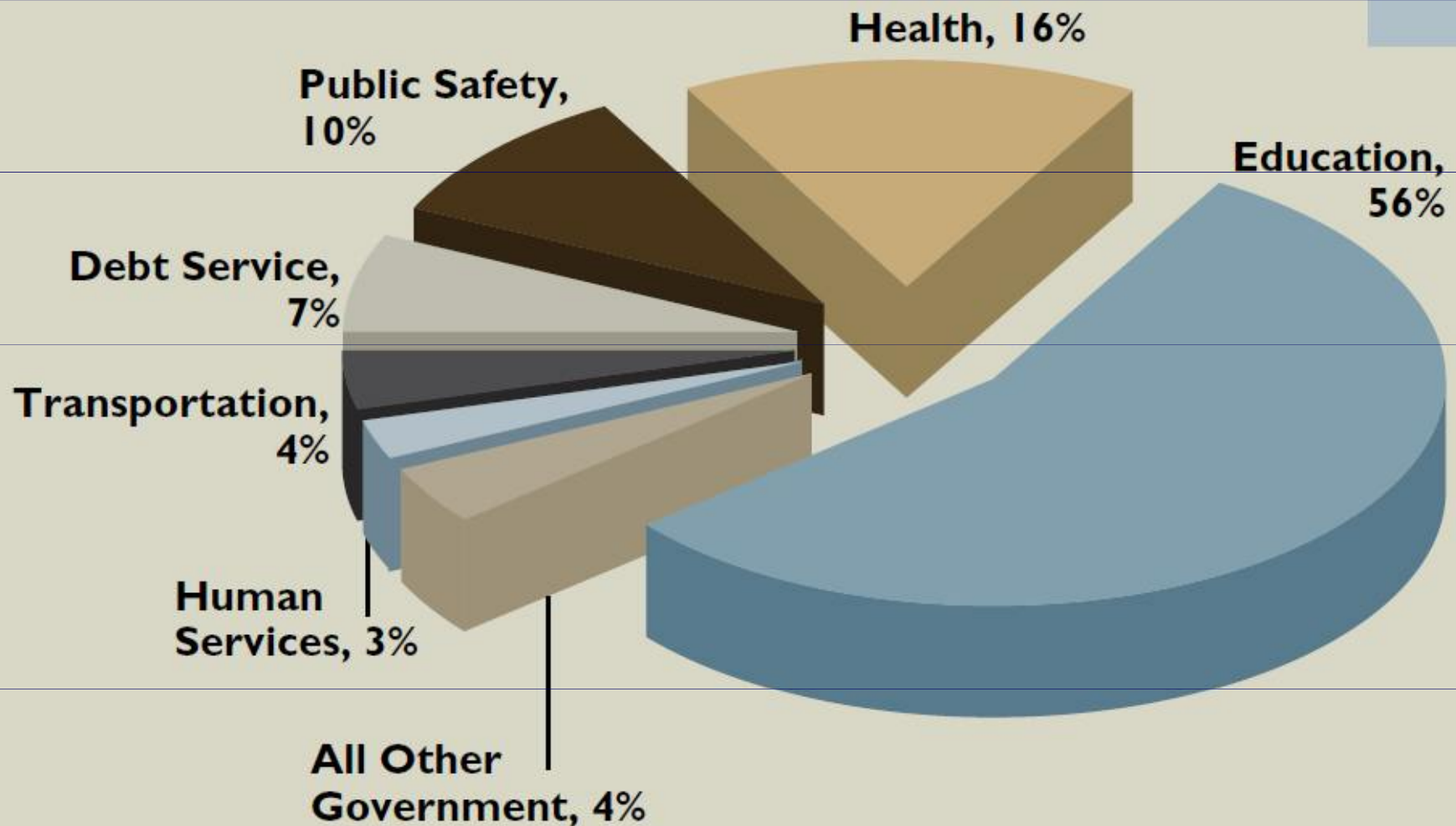
*Fair and Adequate Tax Reform*

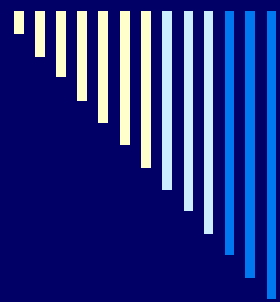
**Alan Essig, Executive Director  
Georgia Budget & Policy Institute  
September 8, 2010**

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# What Are We Paying For?





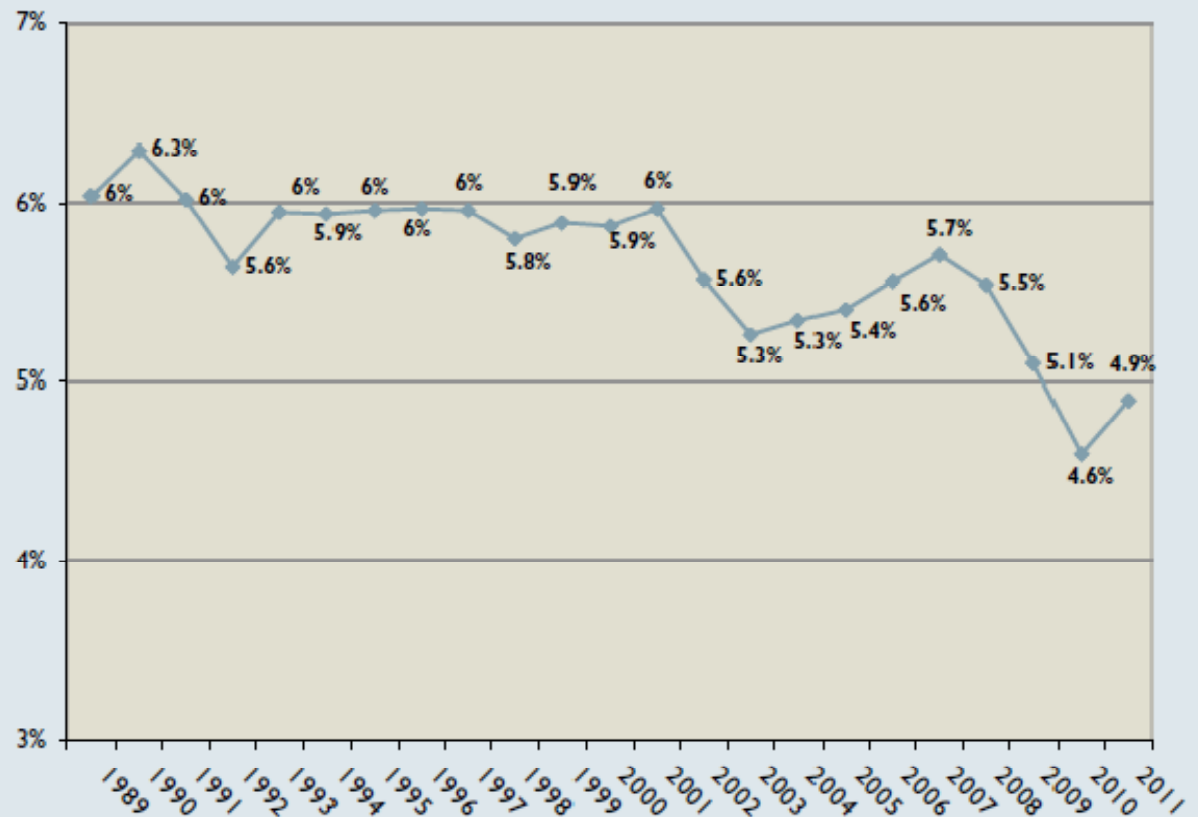
# Where Georgia Stands... ADEQUACY

- ❑ Structural deficit of \$1.8 billion to \$2 billion. (GSU FRC)
- ❑ Rank 48<sup>th</sup> for state tax revenue. (Federation of Tax Administrators)

Figure 2

## Georgia's Revenues Are Not Keeping Pace State Revenues as a Percent of Personal Income

Source: Georgia Budget & Policy Institute; data from the Bureau of Economic Analysis and Georgia Governor's Budget Books

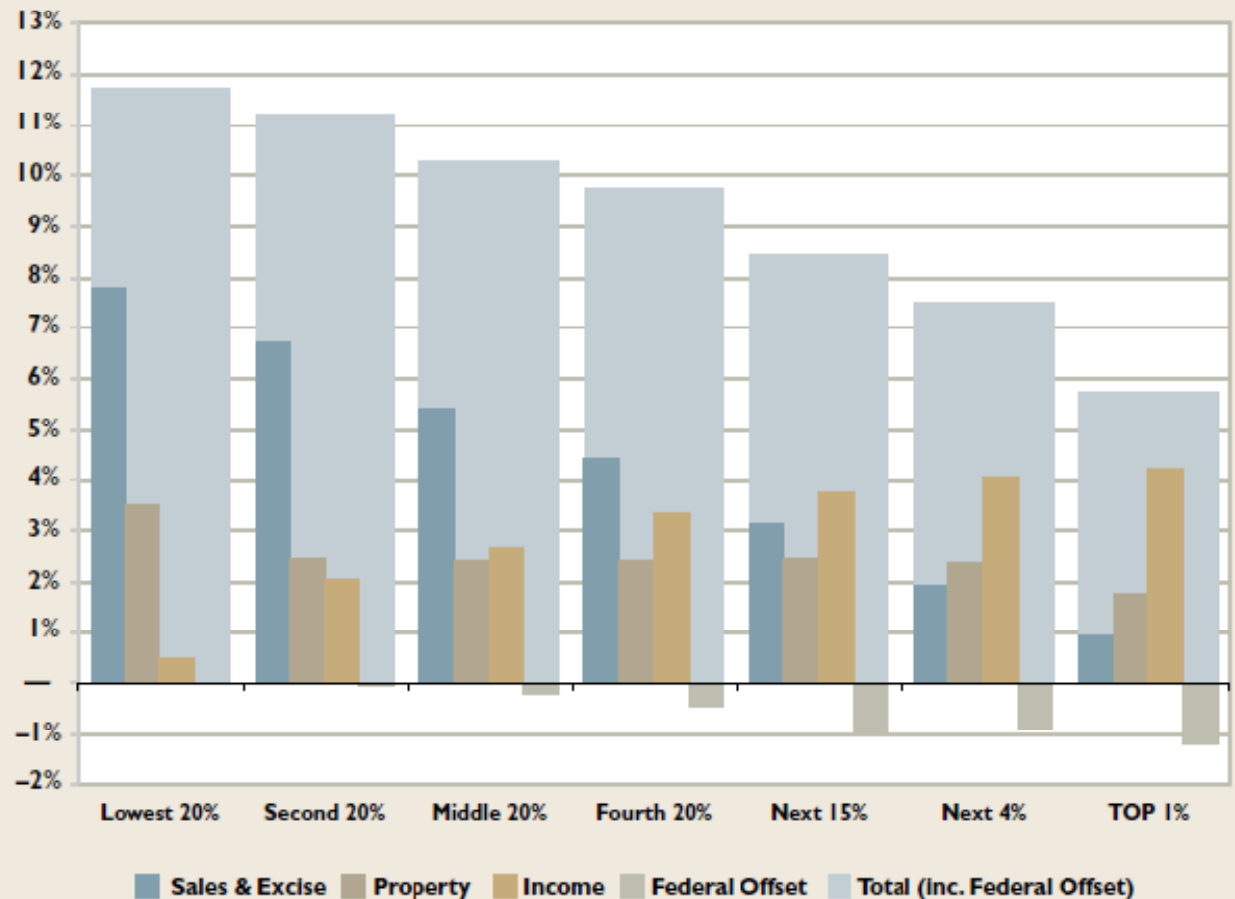


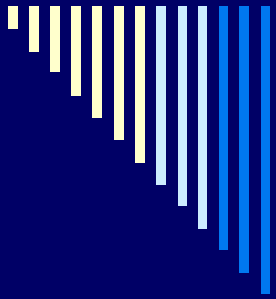
# Where Georgia Stands... FAIRNESS

- 19<sup>th</sup> most regressive state and local tax system  
*(Institute on Taxation and Economic Policy)*
- Preferential treatment through credits and exemptions

## Georgia State & Local Taxes in 2007

*Shares of Family Income for Non-Elderly Taxpayers*



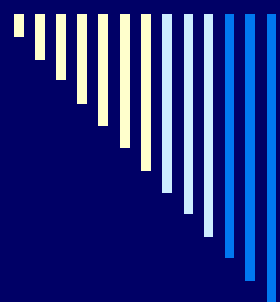


- Georgia has a good tax foundation with diverse revenue streams, but it needs to be updated for the 21<sup>st</sup> century.**



# Stability and Reliability

- “Moody's expects that states that impose all three of the broad-based taxes -- corporate income tax, personal income tax, and sales tax -- and a broad array of more narrowly-based taxes and fees often have the best defense should revenues weaken.”
- “Moody's expects that the states with both major taxes would have a less volatile revenue stream than those with only one.”



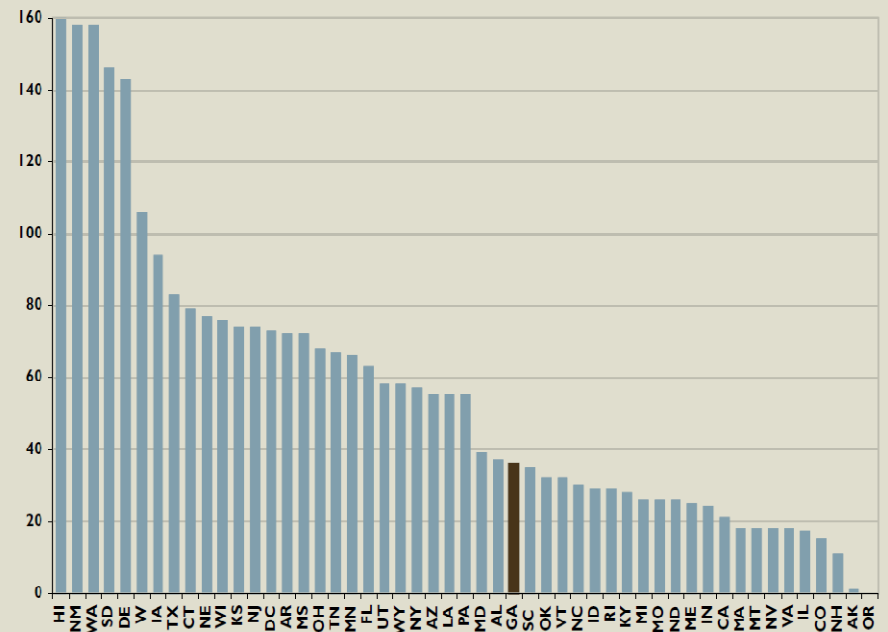
# Options for Reform

- 1) Cut the state sales tax rate and cover more services to mirror 21st century spending trends.
- 2) Modernize income tax brackets, rates, and standard deductions to better reflect current incomes.
- 3) Create an earned income tax credit to offset sales taxes for the state's lowest earners.
- 4) Eliminate special tax breaks that today shift more of the tax obligation to fewer taxpayers.
- 5) Close loopholes and update the net worth tax, cigarette tax, and motor fuel tax.

# SALES TAX

- Expand the base to select personal services
- Lower the rate
- Support federal changes to sales tax on e-Commerce

**The Number of Services Georgia Taxes is Below Average**



Source: Federation of Tax Administrators





# PERSONAL INCOME TAX

- Broaden the base by scaling back preferences
  - Itemized deductions
  - Retirement income exclusion
- Increase the standard deduction
- Modernize brackets and rates
- Enact a refundable earned income tax credit

## **Broadening the Income Tax Base Provides the Funds to Expand Brackets and Lower Rates:**

*Sample Bracket and Rate Modernization for Taxable Income*

Rate	Single	Married Filing Jointly
1.0%	Less than \$800	Less than \$1,600
2.0%	\$800-\$4,000	\$1,600-\$8,000
4.0%	\$4,000-\$8,000	\$8,000-\$16,000
5.5%	\$8,000 and above	\$16,000 and above

*Source: Institute on Taxation and Economic Policy*



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# CORPORATE TAXES

- Evaluate and revise exemptions and credits
    - Examples from North Carolina, Iowa, and Missouri
  
  - Modernize the corporate net worth tax
    - Update 1931 rates
    - Move to single factor apportionment? Allow as an offset to corporate income tax?
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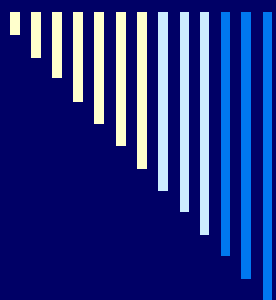
# OTHER TAXES

- Raise the cigarette excise tax rate
    - 4<sup>th</sup> lowest in the nation
    - Health benefits
  
  - Raise the motor fuel excise tax rate
    - Tax rate per gallon among lowest in the nation
  
  - Encourage re-enactment of state credit for the estate tax
    - GA lost \$125M when feds eliminated the credit
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# Combined Changes Can Advance ADEQUACY & FAIRNESS

Tax Reform Option	Estimated Revenue Impact (in millions)	Average Tax Change as a Percent of Income (by income group)						
		Lowest 20% Less than \$15,000	Second 20% \$15,000 to \$28,000	Third 20% \$28,000 to \$46,000	Fourth 20% \$46,000 to \$77,000	Next 15% \$77,000 to \$161,000	Next 4% \$161,000 to \$400,000	Top 1% \$400,000 or More
<b>Reform Income Tax System</b> <ul style="list-style-type: none"> <li>• Modernize brackets and rates</li> <li>• Raise standard deduction and eliminate itemized deductions</li> <li>• Lower retirement exclusion</li> <li>• Enact refundable EITC</li> </ul>	\$85	-1.4%	-1.1%	-0.4%	0.0%	0.2%	0.4%	0.3%
<b>Reform Sales Tax System</b> <ul style="list-style-type: none"> <li>• Reduce sales tax rate to 3.75%</li> <li>• Broaden the tax base to select personal services</li> </ul>	\$357	0.3%	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%
<b>Increase Cigarette Tax Rate</b> by \$1, along with increases for other tobacco products	\$380	0.6%	0.4%	0.2%	0.2%	0.1%	0.0%	0.0%
<b>Reform Corporate Taxes</b> <ul style="list-style-type: none"> <li>• Close corporate loopholes</li> <li>• Eliminate select tax breaks</li> <li>• Modernize corporate net worth tax<sup>(3)</sup></li> </ul>	\$100	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Total Estimated Tax Change</b>	<b>\$922</b>	<b>- 0.53%</b>	<b>- 0.55%</b>	<b>0.02%</b>	<b>0.28%</b>	<b>0.40%</b>	<b>0.47%</b>	<b>0.35%</b>

Source: Institute on Taxation and Economic Policy



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Note: Additional information, charts, and data sources are available in GBPI's report, *Advancing Georgia's 1930s Tax System to the Modern Day*, available at [www.GBPI.org](http://www.GBPI.org).