

Tax & public policy reform in Georgia: *The case for a state Earned Income Tax Credit*

Georgia's tax code is structurally imbalanced and a [Special Council on Tax Reform and Fairness for Georgians](#) is charged with identifying alternatives for lawmakers by December 2010. Among the issues under consideration is whether to assess state sales & use taxes across a broader spectrum of goods and services. Factors that the Council must consider:

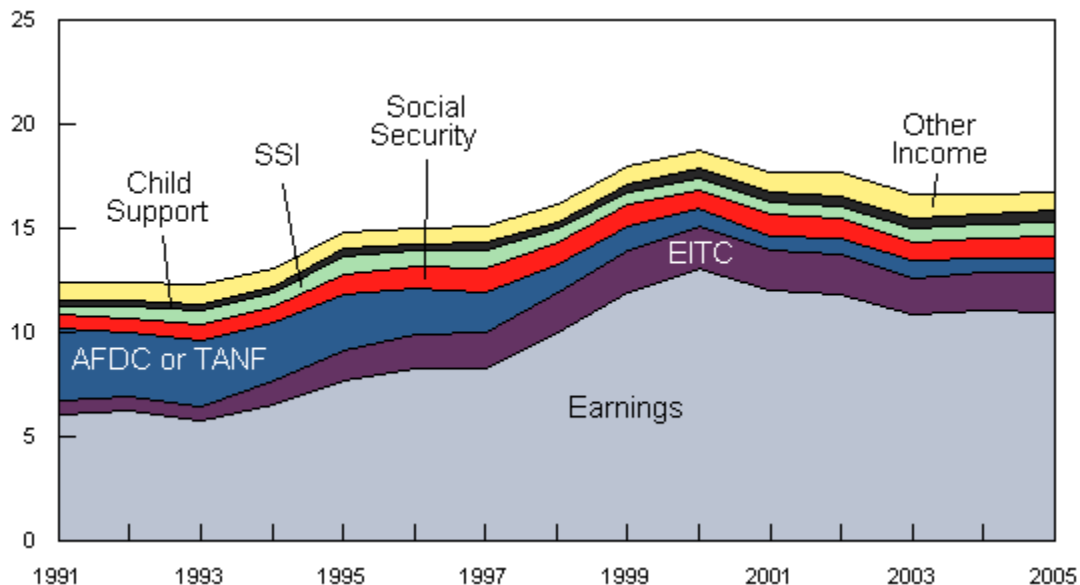
- **State revenue collections have declined:**
 - Per capita state revenue collections declined by 30 percent between 2001 and 2010, adjusted for constant dollars. Collections per capita (exclusive of local taxes) peaked in 2001 at \$1,684 but declined to \$1,195 in 2010.ⁱ
 - Per capita state revenue collections in Georgia ranked 35th lowest in the nation in 2001 but dropped to 44th lowest in 2009.ⁱⁱ
- **Georgia does not leverage all of the federal assistance to which it may be entitled.ⁱⁱⁱ**
 - Gross federal tax collections from Georgia are 12th highest in the nation.
 - Federal assistance to Georgia is fifth lowest in the nation.
 - Existing federal funding streams are at risk because Georgia lacks dollars to pay its minimal match.
- **Georgia's 159 counties, 180 school boards and 534 municipalities vary in ability to finance public services^{iv} but are increasingly relied upon to do so:**
 - The value of the tax digest ranged from a high of \$35.5 million in Gwinnett to a low of \$68,983 in Chattahoochee County in 2008. (Data for Fulton County was not available.)
 - Retail sales in 2008 ranged from \$18.8 million in Fulton to just \$5,016 in Webster County.
 - Georgia has increasingly shifted the tax burden to local governments. For example, local government revenue for education in Georgia is almost twice the national average according to the most recent data from the National Center for Education Statistics.^v
- **Georgia's existing tax code will not generate sufficient dollars for needed public services even when the economy fully recovers.^{vi}**
 - Federal Recovery Act dollars and other one-time funds are no longer available.
 - State funded services, already reduced by an average 12 percent,^{vii} have been cut by an additional four percent over the enacted FY 2011 state budget, and
 - State agencies have submitted FY 2012 budget proposals reflecting further service reductions of up to ten percent.^{viii}
 - Sales taxes have a greater impact upon low wage earners simply because more of their income is used to purchase necessities.
- **Demand upon publicly funded services in Georgia is increasing:**
 - Children and the aged – those most in need of publicly funded services and least equipped to pay for them – constitute more than one-third of the population. Georgia ranks fourth highest among the states for its percentage of population that are children, 26.3 percent. Seniors constitute another ten percent and are a fast-growing segment of the population.^{ix}
 - Population increased by 20.1 percent during the period 2000-08. Georgia ranked fourth highest among the states in population growth during this period.^x

About the federal Earned Income Tax Credit

The Earned Income Tax Credit (EITC) is a refundable credit intended to offset federal payroll taxes for low income individuals. Rooted in economist Milton Friedman's concept of a negative income tax, embraced by the Nixon administration, to address the lack of work incentives in the U.S. welfare system, the EITC was enacted in 1975. Subsequently, the EITC was strengthened under the Reagan administration and again under the administrations of President George H. W. Bush and of President Bill Clinton. The EITC has emerged as the nation's single most important means of encouraging and rewarding work.

The EITC brought \$2.61 billion into Georgia communities during the 2009 tax year. Just over one million Georgia filers received a refundable credit of an average \$2,487.^{xi} However, up to 25 percent of eligible households never file.

Sources of Income for Low Income Households with Children



Source: Congressional Budget Office based on the U.S. Census Bureau's Current Population Surveys from 1992 to 2006.

Notes: Annual cash income was adjusted for inflation using the research series for the consumer price index for all urban consumers. **Other Income** = unemployment compensation, workers' compensation, disability benefits, pension or retirement income, educational assistance, financial assistance from outside of the household and other cash income; **AFDC**= Aid to Families with Dependent Children (through 1996); **TANF** = Temporary Assistance for Needy Families (after 1996); **SSI** = Supplemental Security Income; **EITC** = earned income tax credit.

The Federal Reserve Bank of Atlanta and of other regions has promoted the EITC not only for its ease of administration through the tax code but for its multiplier effect on local economies^{xii}. Studies suggest up to \$2.00 in local economic activity, including job creation, for every \$1.00 credit received.^{xiii}

The EITC is based upon earnings, dependent children and tax filing status. Currently, single parents of two or more children with earnings of up to \$40,295 (\$45,295 for married couples) are eligible. The maximum credit is \$5,028 (\$3,043 for a single child). The Recovery Act temporarily recognizes families with three or more children with a higher maximum credit for the 2009 and 2010 tax years. Childless workers with earnings of up to \$13,440 (\$18,440 for married couples) are eligible for a credit of up to \$457.^{xiv}

United Ways and other community based agencies promote the EITC through the IRS' Voluntary Income Tax Assistance program. United Way Metropolitan Atlanta, a partner of the [Atlanta Prosperity Campaign](#), helps EITC filers maximize their credit through Individual Development Accounts, savings plans that help low income families build assets in much the same manner as do 401K plans.

Why Georgia should consider an Earned Income Tax Credit

- **Like other southern states, Georgia relies upon state sales & use taxes for larger proportion of revenue than the national average^{xv} but the impact of these vary by household income.** Considering only the non-elderly population in 2007:
 - Households in the middle and bottom two quintiles of income in Georgia (up to \$48,000), spent up to 7.8 percent of their income in sales tax.
 - Households in the upper two quintiles of income in Georgia (\$48,000 and higher), spent as little as 0.9 percent of their income in sales tax.^{xvi}
- **All local governments in Georgia currently tax groceries, typically at the rate of 3 percent.^{xvii}**
- **Applying state sales & use taxes to a broader spectrum of goods and services would disproportionately affect parents raising one or more children:**
 - A single child accounts for approximately 25 percent of low-income parents' pre-tax income for expenditures like housing, child care & education, food, transportation, health care, clothing and misc.
 - For low income parents, the annual cost of goods and services to needed to raise a child to age 18 ranges from \$8,330 to \$9,450 depending on the child's age.^{xviii}
- **Low employment earnings drive lagging per capita income in Georgia:**
 - In 2007, seven counties had per capita income equal to or higher than the U.S. per capita (Fulton, Cobb, Oconee, Fayette, Forsyth, Columbia and Harris counties) while 125 counties had per capita income equal to or less than Mississippi, lowest in the nation.^{xix}
 - Low wage jobs constitute half of all employment in Georgia.^{xx} Metro Atlanta replaced high wage jobs with low wage jobs during the period 2000-08.^{xxi}
 - While the weighted average compensation growth in Georgia is lower than that the U.S. for all occupations, the gap is greatest for low wage jobs. Put simply, low wage jobs pay less in Georgia.^{xxii}

**Median earnings for Georgia full time year-round workers in dollars^{xxiii}
and as ratio to poverty**

	Male			Female		
	As share in Civilian Labor Force	Median Earnings	Earnings to poverty ratio based on family of 3	As share in Civilian Labor Force	Median Earnings	Earnings to poverty ratio based on family of 3
White, not Hispanic	79.2%	\$50,330	2.86	61.5%	\$37,054	2.10
African American	68.3%	\$35,832	2.04	61.3%	\$31,274	1.78
Hispanic/Latino	71.1%	\$25,779	1.46	53.5%	\$24,182	1.37

Earnings reflect three year average, 2006-08; the federal poverty guideline for a family of three was \$17,600 in 2008.^{xxiv}

- **Georgia is home to 74,000 members of the military on active duty.^{xxv} Many head families eligible for the federal EITC including for periods on overseas assignment or receiving combat pay.**
- **A Georgia Earned Income Tax Credit that mirrors the federal EITC could:**
 - Mitigate the impact of sales & use taxes upon Georgians who are disproportionately affected.
 - Ensure that only those legally authorized to work in the U.S. receive the refundable credit.
 - Engage more Georgians in the tax and financial mainstream.

State Earned Income Tax Credits ^{xxvi}

State	% of Federal EITC	Refundable?	Notes
Colorado	10%	Yes	Revised state income tax code may impact credit
Delaware	20%	No	
Illinois	5%	Yes	Funded by TANF Block Grant
Indiana	9%	Yes	
Iowa	7%	Yes	
Kansas	17%	Yes	Partially offset by TANF Block Grant
Louisiana	3.5%	Yes	
Maine	5%	No	
Maryland	25% or 50%	Yes for 25% credit	50% credit not refundable. Taxpayer may claim only one of these credits.
Massachusetts	15%	Yes	
Michigan	20%	Yes	
Minnesota	Up to 45% for families with children; 25% for childless workers	Yes	
Nebraska	10%	Yes	
New Jersey	25%	Yes	
New Mexico	10%	Yes	
New York	30%	Yes	Partially offset by TANF Block Grant. Should state lose TANF funds, credit is reduced to 20%
North Carolina	5%	Yes	Must be reauthorized in 2013
Oklahoma	5%	Yes	Must be reauthorized in 2013
Oregon	6%	Yes	
Rhode Island	25%	Yes	Just 15% of the entire credit amount is refundable
Vermont	32%	Yes	
Virginia	20%	No	Taxpayers may choose state EITC or a separate low income tax credit.
Washington	The greater of 10% or \$50	Yes	Effective 2011; current is the greater of 5% or \$25
Wisconsin	Up to 43%	Yes	Credit ranges from 4%-43% based on # children

- i [Presentation](#), Special Council on Tax Reform & Fairness for Georgians, July 28, 2010 , GSU Fiscal Research Center
- ii Census Bureau, States Ranked by Total Tax and Per Capita Amount [2001](#) and 2009
- iii [Federal Aid to States, Fiscal Year 2009](#) US Census Bureau, August 2010 and [IRS Data Book, FY 2009](#), March 2010
- iv [Georgia Statistics System](#) (from the Georgia County Guide 2010) University of Georgia retrieved July 14, 2010.
- v Finance, from the Common Core of Data 2007-2008, National Center for Education Statistics.
- vi [Georgia Special Council on Tax Reform and Fairness](#)
- vii Georgia Budget & Policy Institute, [Deep Cuts to Mark FY 2011; Budget may yet be in Red](#), June 15, 2010
- viii [Budget memos and instructions](#), Governor's Office of Planning and Budget
- ix [RESIDENT POPULATION, UNDER 18 YEARS OLD -- JULY 2008](#) and [RESIDENT POPULATION 65 YEARS & OLDER](#) State Rankings, Statistical Abstract of the United States, retrieved July 13, 2010
- x [Population Change 2000-08](#), State Rankings Statistical Abstract of the United States, retrieved July 13, 2010
- xi [IRS EITC Central](#), data retrieved November 2, 2010
- xii [EITC Boosts Local Economies](#), Federal Reserve Bank of Atlanta
- xiii Summary included in "[Study concerning a State Earned Income Tax Credit](#)" prepared by the Connecticut General Assembly Office of Fiscal Research, 2008
- xiv [IRS Marks EITC Awareness Day; Highlights Expanded Tax Credit](#), IRS January 29, 2010
- xv [Most southern states rely heavily on state & local sales taxes](#), Rockefeller Institute of Government, 2005
- xvi [Who Pays: A distributional analysis of the tax systems of all 50 states](#), Institute of Taxation & Economic Policy 2009
- xvii [Sales Tax Rate Chart](#), effective October 2010, GA Dept of Revenue
- xviii [Expenditures on Children by Families](#), USDA, June 2009
- xix [Georgia Statistics System](#) (from the Georgia County Guide 2010) University of Georgia, retrieved July 14, 2010
- xx [AN ANALYSIS OF THE RELATIVE DECLINE IN EMPLOYMENT INCOME IN GEORGIA](#), Andrew Young School of Policy Studies, December 2009
- xxi Atlanta Regional Commission, Regional Snapshot: [Income and Poverty Trends in Metro Atlanta](#), May 2010
- xxii [Georgia Per Capita Income: Identifying the factors contributing to growing income gap with other states](#); Andrew Young School of Policy Studies December 2009
- xxiii [2006-2008 American Community Survey](#), tables C23002 and C2005, tabs B, D, H, I for each
- xxiv US Department of Health & Human Services, [Federal Poverty Guideline 2008](#)
- xxv [Distribution of Personnel by State and by Selected Locations](#), FY 2009, Defense Manpower Data Center, Statistical Information Analysis Division (DMDC/SIAD).
- xxvi [State Earned Income Tax Credits: 2009 Legislative Update](#), Center for Budget & Policy Priorities and [Study concerning a State Earned Income Tax Credit](#)" prepared by the Connecticut General Assembly Office of Fiscal Research, 2008