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The Anti-Illinois

Georgia debates a tax reform with lower rates.

The genius of American federalism is that states can choose to walk off a policy cliff—or not. Illinois has just raised taxes, but Georgia may be moving in the opposite direction by cutting taxes to make the state a more attractive destination for workers and business.

A bipartisan tax commission chartered last year by the legislature is proposing that Georgia cut its personal and corporate tax rates by a third, to a flat 4% from a high of 6%. "Our overriding goal was to get the income tax rate as low as possible, because the evidence is so clear that this is the biggest driver of growth and jobs," says commission member Christine Ries, an economist at Georgia Tech. The plan is a "revenue neutral" shift to a cleaner and simpler state tax code.

To pay for the lower rates, the commission proposes to expand the reach of the state's 4% sales tax (6% in Atlanta and many localities) to groceries and many tax-exempt industries, ranging from auto repair to barbers to the film industry. Predictably, businesses that don't pay tax now are lobbying to maintain favored treatment.

The plan follows the first principle of a sound and fair tax system: Apply a low rate to a broad base. The most controversial change is the grocery tax, which liberal critics call a regressive levy on the poor. In fact, the proposal would increase the personal exemption to offset the food tax for low-income families.

Georgia's new Governor, Republican Nathan Deal, says he supports "elements of the plan" without specifying which ones. The GOP controls more seats in the legislature than at any time since Reconstruction, so a major tax reform is possible.

A reform that lowers rates would set Georgia apart from California, New Jersey, Oregon and Maryland, which have all raised tax rates in the last decade only to see millionaire incomes vanish and revenue decline. Georgia would be smart to go even further and join the nine states, including Florida and Texas, that have no income tax. But even the commission's reform would make the Peach State more competitive for job creation, and ultimately lead to a better economy and higher tax revenues.