

# Georgia's Tax Structure and Reform Issues

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September 24, 2010



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# HB 1405

- **Special Council on Tax Reform and Fairness for Georgians**
  - “conduct a thorough study of the state’s current revenue structure and make a report ... January 10, 2011.”
  
- **Special Joint Committee on Georgia Revenue Structure**
  - Write legislation “without significant changes” to recommendations of the Council
  - Up or down vote in the General Assembly, no amendments

# Expectations

## Lt. Governor Cagle:

- Is this a fair and equitable tax structure for our fellow citizens?
- Will it enhance the state's **economic prosperity** and create **job growth**?
- Will it have minimal impact on the services we provide our state's citizens?

## House Speaker Ralston

- "Georgia should take a real leadership role in developing a tax policy that was **job friendly** and that was small business friendly"

## House Ways & Means Chair O'Neal:

“examine the entire tax code of Georgia, all 19 separate platforms of it, and suggest reformation of our code that will make it more stable, balanced, and reliable from the revenue generation perspective. Fair, transparent, understandable, easy and inexpensive to comply with from the taxpayers' perspective, and more importantly how we can make Georgia the most business **friendly tax environment** for job creation and job sustainment of any state in the country.



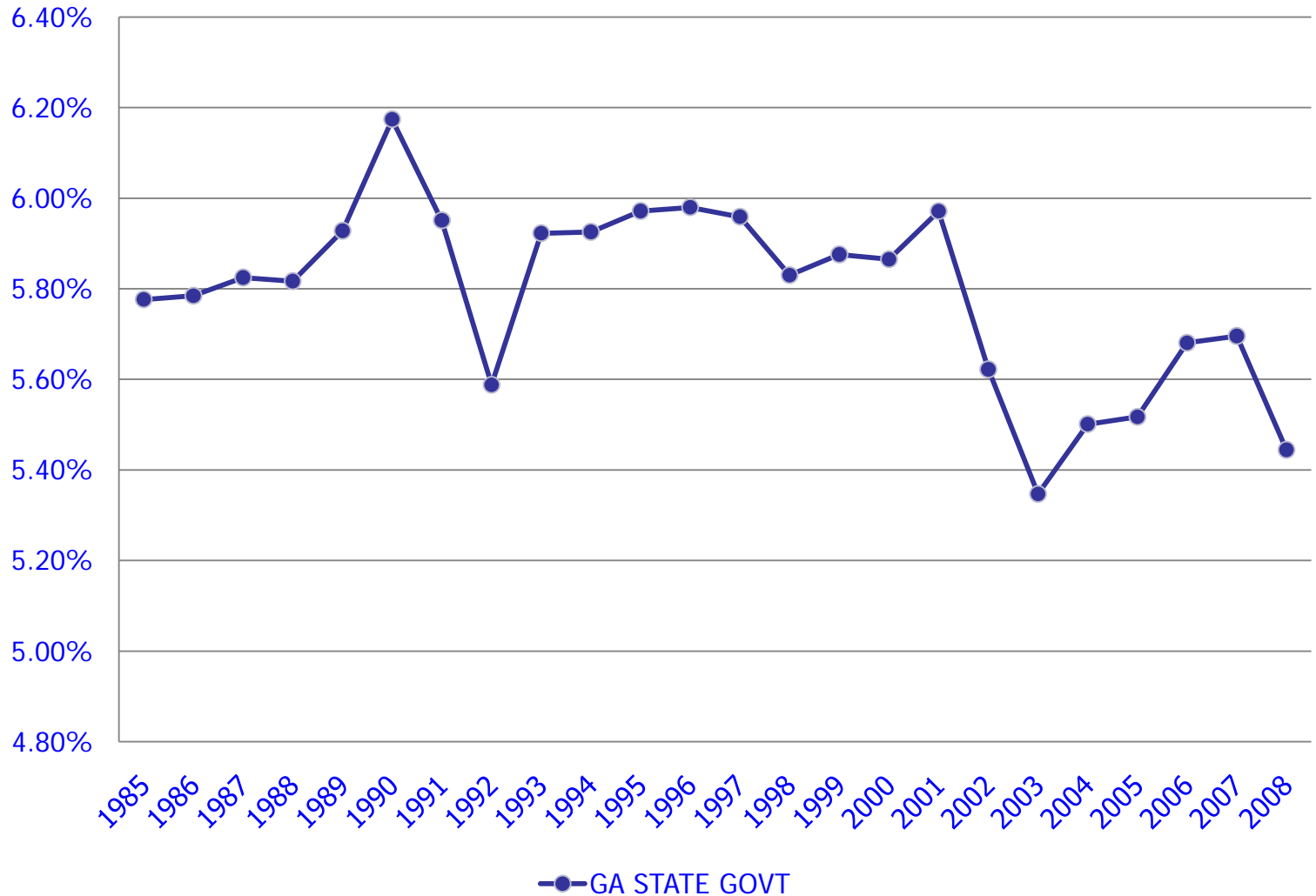
# **Georgia's Tax System Today**

## State General Fund Revenue, 2009-2010

Tax Revenue	FY 2009	% of Total	FY2010*	% of Total	% Change
Personal Income	\$7,815	44%	\$7,017	44%	-10%
General Sales and Use	\$5,306	30%	\$4,783	30%	-10%
Motor Fuel	\$884	5%	\$829	5%	-6%
Corporate Income	\$695	4%	\$685	4%	-1%
Insurance Premium	\$314	2%	\$274	2%	-13%
Motor Vehicle License	\$283	2%	\$283	2%	0%
Tobacco	\$230	1%	\$227	1%	-1%
Alcoholic Beverage	\$170	1%	\$168	1%	-1%
Property	\$83	1%	\$85	1%	3%
Estate	\$0	0%	\$0	0%	0%
Total Tax Revenue	\$15,781	89%	\$14,350	89%	-9%
<b>Other Revenue</b>					
Fees, Interest, and Sales	\$986	6%	\$740	5%	-25%
Lottery	\$885	5%	\$886	5%	0%
Tobacco Settlement Funds	\$177	1%	\$147	1%	-17%
Miscellaneous	\$4	0%	\$2	0%	-44%
Total Other	\$2,052	12%	\$1,775	11%	-13%
<b>Grand Total</b>	<b>\$17,832</b>	<b>100%</b>	<b>\$16,125</b>	<b>100%</b>	<b>-10%</b>

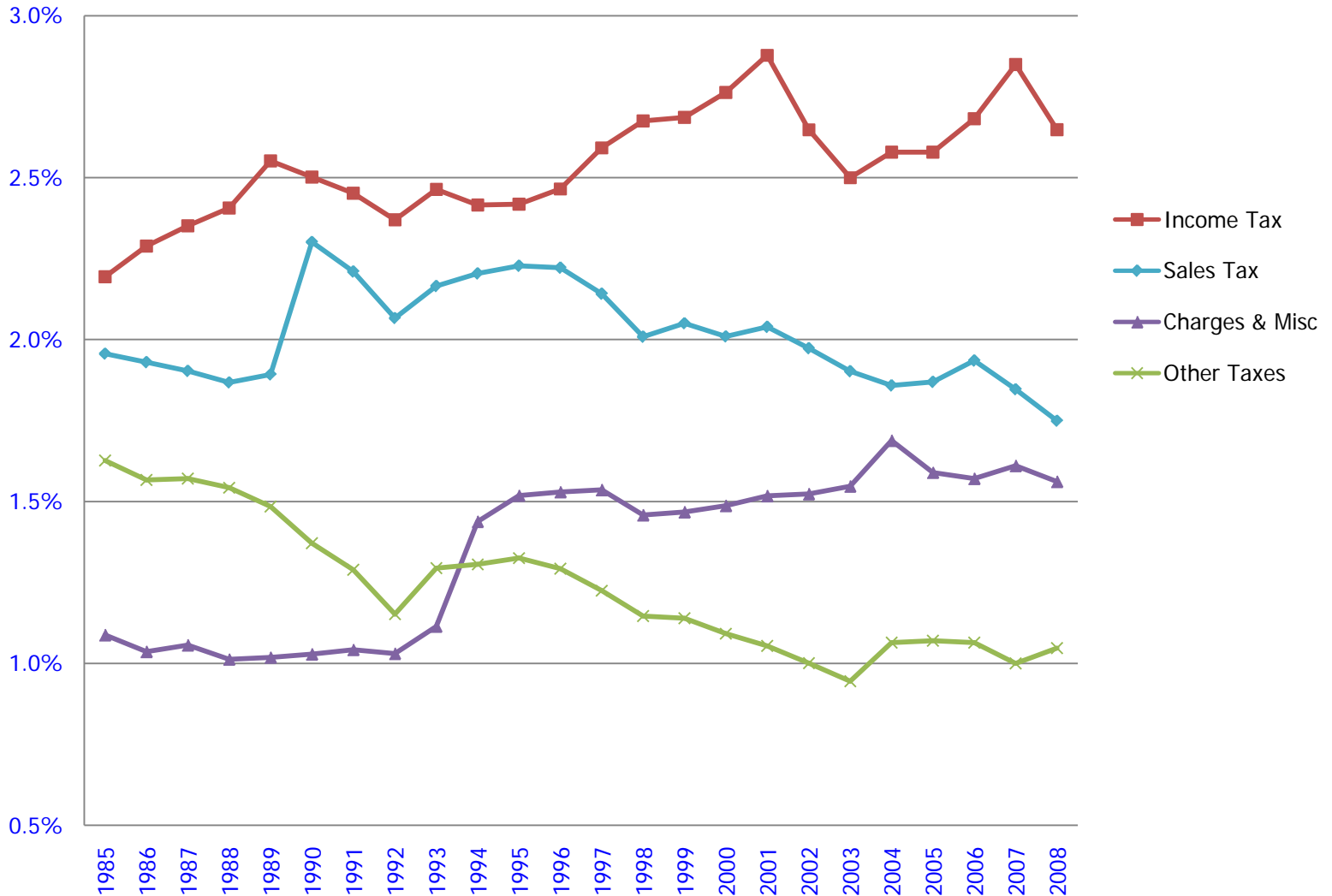
\*Estimate based on June 2010 OTFS numbers.

# Georgia State Tax Revenues as a % of Personal Income (1985-2008)



Data Source: US Census of Governments

# Georgia State Taxes as % of Personal Income: Taxes, Charges and Misc. Revenue



Data Source: US Census of Governments



## State and Local Tax Revenues Per Capita (2007)

<b>All Taxes State and Local</b>		
Rank	State	\$ per capita
1	Alaska	\$7,268
2	Wyoming	\$6,205
3	New York	\$6,898
<b><i>Top Quintile Cutoff</i></b>		<b><i>\$4,714</i></b>
18	Virginia	\$4,205
<b><i>50-State Mean</i></b>		<b><i>\$4,096</i></b>
<b><i>Nat'l Median</i></b>		<b><i>\$4,011</i></b>
26	Florida	\$4,009
<b><i>AAA Mean</i></b>		<b><i>\$3,849</i></b>
33	North Carolina	\$3,586
<b>34</b>	<b>Georgia</b>	<b>\$3,481</b>
<b><i>SE Mean</i></b>		<b><i>\$3,415</i></b>
<b><i>Last Quintile Cutoff</i></b>		<b><i>\$3,312</i></b>
46	South Carolina	\$3,134
48	Tennessee	\$3,005
49	Mississippi	\$2,989
50	Alabama	\$2,909

## State Versus Local Tax Revenues Per Capita (2007)

All Taxes - State Only		
Rank	State	\$ per capita
1	Alaska	\$5,415
2	Vermont	\$4,130
3	Hawaii	\$3,985
<b>Top Quintile Cutoff</b>		<b>\$3,200</b>
<b>50-State Mean</b>		<b>\$2,604</b>
<b>AAA Mean</b>		<b>\$2,482</b>
22	North Carolina	\$2,501
<b>Nat'l Median</b>		<b>\$2,447</b>
27	Virginia	\$2,425
38	Mississippi	\$2,189
40	Florida	\$2,133
<b>SE Mean</b>		<b>\$2,114</b>
<b>Last Quintile Cutoff</b>		<b>\$2,073</b>
42	South Carolina	\$1,973
<b>43</b>	<b>Georgia</b>	<b>\$1,923</b>
44	Alabama	\$1,917
46	Tennessee	\$1,852
48	Texas	\$1,691
49	New Hampshire	\$1,657
50	South Dakota	\$1,591

All Taxes - Local Only		
Rank	State	\$ per capita
1	New York	\$3,647
2	New Jersey	\$2,536
3	Connecticut	\$2,362
<b>Top Quintile Cutoff</b>		<b>\$1,946</b>
10	Florida	\$1,876
12	Virginia	\$1,781
<b>22</b>	<b>Georgia</b>	<b>\$1,558</b>
<b>Nat'l Median</b>		<b>\$1,504</b>
<b>50-State Mean</b>		<b>\$1,493</b>
<b>AAA Mean</b>		<b>\$1,367</b>
<b>SE Mean</b>		<b>\$1,301</b>
33	South Carolina	\$1,161
35	Tennessee	\$1,153
39	North Carolina	\$1,085
<b>Last Quintile Cutoff</b>		<b>\$993</b>
42	Alabama	\$992
48	Mississippi	\$800
49	Arkansas	\$630
50	Vermont	\$584

## Income Tax Per Capita (State Only)

<b>Individual Income Tax (State Only)</b>		
Rank	State	\$ per capita
1	New York	\$2,196
2	Maryland	\$1,912
3	Connecticut	\$1,815
9	Virginia	\$1,330
<b>Top Quintile Cutoff</b>		<b>\$1,245</b>
<b>AAA Mean</b>		<b>\$1,172</b>
13	North Carolina	\$1,171
<b>25</b>	<b>Georgia</b>	<b>\$924</b>
<b>Nat'l Median</b>		<b>\$921</b>
<b>50-State Mean</b>		<b>\$862</b>
33	South Carolina	\$735
<b>SE Mean</b>		<b>\$668</b>
37	Alabama	\$660
<b>Last Quintile Cutoff</b>		<b>\$480</b>
41	Mississippi	\$480
43	Tennessee	\$41
44T	Florida	\$0
Zero IIT: AK,FL,NV,SD,TX,WA,WY		

## Sales Tax Per Capita (State and Local)

<b>Table 6:</b>		
<b>General Sales Tax</b>		
Rank	State	\$ per capita
1	Washington	\$2,029
2	Hawaii	\$2,002
3	Wyoming	\$1,757
7	Tennessee	\$1,374
<b>Top Quintile Cutoff</b>		<b>\$1,329</b>
10	Florida	\$1,329
15	Mississippi	\$1,080
<b>18</b>	<b>Georgia</b>	<b>\$1,038</b>
<b>SE Mean</b>		<b>\$981</b>
<b>50-State Mean</b>		<b>\$924</b>
25	Alabama	\$870
<b>Nat'l Median</b>		<b>\$869</b>
35	North Carolina	\$787
37	South Carolina	\$761
<b>AAA Mean</b>		<b>\$722</b>
<b>Last Quintile Cutoff</b>		<b>\$630</b>
44	Virginia	\$610

Zero GST: DE, MT, NH, OR

# State Versus Local Sales Tax Per Capita

General Sales Tax - State Only		
Rank	State	\$ per capita
1	Hawaii	\$2,002
2	Washington	\$1,684
3	Wyoming	\$1,334
5	Florida	\$1,255
6	Tennessee	\$1,101
7	Mississippi	\$1,080
<b>Top Quintile Cutoff</b>		<b>\$995</b>
<i>SE Mean</i>		<i>\$791</i>
<i>50-State Mean</i>		<i>\$752</i>
<i>Nat'l Median</i>		<i>\$751</i>
27	South Carolina	\$734
<b>34</b>	<b>Georgia</b>	<b>\$621</b>
38	North Carolina	\$575
<i>AAA Mean</i>		<i>\$574</i>
<b>Last Quintile Cutoff</b>		<b>\$544</b>
43	Alabama	\$492
44	Virginia	\$472
45	Colorado	\$453

Zero GST - State Level: OR,NH,MT, DE,AK

General Sales Tax - Local Only		
Rank	State	\$ per capita
1	Louisiana	\$813
2	Colorado	\$593
3	New York	\$572
<b>6</b>	<b>Georgia</b>	<b>\$417</b>
9	Alabama	\$378
<b>Top Quintile Cutoff</b>		<b>\$345</b>
15	Tennessee	\$272
19	North Carolina	\$211
<i>SE Mean</i>		<i>\$189</i>
<i>50-State Mean</i>		<i>\$171</i>
<i>AAA Mean</i>		<i>\$148</i>
24	Virginia	\$138
<b>Nat'l Median</b>		<b>\$130</b>
28	Florida	\$74
30	South Carolina	\$27
<b>Last Quintile Cutoff</b>		<b>\$0</b>
35	Mississippi	\$0

Zero GST - Local Level: 16 States do not have a local sales tax.

# Corporate Income Tax Per Capita

Corporate Income Tax		
Rank	State	\$ per capita
1	Alaska	\$1,195
2	New York	\$639
3	New Hampshire	\$454
<b>Top Quintile Cutoff</b>		<b>\$234</b>
<b>50-State Mean</b>		<b>\$193</b>
18	Tennessee	\$182
20	North Carolina	\$173
<b>AAA Mean</b>		<b>\$155</b>
<b>Nat'l Median</b>		<b>\$155</b>
31	Florida	\$134
<b>SE Mean</b>		<b>\$127</b>
33	Mississippi	\$126
37	Virginia	\$114
38	Alabama	\$109
<b>40</b>	<b>Georgia</b>	<b>\$107</b>
<b>Last Quintile Cutoff</b>		<b>\$99</b>
45	South Carolina	\$71

Zero CIT: NV, TX, WA, WY, SD

# Miscellaneous Other Taxes

## (State and Local Combined)

<b>Table 9: Selective Sales Taxes</b>			Sub-Category Amount or Rank				
Rank	State	\$ per capita	Motor Fuel	Alcohol	Tobacco	Public Utilities	Other
1	Nevada	\$996	12	23	27	13	1
2	Vermont	\$832	23	10	6	40	2
3	Illinois	\$737	31	22	16	2	5
6	Florida	\$631	9	7	44	1	39
<b>Top Quintile Cutoff</b>		<b>\$559</b>	<b>\$173</b>	<b>\$31</b>	<b>\$87</b>	<b>\$98</b>	<b>\$260</b>
18	Alabama	\$518	24	2	36	4	32
20	Virginia	\$499	40	16	40	9	15
<b>50-State Mean</b>		<b>\$465</b>	<b>\$138</b>	<b>\$19</b>	<b>\$59</b>	<b>\$66</b>	<b>\$183</b>
<b>AAA Mean</b>		<b>\$437</b>	<b>\$133</b>	<b>\$19</b>	<b>\$41</b>	<b>\$52</b>	<b>\$190</b>
<b>Nat'l Median</b>		<b>\$433</b>	<b>\$138</b>	<b>\$15</b>	<b>\$56</b>	<b>\$53</b>	<b>\$154</b>
26	North Carolina	\$433	5	9	42	32	24
<b>SE Mean</b>		<b>\$426</b>	<b>\$143</b>	<b>\$31</b>	<b>\$25</b>	<b>\$85</b>	<b>\$142</b>
36	Mississippi	\$351	13	27	49	43	29
39	South Carolina	\$343	38	8	50	41	22
<b>Last Quintile Cutoff</b>		<b>\$332</b>	<b>\$115</b>	<b>\$9</b>	<b>\$30</b>	<b>\$18</b>	<b>\$95</b>
41	Tennessee	\$332	20	3	47	42	38
<b>47</b>	<b>Georgia</b>	<b>\$303</b>	<b>42</b>	<b>12</b>	<b>43</b>	<b>37</b>	<b>40</b>
48	Oregon	\$296	41	50	14	23	48
49	Wyoming	\$293	26	47	31	33	47
50	Idaho	\$283	14	45	38	44	45
<b>GA</b>		<b>\$114</b>	<b>\$30</b>	<b>\$25</b>	<b>\$28</b>	<b>\$28</b>	<b>\$106</b>

Data Source: US Census of Governments, 2007

# Business Climate Measures

Tax Foundation (High Ranking Number is Less "Business Friendly")						
	Overall Rank	Corporate Income Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Unemployment Insurance Tax Index Rank	Property Tax Index Rank
Florida	5	15	1	32	3	22
Virginia	15	4	20	8	44	29
Alabama	19	23	17	25	16	17
Mississippi	21	13	18	35	4	23
Tennessee	22	11	8	49	32	46
South Carolina	26	9	28	18	43	26
<b>Georgia</b>	<b>29</b>	<b>8</b>	<b>30</b>	<b>23</b>	<b>22</b>	<b>36</b>
North Carolina	39	25	36	34	5	37



# Business Climate Measures

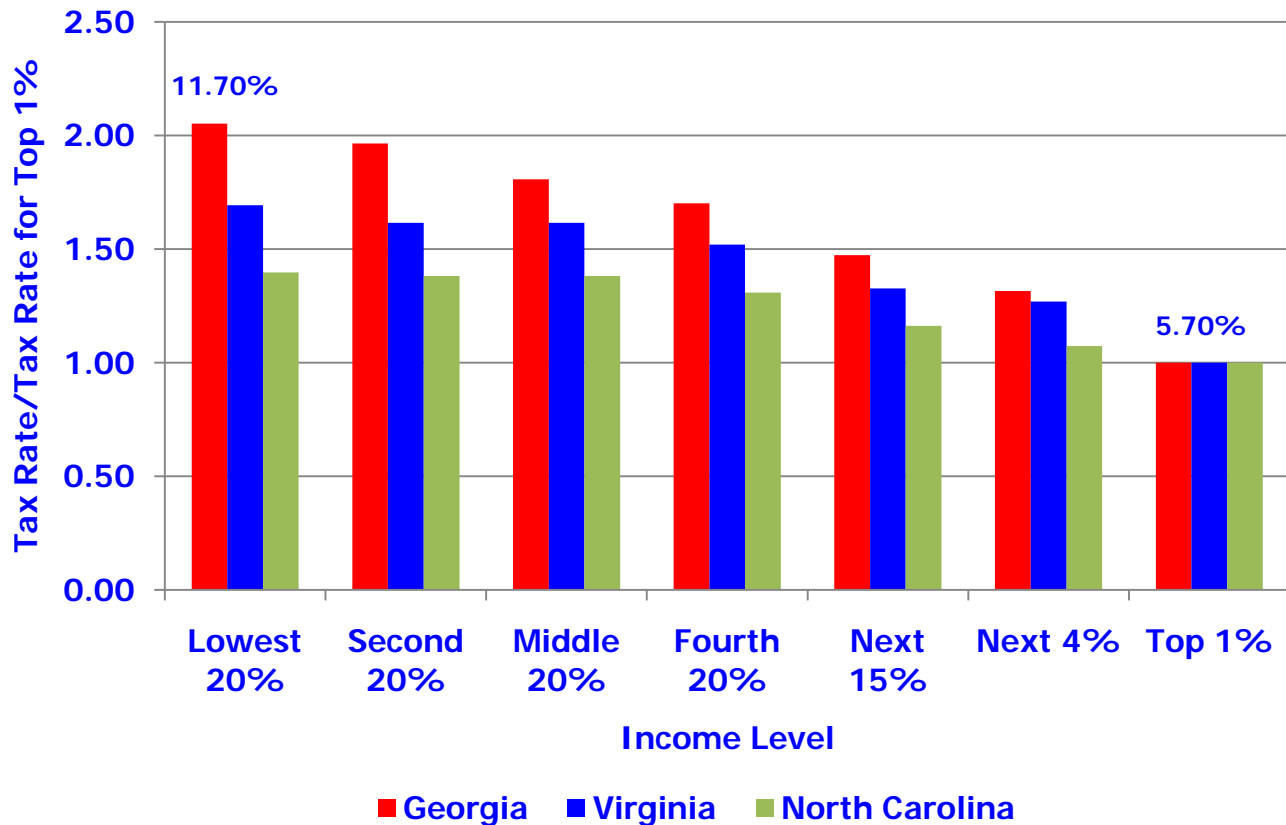
Council on State Taxation/Ernst & Young (High Ranking Number is More "Business Friendly")		
	State and Local Business Taxes as % of GSP	Rank
Alabama	4.6	30
Florida	5.3	14
<b>Georgia</b>	<b>4.1</b>	<b>40</b>
Mississippi	5.8	9
North Carolina	3.5	48
South Carolina	4.7	27
Tennessee	4.2	37
Virginia	3.6	47

Taxes that are considered "business taxes" include:

1. General sales tax on business inputs,
2. Corporate income tax,
3. Unemployment insurance,
4. Individual income tax on business income,
5. Corporate and business license,
6. Excise taxes,
7. Insurance premium taxes,
8. Public utility taxes,
9. Property taxes on business property,
10. Other business taxes.

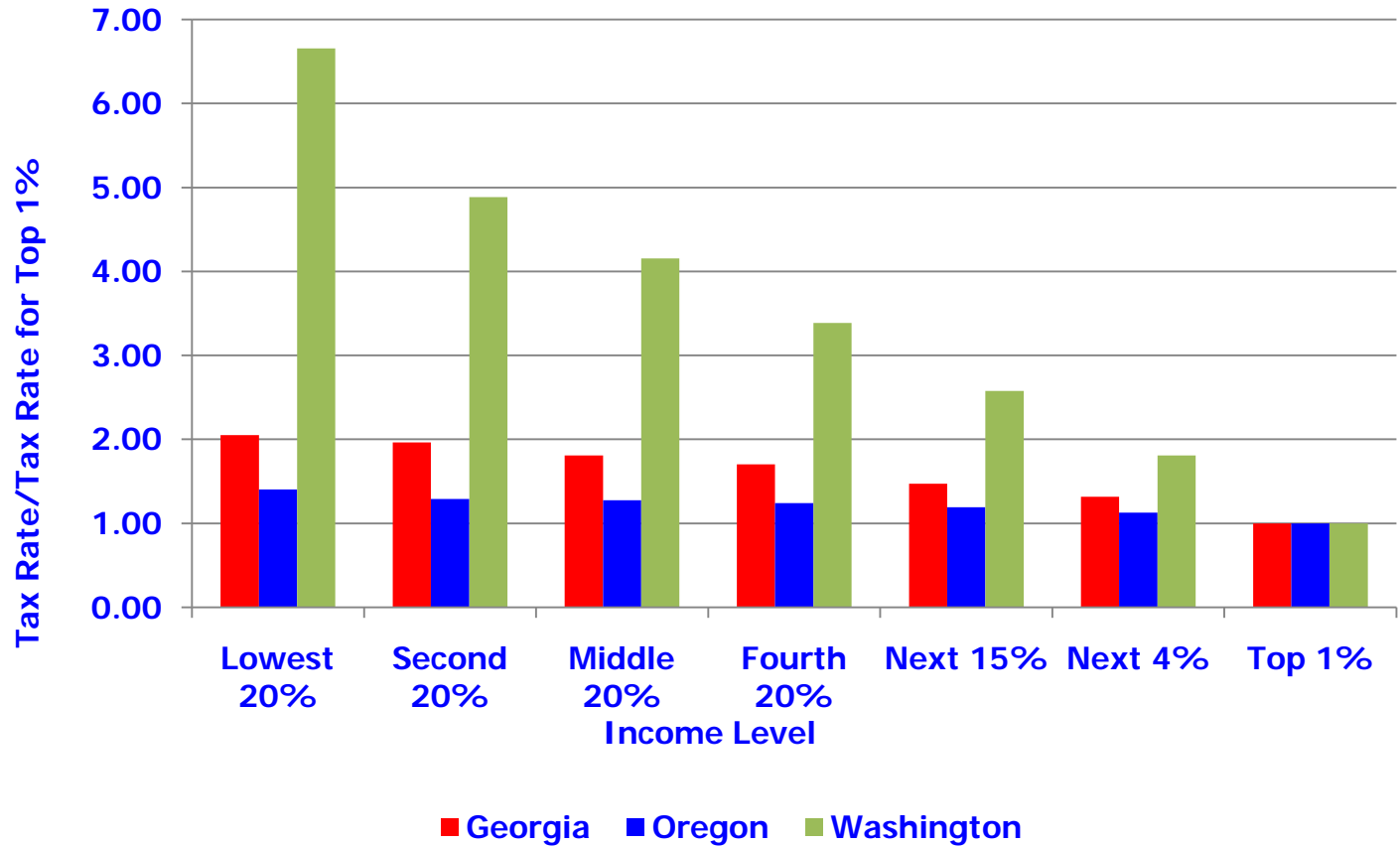
# Relative State and Local Tax Burden, 2007 (Non-elderly, married couple)

Relative to Top 1%



# Relative State and Local Tax Burden, 2007 (Non-elderly, married couple)

Relative to Top 1%



Source: Institute on Taxation & Economic Policy, 2009

# Personal Income Tax Structure

- 7 states have no income tax
- 2 states tax only interest and dividends
- 37 states tied their income tax system to the federal income tax system
- Number of tax brackets ranges from 1 to 12
- Georgia has 6 brackets, but is essentially flat
- For all states, taxable income at the highest tax bracket ranges from \$3,000 to \$1,000,000
- In Georgia, taxable income at the highest bracket is \$7,000 (This is for a single filer.)

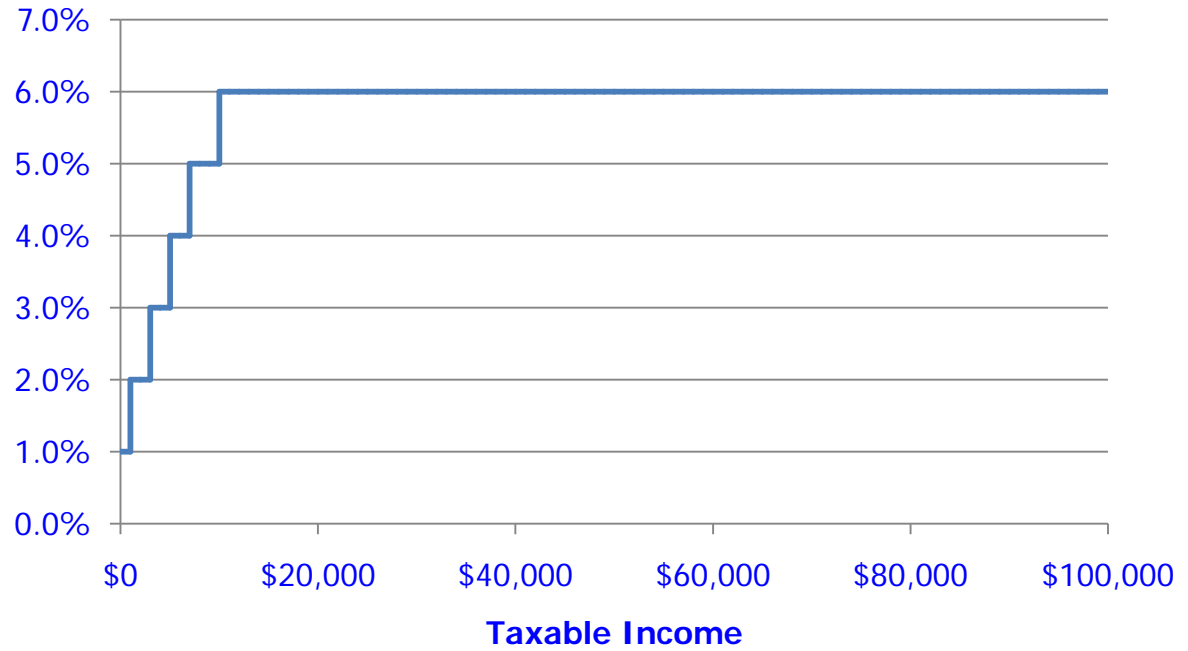
Highest Tax Rate(as of January 1, 2010)	Number of States (includes DC)
3.0 - 3.9%	3
4.0 - 4.9%	5
5.0 - 5.9%	6
6.0 – 6.9%	12 (Georgia)
7.0 – 7.9%	6
8.0 – 8.9%	5
9.0 – 9.9%	1
10.0 – 10.9%	2
11.0 – 11.9%	2

Source: Federation of Tax Administrators

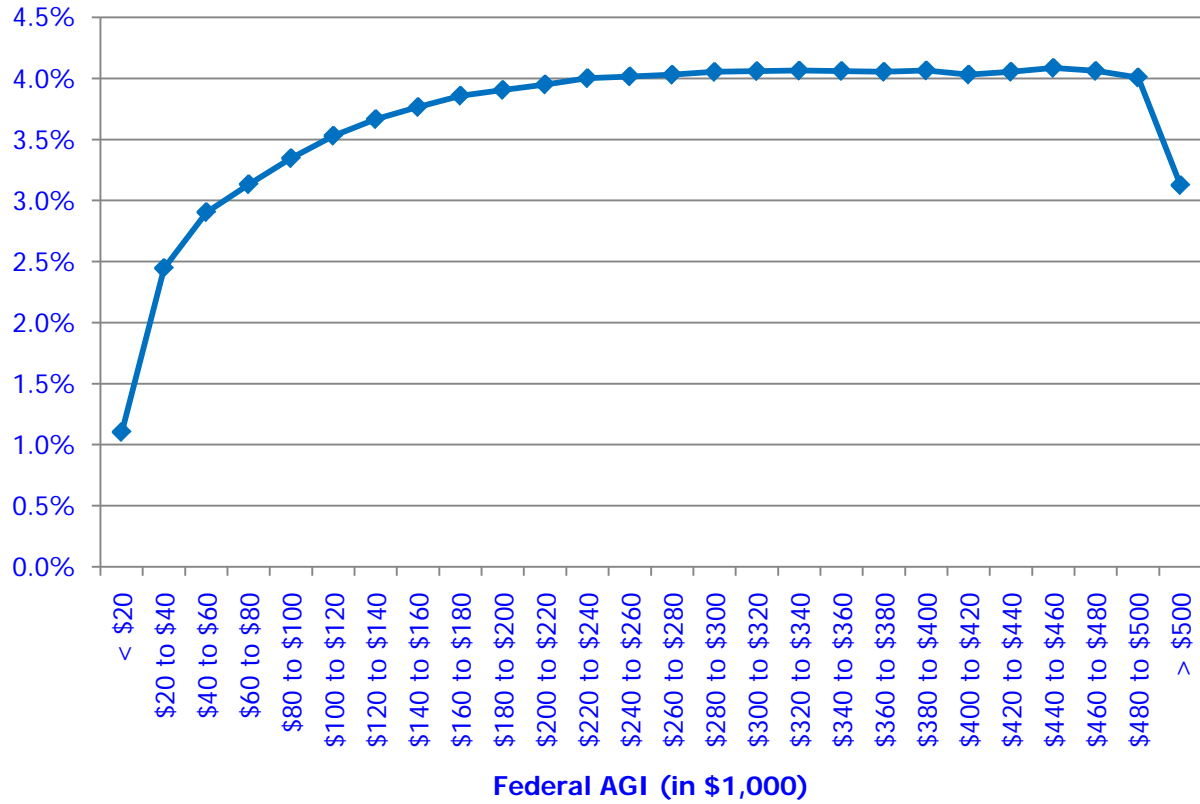
# Issues: Personal Income Tax

- Rate Structure
- Personal exemptions/standard deduction
- FAGI => GaAGI
- Credits

## Marginal Tax Rates



## Effective Tax Rates



# Sales Tax Structure

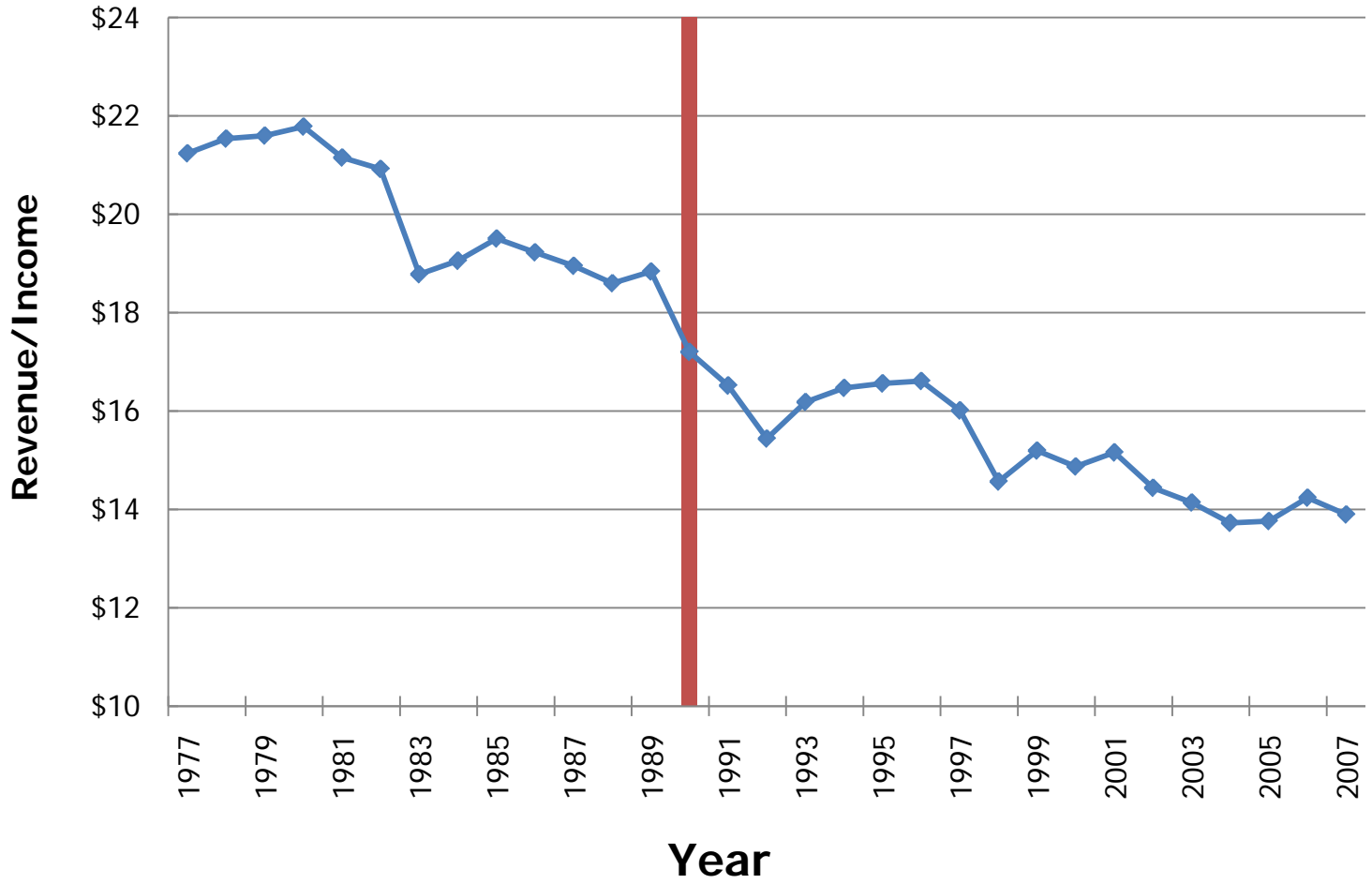
- 5 states have no sales tax
- Number of services that are taxed ranges from 11 to 166 (Source: Federation of Tax Administrators, as of 2007)
- Food for home consumption: 32 states fully exempt; 7 states tax at a lower rate; 7 states tax at state tax rate (Source: Federation of Tax Administrators, as of January 1, 2010)
- Business to business purchases: Estimated percentage of tax base ranges from 11% to 72%. Georgia is at 36%. (Source: Raymond Ring, *National Tax Journal*, 1999)
- In Georgia, state and local sales taxes combined average about 6.8%

State Only Sales Tax Rates (January 1, 2010)	Number of State (includes DC)
1. – 1.9%	1
2.0 – 2.9%	0
3.0 - 3.9%	0
4.0 - 4.9%	10 (Georgia)
5.0 - 5.9%	11
6.0 – 6.9%	18
7.0 – 7.9%	5
8.0 – 8.9%	1

Source: Federation of Tax Administrators



# Sales Tax per \$1000 of Personal Income (Adjusted for Tax Rate Increase)



# Issues: Sales Tax

- **Services**
  - **Big question: which services?**
  
- **Exemptions**
  - **What criteria do use to judge?**
  - **Business to business purchases**
  
- **Remote sales**
  
- **Compliance**

# Issues: Corporate Income Tax

- Credits
- Delaware Holding Company
- Net Worth tax

# Issues: Insurance Premium Tax

- Rates
- Abatements and credits

# Misc. Other Taxes

(State Only, Updated to 2010)

- **Gasoline Tax** (as of January 1, 2010)
  - Georgia 7.5 cents per gallon plus 3% 2<sup>nd</sup> motor fuel tax = 16.8 cents
  - This is the 46<sup>th</sup> highest rate
  - Range is from 8.0 cents to 37.5 cents per gallon
  - (Source: Federation of Tax Administrators)
  
- **Cigarette Tax** (as of July 1, 2010)
  - Georgia: 37 cents per pack
  - Georgia is 48<sup>th</sup> highest rate
  - Range is from 17 cents to \$3.46 per pack
  - (Source: Campaign for Tax-Free Kids)
  
- **Beer Tax**
  - Georgia: 32 cents per gallon
  - Georgia is 12<sup>th</sup> highest rate
  - Range: 2 cents to \$1.07 per gallon
  - (Source: Federation of Tax Administrators)

## **Big Issues:**

- **Eliminate any tax?**
  - **Personal Income Tax?**
  - **Corporate Income Tax?**
- **Add a new tax?**
  - **Gross Receipts Tax?**
  - **Consumption Tax?**



**Thank you**