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Proposed Repeal of Refundable Low Income Credit Would Hurt the Poorest Georgians

62 Percent of Those Affected Live Below the Poverty Line

Earlier this week, the tax writing committee in the Georgia House of Representatives quietly approved a bill, HB 1219, that would increase Georgia taxes by about $20 million a year by paring back a tax credit that only affects the very poorest Georgians. The bill's proponents have repeatedly implied that the beneficiaries of the existing credit pay no taxes, so the credit amounts to a "handout." But in fact, the Low Income Credit offers a valuable offset to the sales, excise and property taxes that loom largest for low-income families.

The Low-Income Credit Offers a Small, But Vital Tax Cut for Low-Income Georgians

Georgia law currently allows low-income individuals and families with Federal Adjusted Gross Income (FAGI) under $20,000 to claim a tax credit of up to $26 for each family member—which means that a family of four can receive as much as $104 from this credit. The per-person credit gradually phases out as income approaches $20,000.

Although the Low Income Credit is part of the state's personal income tax form, the credit is available to low-income taxpayers who face little or no personal income tax liability. This feature, called "refundability," ensures that families who pay little in income tax but face unaffordably high sales, excise and property tax loads can use the Low Income Credit to offset part of these other taxes. Refundability is an increasingly common feature in state tax laws: about 25 states now allow refundable tax credits on income tax forms, most of which are state versions of the federal Earned Income Tax Credit (EITC). The Georgia credit is, in general, much less generous than state EITC's: a state with a credit equal to 10 percent of the federal EITC allows low-income married couples with two children a credit of up to $504 in 2010, almost five times the allowable amount under the Georgia credit.

The version of HB 1219 that was approved by the House Ways and Means Committee earlier this week would remove the refundability feature of the Low-Income Credit, so that the amount of the credit cannot exceed a taxpayer's income tax liability before credits.

HB 1219's Tax Hike Would Fall Hardest on Low-income Families

An ITEP analysis of HB 1219's tax increase shows that 61 percent of the state tax hike under this plan would fall on the poorest 20 percent of Georgia individuals and families—a group with incomes averaging $9,700 a year—and that virtually all of the tax hike would be paid by the poorest 40 percent of Georgians. For those in the poorest twenty percent of the income distribution seeing a tax hike, the average state tax increase would be $38.

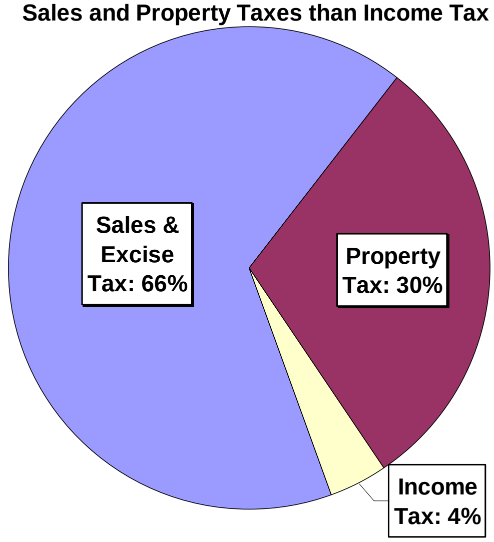
Not surprisingly, the lion's share of the tax hike under this plan would fall on Georgia individuals and families whose incomes fall below the poverty line for their family size in 2010. ITEP estimates that 62 percent of the state tax hike under HB 1219 would fall on already-poor families—making these families even poorer.

Georgia's Tax System Already Falls Hardest on Low-Income Families

The unfairness of the proposed tax hike is especially disturbing because the poorest Georgians already pay more of their income in state and local taxes than any other income group. A November 2009 ITEP analysis showed that the poorest families pay an average of 11.7 percent of their income in Georgia state and local taxes, more than twice as high as the 5.7 percent of income that the very best-off 1 percent of Georgians must pay.[1] HB 1219 would obviously make this imbalance even worse.

ITEP's analysis also makes it clear that the main reason for the especially high tax rates on the poorest Georgians is the sales, excise and property taxes they pay. Of the 11.7 percent effective tax rate on the poorest families, 66 percent of that is explained by sales and excise taxes alone, with property taxes adding an additional 30 percent. Overall, the personal income tax represents just 4 percent of the state and local tax load on the very poorest Georgians. This is why refundability is such an important feature in the Georgia Low Income Credit: a tax credit designed to slightly reduce the unfairness of the overall tax system must be refundable to have any effect at all.

Low-Income Georgians Pay Much More in Sales and Property Taxes than Income Tax



Conclusion

More so than most other states, Georgia relies heavily on its poorest residents to pay for needed public investments. The very best-off Georgians pay effective tax rates that are less than half what the very poorest families must pay. HB 1219 would exacerbate the unfairness—and the imbalance—in the current tax system.

Fortunately, state policymakers have a variety of sensible tax reform options to choose from that can help to solve the state's budget dilemma without pushing low-income families further into poverty: paring back the state's generous exclusion for retirement income, or increasing income tax rates on upper-income families, would each raise needed revenue without pushing low-income families further into poverty.

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[1] Institute on Taxation and Economic Policy. "Who Pays: A Distributional Analysis of the Tax Systems in All 50 States." November 18, 2009.