Institute on Taxation and Economic Policy
1616 P Street, NW • Washington, DC 20036 • (202) 299-1066

April 22, 2010
Contact: Matt Gardner (202) 468-3722

Pending Georgia Tax Changes Would Redistribute Income From the Poorest Families to the Rich

Current Tax System Amounts to "Robin Hood in Reverse"—And Tax Changes On the Governor's Desk Would Increase Inequity

In the 2010 legislative session, Georgia lawmakers have ratified, or are poised to ratify, a set of tax changes which would dramatically reshape the fairness of the state's tax system. A new ITEP analysis shows that these changes would increase the taxes paid by the poorest ninety five percent of Georgians, while cutting taxes for the best-off five percent. The analysis also shows that the current tax system actually redistributes income from below-poverty families to the best-off Georgians—and that likely 2010 tax changes would worsen this inequity.

Georgia's Unfair Tax System Redistributes from the Poor to the Rich

The Georgia tax system is *regressive*, requiring low-income families to pay more of their income in state and local taxes than upper-income families must pay. A new ITEP analysis of non-elderly and elderly Georgians shows that in 2009, that the poorest Georgia families pay an average of 11.4 percent of their income in Georgia taxes, twice as high as the 5.7 percent of income that the very best-off 1 percent of Georgians must pay.[1] This upside-down pattern is common in state tax systems—but Georgia's tax system is somewhat more regressive than the typical state. ITEP's 2009 report, *Who Pays*, ranked Georgia as the nineteenth most regressive tax system in the nation. Among the main factors making Georgia's tax system unusually regressive are its relatively flat state income tax structure, its reliance on sales taxes, and the lack of a substantial refundable low-income tax credit such as an Earned Income Tax Credit.

When a tax system imposes higher effective tax rates on low-income families—while allowing the best-off taxpayers to pay much lower tax rates—it is effectively redistributing income away from poor families, and toward the best-off families. Georgia is no exception to this rule:

- The best-off 1 percent of Georgians enjoyed 16.7 percent of statewide income in 2009—but paid 11.4 percent of the Georgia taxes on Georgia residents.
- The middle 20 percent of Georgians earned 12.0 percent of statewide income, but paid 14.0 percent of the Georgia taxes.
- The poorest 20 percent of Georgians realized just 3.2 percent of statewide income—but paid 4.3 percent of the taxes falling on Georgians.
- As a group, the poorest 80 percent of Georgians enjoyed 42 percent of statewide income—and paid 49 percent of the taxes falling on Georgians.

[1] ITEP's November 2009 report, "Who Pays: A Distributional Analysis of the Tax Systems in All 50 States," presents similar results for non-elderly families only. Because the tax changes under consideration have a large effect on elderly families, we include them in the present analysis.

As a result, the impact of the Georgia tax system is to actually reduce low-income families' share of statewide income:

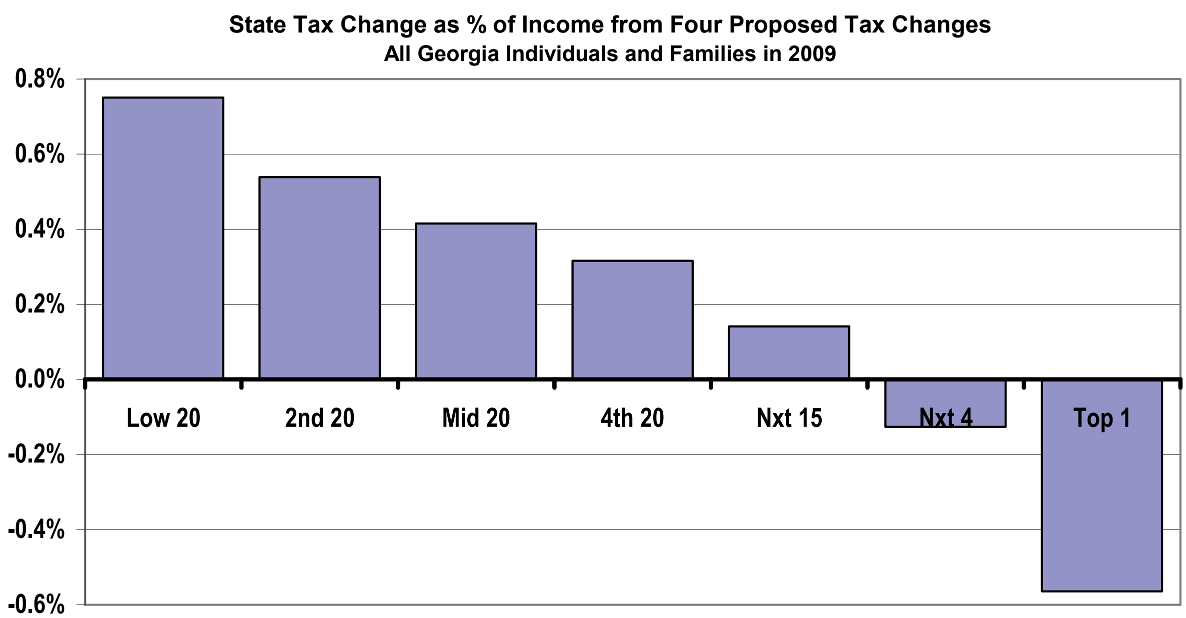
- Before taxes, the poorest 20 percent have 3.2 percent of statewide personal income—but their share of after-tax income is just 3.1 percent.
- Middle-income families have 12.0 percent of statewide pre-tax income, and 11.8 percent of after-tax income.
- The best-off 1 percent of Georgians enjoy 16.7 percent of pretax Georgia income, and 17.2 percent of after-tax income.

Likely 2010 Tax Changes Will Worsen This "Wealth Redistribution"

In the 2010 legislative session, the state legislature has ratified and sent to the governor (or is poised to ratify) a set of bills that would make Georgia's already-unfair tax system even more inequitable. These tax changes include:

- An exclusion for 50 percent of long-term capital gains income (no other state has a larger capital gains tax break);
- An exclusion for the retirement income, interest and dividends of senior citizens who have at least $35,000 of income from these sources ($70,000 for married couples);
- A provision taking away the "refundability" of the state's sole refundable low-income tax credit;
- A transportation funding plan that allows localities the option of raising the general sales tax (including the tax on groceries) by a penny. Our analysis assumes that all localities will take advantage of this option.

As the following chart shows, the net impact of these tax changes, if fully implemented in 2009, would be a substantial tax increase for the poorest ninety five percent of Georgians—and a tax cut for the best-off five percent.



These changes would make the Georgia tax system dramatically more unfair: if these four changes were fully implemented in tax year 2009, the total effective tax rate on low-income Georgians would be 12.2 percent, and would be 5.3 percent for the very best-off Georgia taxpayers. As a result, this change would exacerbate the income-redistributing tendencies of the current tax system. If these changes had been fully implemented in 2009, the best-off 1 percent of Georgians would have 16.7 percent of pre-tax income and 17.3 percent of the post-tax income.

While low- and middle-income families would see virtually no benefit from the new exclusion for capital gains and the expanded exclusion for retirement income, the new sales tax increase would fall most heavily on the below-poverty population. In sharp contrast to a growing nationwide trend, Georgia lawmakers have chosen not to take any steps to mitigate the impact of the sales tax hike with an Earned Income Tax Credit (EITC) or other targeted tax cut, and in fact have chosen to make this inequity even worse by taking away the one (comparatively small) refundable credit the state's income tax currently provides.

"Since President Ronald Reagan championed the EITC at the federal level, there has been a growing consensus that it makes no sense to tax poor families further into poverty," noted ITEP Executive Director Matthew Gardner. "Sadly, the Georgia legislature appears to believe President Reagan was wrong on this point."

Conclusion

Some members of the Georgia legislature have recently expressed their concern over the wealth-redistribution effects of the Georgia tax system. The state's small refundable low-income tax credit has even been referred to as "essentially welfare" for low-income families who are allegedly paying little or nothing in state taxes. Lawmakers are right to be concerned about the state tax system's impact on income inequality—but their understanding of the current state of affairs is exactly wrong. Under current law, the Georgia tax system actively redistributes income away from the poorest Georgia families and towards the best-off families. Put another way, income inequality in Georgia is made even worse by the state's tax system. And the collective impact of the tax changes awaiting the governor's signature would be to worsen this indefensible income shift.