



House Bill 1219 Singles Out the Poorest Georgians Fairer Tax Options Exist

The House Ways and Means Committee passed a substitute to House Bill 1219, inserting language to eliminate the refundable portion of the Low Income Tax Credit. Currently, taxpayers with income below \$20,000 are eligible for a tax credit ranging from \$5 to \$26 for individuals, with additional benefits for the elderly and families with children. If the tax credit exceeds a taxpayer's income tax liability, he receives the remaining credit as a refund.

More than 1 million Georgia taxpayers claimed the Low Income Tax Credit in 2007, receiving \$29 million in credits. If legislators eliminate the refundable portion of the credit, they will be cutting the Low Income Tax Credit by two-thirds, lowering the total credits to low-income Georgians by \$21.8 million, according to the fiscal note to the bill.

A Fairer Alternative

Many taxpayers with little to no income tax liability are seniors, since Georgia exempts Social Security income and \$35,000 of retirement income from taxation. If lawmakers wish to draw additional tax revenues from seniors, they should reduce the caps on the current retirement income exclusion rather than reduce the Low Income Tax Credit. For example, reducing the exclusion cap so that only the first \$30,000 of retirement income (instead of \$35,000) per spouse is exempt could raise similar revenues (about \$20 million) from the best-off seniors without imposing a dime of added tax on low-income seniors, as HB 1219 would do.

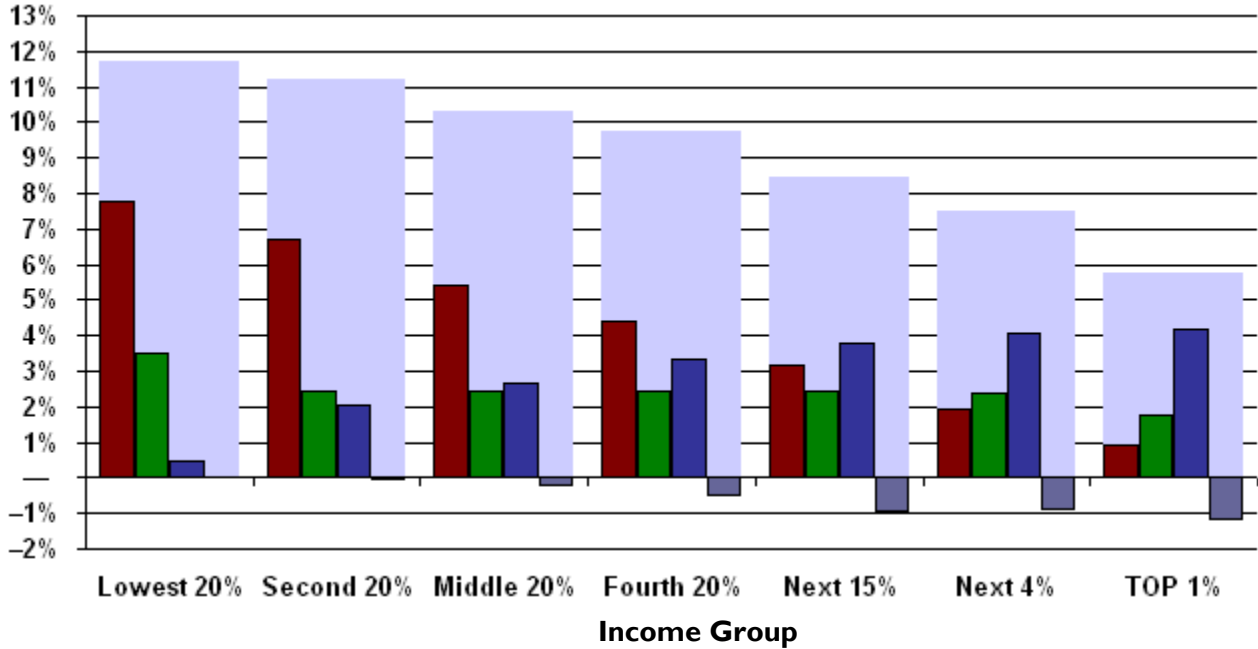
Why is the Credit Refundable?

The refundable portion of the Low Income Tax Credit is meant to offset some of the sales tax liability faced by low-income Georgians. In its current refundable form, the credit offsets a small fraction of sales tax liability for low-income taxpayers, making an overwhelmingly regressive tax somewhat less so.

Low-income taxpayers do not have a large income tax liability. Instead, they pay substantial sales taxes, since they consume a greater portion of their income than higher income residents do. Georgians earning less than \$16,000 pay 7.8 percent of their income on average in state and local sales and excise taxes, according to the Institute on Taxation and Economic Policy. In contrast, Georgians earning \$62,000 pay 4.4 percent and those earning over \$433,000 pay 0.9 percent on average in state and local sales and excise taxes (Chart 1).

Chart 1 Georgia State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



■ Sales & Excise ■ Property ■ Income ■ Federal Offset ■ Total (inc. Federal Offset)

Source: Institute on Taxation and Economic Policy, 2009

Are Other Tax Credits Refundable?

The Low Income Tax Credit is not the only refundable credit – it just happens to be the only one targeted to the very lowest-income taxpayers. The General Assembly has extended refundability to corporate income tax credits in recent years, allowing businesses to use corporate tax credits against employee payroll withholding when their corporate income tax liability is \$0. The refundable portion of Georgia’s corporate tax credits cost \$20.9 million in 2007, nearly matching the cost of the Low Income Tax Credit refunds, according to Department of Revenue data. This raises the question of why refundable credits are appropriate for Georgia's corporate community but not residents with the lowest incomes.

Conclusion

There is no doubt about the fact that Georgia desperately needs more revenues. However, there are many logical and fair options for seeking revenues, without focusing solely on those taxpayers who have the least ability to afford a tax increase now or even after the recession. Lawmakers should seek either broad-based revenue measures or those targeted at taxpayers with the greatest ability to afford it.

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