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CONSUMER'S SHARE OF GEORGIA'S GENERAL SALES TAX

Introduction

Economists argue that sales taxes should avoid taxing non-consumer purchases since that would lead to pyramiding of the sales tax (see Sjoquist and Wheeler, 2011). That point was reinforced by the Tax Reform Council (2011). This raises the question of what share of Georgia's sales tax is paid by consumers. The most recent estimate we are aware of is based on 1989 data. For that reason we estimate the proportion of Georgia's general sales tax paid by consumers.

Using the methodology described below, we calculate that in 2009, consumers paid approximately 60 percent of total revenue generated by Georgia's general sales tax at both the state and local government levels and 63 percent at just the state level.

These estimates are comparable to the 1989 estimate of 64 percent computed for Georgia's state sales tax in a multi-state study (Ring, 1999). It is more than an earlier estimate for 1979, which indicated that the consumer's share was 55 percent (Ring, 1989).

The remainder of the sales tax revenue is mainly from business purchases, which as noted above has implications for tax cascading – imposing a "tax more than once on the same piece of value added" (Graeser and Maury, 1992). A small portion comes from sales tax collected on purchases by nonprofit organizations, as well as nonresidents of Georgia. Since most, if not all government purchases are exempt from the sales tax, the proportion of the sales tax paid by government is expected to be very small.

General Methodology

In 2009, total sales tax revenue collected for the state of Georgia was $9,877.2 million. This represents $5,306.5 million collected by the state and $4,570.7 million collected by local governments (U.S. Bureau of the Census, 2009a; Morton et al., 2010). To determine what percentage of this was paid by consumers, we adopt the methodology of Ring (1989, 1999). We use information on average consumer spending in 2009 provided in the Consumer Expenditure Survey (CES) (U.S. Bureau of Labor Statistics, 2009). The CES gives, for "consumer units" decomposed by income class, average purchases of a fairly detailed list of various types of goods and services (food at home, food away from home, clothing, utilities, transportation, etc.). The average spending in each income class is multiplied by the corresponding number of Georgia households for each good or service to approximate total consumer expenditures by Georgia consumers. Information on the number of households is gathered from the 2010 U.S. Census data (U.S. Bureau of the Census, 2009b) which gives the number of households and of unrelated individuals in 2009-income classes for

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each state. Finally, to determine taxable expenditure, we use specific information on how Georgia defines the tax base of the general sales tax (including rates and exemptions). Details are summarized in Morton et al. (2010).

Advantages and Limitations

The methodology employed has several advantages which allow for a more accurate approximation of taxable consumer purchases. The CES disaggregates consumer spending into over 70 categories of goods and services purchased, which facilitates substantial refinement in determining the applicable tax rates and exemptions which define Georgia's sales tax base, both at the state and local government levels. Furthermore, this enables us to account for special excise taxes collected on alcoholic beverages, tobacco products and motor fuel, which are in addition to the general sales tax. Moreover, information garnered by using Georgia's income groupings is another major advantage of this method as it takes into account differences in spending patterns across the distribution of income.

One limitation of the data sources is that the CES uses "families and single consumers" to describe its basic consumer unit, whereas the Census uses "households and unrelated individuals." However, based on the descriptions in either source, the definitions are very similar, allowing the two data sources to be combined (Ring, 1989). Another limitation is that spending information in the CES contains sales and excise taxes; without adjustment we would overestimate the consumer's part of the sales tax base. To account for the over-estimate, we divide the calculated sales tax base for each item by one plus the applicable sales tax rate, which is 4 percent at the state level and an additional accumulated 2.8 percent levied by various county and municipal governments.[1]

A more significant shortcoming is the fact that the CES is known to under-report consumer spending, which would in turn under-estimate the share of sales taxes paid by consumers. It is not immediately obvious how to address this problem and thus our estimates should be regarded more as lower bounds. Another problem is the lack of state-specific CES data, which forces us to attribute national spending patterns to each state. Regional CES spending data is available, but it is not clear that regional averages approximate individual state's spending any better than do national averages (Ring, 1989). CES spending averages for the Southern region take into account a lower cost of living and larger average family sizes.[2] When CES data on average household expenditure for the South is used, the resultant estimate for the share of the sales tax paid by consumers is reduced to 56 percent at the state and local government level; and 59 percent at the state level only.

Notes

1. According to the Georgia Department of Revenue, the cumulated general sales tax rate levied by state and local governments in 152 out of 159 counties is 7 percent. The remaining seven counties have sales tax rates of 6 percent. In addition, the City of Atlanta levies an extra 1 percent municipal sales tax. Since the data we have is not disaggregated by counties, we use the weighted average local sales tax rate of 2.8 percent in the calculations and divide by 1.068.

2. To account for a generally lower cost of living in the South, the CES adjusts the national average consumption by 0.933. To account for larger family sizes, the adjustment factor is 1.32.

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