

February 24, 2016

# Fiscal Research Center

---

**Analysis of The Tax Relief Act of 2016**  
Presentation to the Senate Finance Committee

**Robert D. Buschman, Ph.D.**

# Analysis of the Tax Relief Act of 2016

## **NOTE:**

Estimates presented herein do not constitute a fiscal note. Fiscal notes are issued only by the Department of Audits and the Office of Planning and Budget.

Any opinions expressed are solely my own and not those of the Fiscal Research Center. Errors and omissions are also solely my own.

# Analysis of the Tax Relief Act of 2016

## *Personal Income Tax Reforms*

- Reduce the maximum statutory tax rate and simplify the tax structure by:
  - Shifting from a graduated to a flat rate structure and
  - Limiting itemized deductions.
- Offset effective rate increase on income taxed at lower rates under current law by increasing personal and dependent exemptions.

## *Other Provisions*

- Elimination of the Corporate Net Worth Tax

# Analysis of the Tax Relief Act of 2016

## *Corporate Net Worth Tax*

- Applies to all corporations organized or doing business in the state, excluding non-profits and insurance companies separately taxed.
- Filed and paid with Corporate Income Tax.
- Graduated tax based on corporate net worth, with a minimum tax of \$10 and a maximum tax of \$5,000 annually.
- 68% of corporations pay <\$100, 79% pay <\$250, and fewer than 2% pay \$5,000.

# Analysis of the Tax Relief Act of 2016

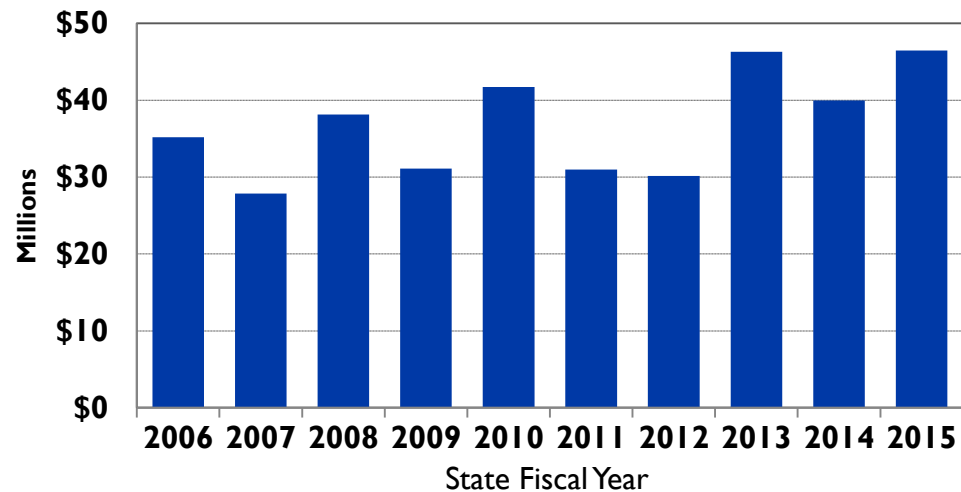
## *Corporate Net Worth Tax*

- Pros:
  - Serves as a minimum tax on corporations organized or doing business in Georgia.
- Cons:
  - Determination of tax requires apportionment of assets as well as sales; CIT use a single sales factor.
  - Increases the cost of doing business, investing, and locating assets in the state.
  - Raises limited revenue; volatile; relatively slow-growing (2.2% p.a. since FY 2010 vs. 6.2% for all taxes).

# Analysis of the Tax Relief Act of 2016

## Corporate Net Worth Tax

- Annual State Revenues



Source: Georgia Department of Revenue

- Would be repealed effective January 1, 2017.
- Revenue loss \$47 million in FY 2018.

# Analysis of the Tax Relief Act of 2016

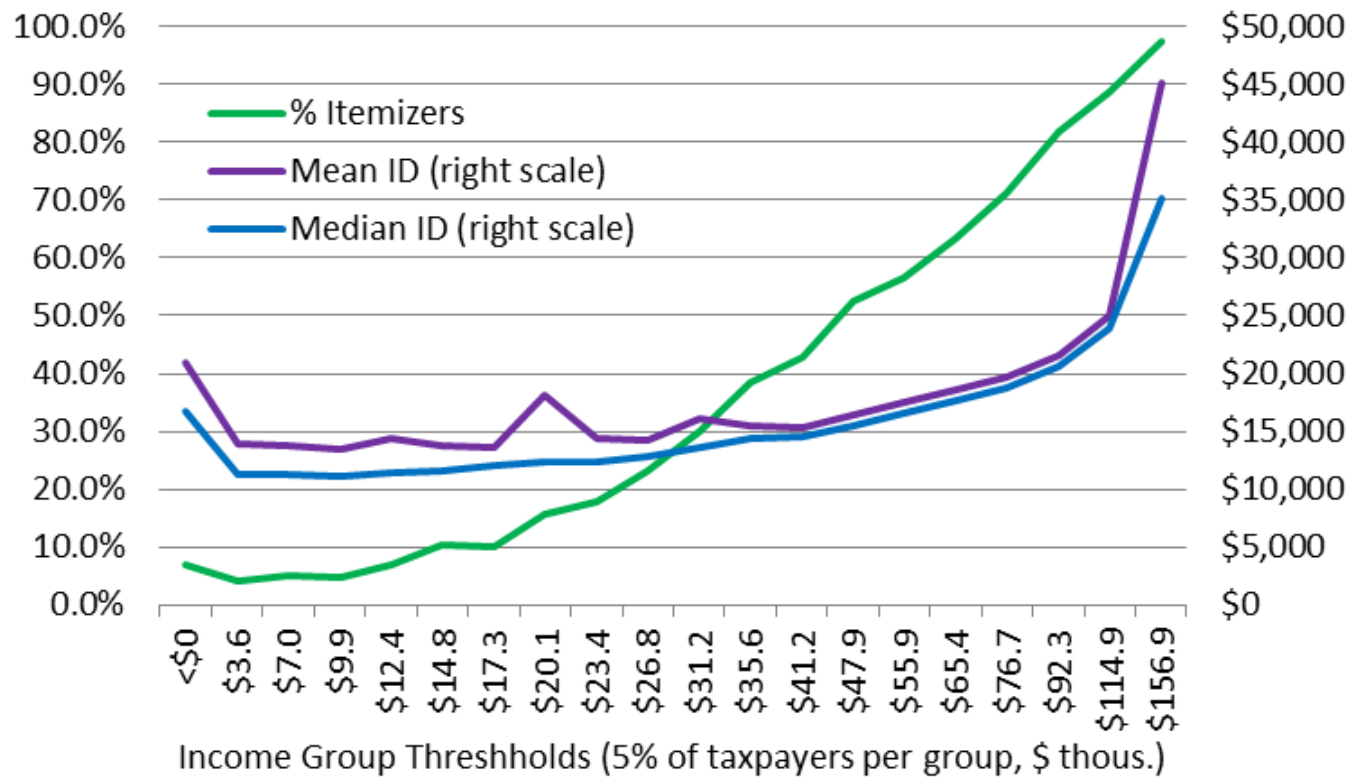
## *Personal Income Tax Reforms*

- Replace graduated rates with a 5.4% flat rate.
  - Revenue- and distributionally-neutral flat rate  $\approx$  5.5%, when combined with the other changes.
- Limited itemized deductions, allowing only
  - mortgage interest (capped at \$25,000),
  - charitable contributions, and
  - medical expenses.
- Increase personal and dependent exemptions by \$2,000 each.

# Analysis of the Tax Relief Act of 2016

## Personal Income Tax Reforms

### ■ Who itemizes deductions?



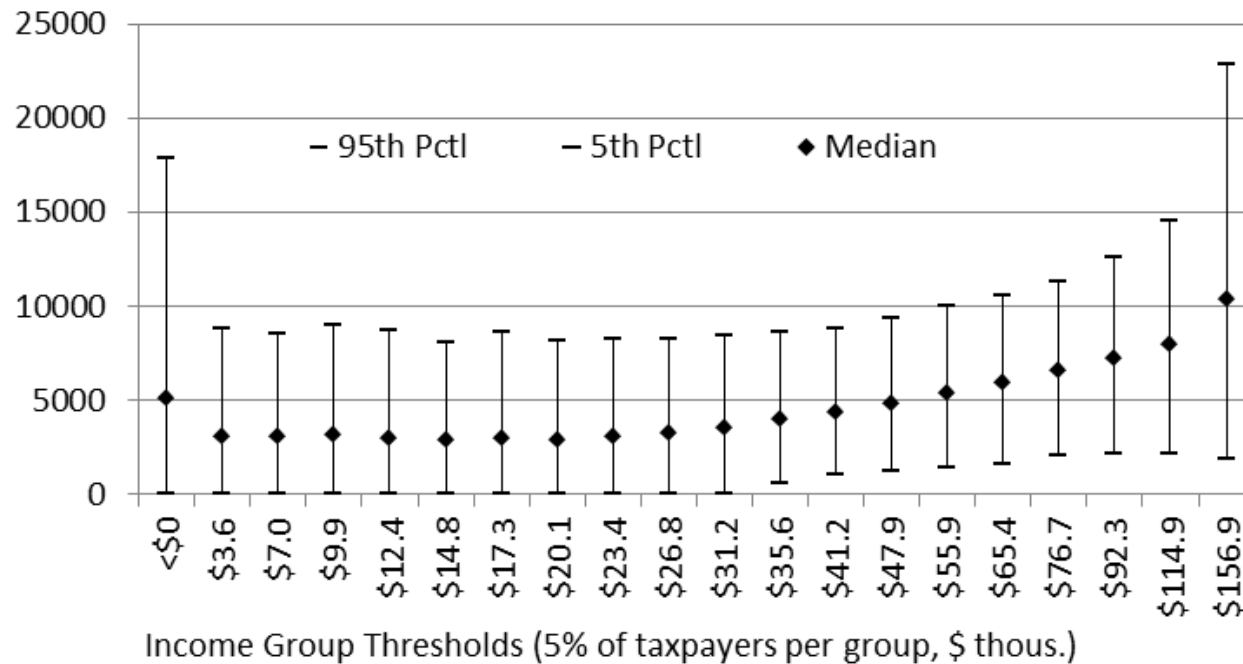


# Analysis of the Tax Relief Act of 2016

## Personal Income Tax Reforms

- Mortgage interest deductions

### Total Mortgage Interest

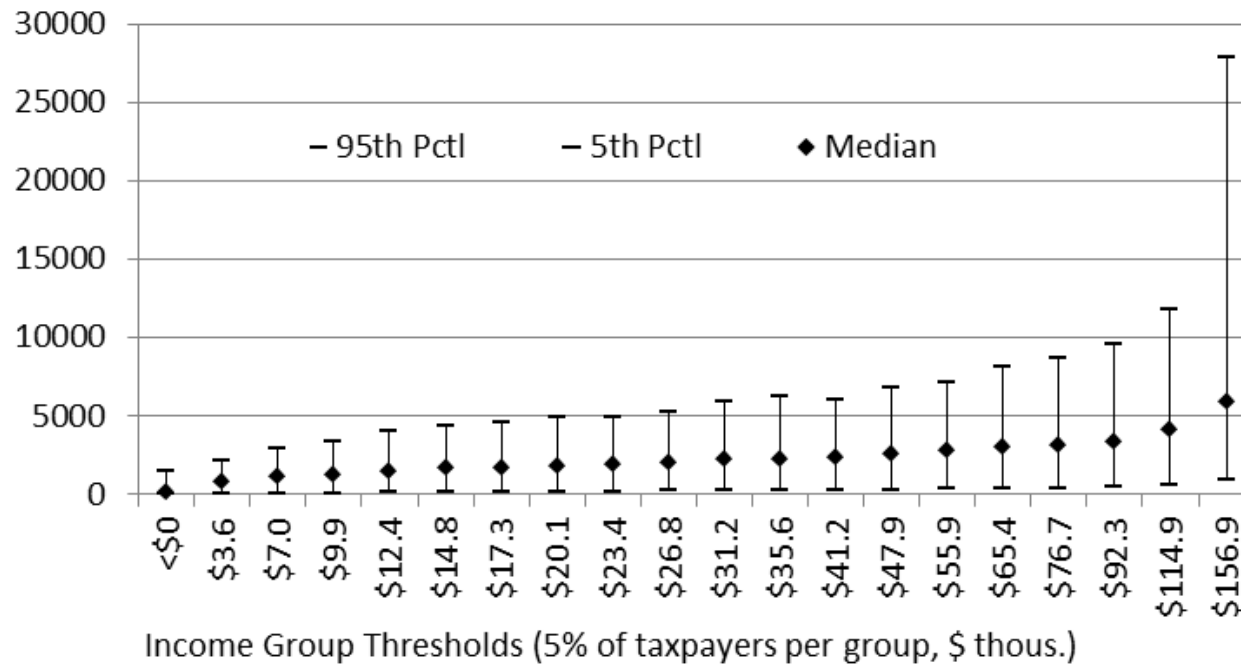


# Analysis of the Tax Relief Act of 2016

## Personal Income Tax Reforms

- Charitable deductions

### Total Charitable Deductions

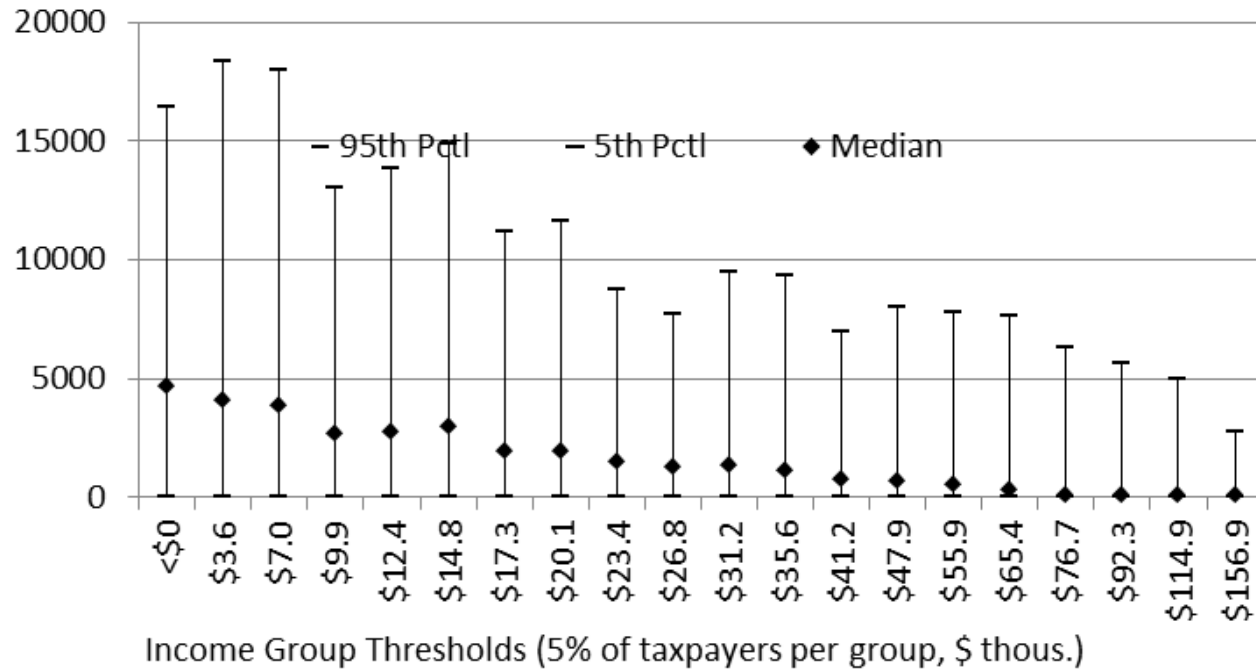


# Analysis of the Tax Relief Act of 2016

## Personal Income Tax Reforms

- Medical deductions

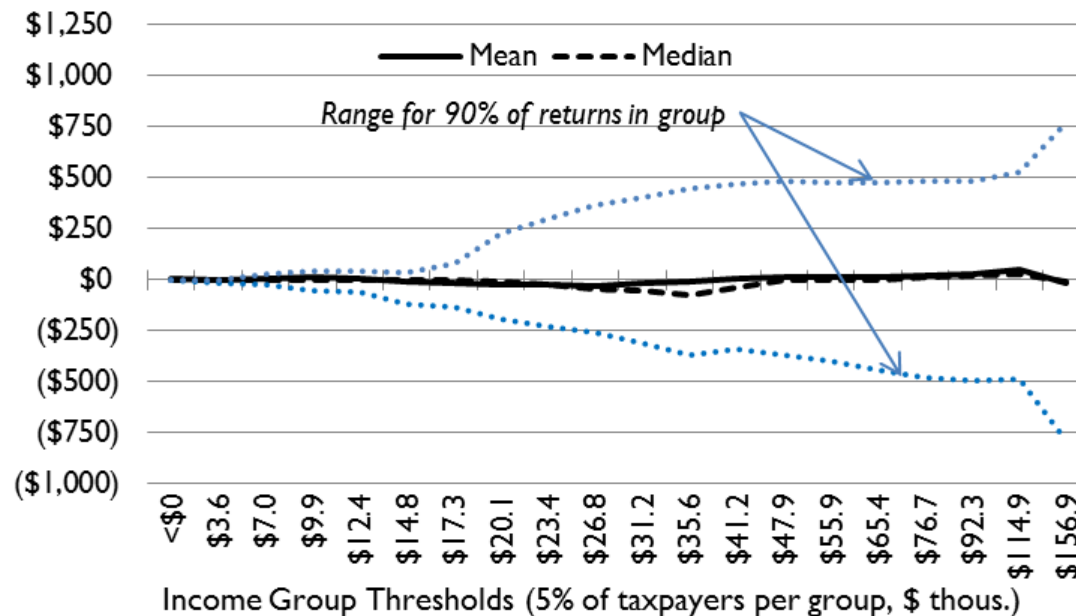
### Total Medical Deductions



# Analysis of the Tax Relief Act of 2016

## Personal Income Tax Reforms

- “Neutral” 5.50% case change in tax liability



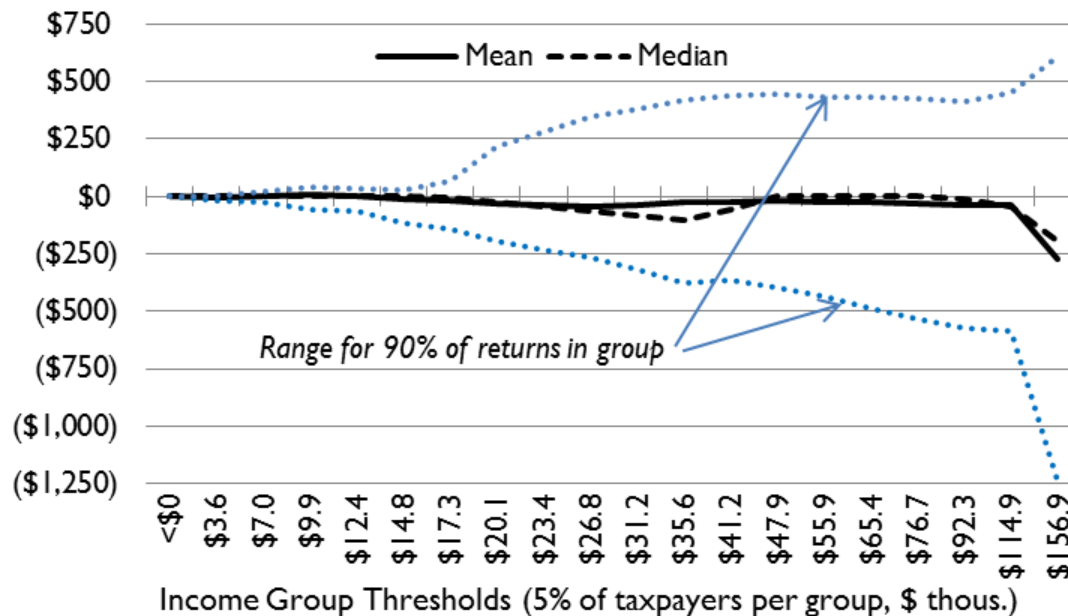
- All taxpayers mean change\*: **-\$0.63**; median: **\$0**

\* Tax year 2012 changes.

# Analysis of the Tax Relief Act of 2016

## Personal Income Tax Reforms

- Proposed 5.40% rate change in tax liability



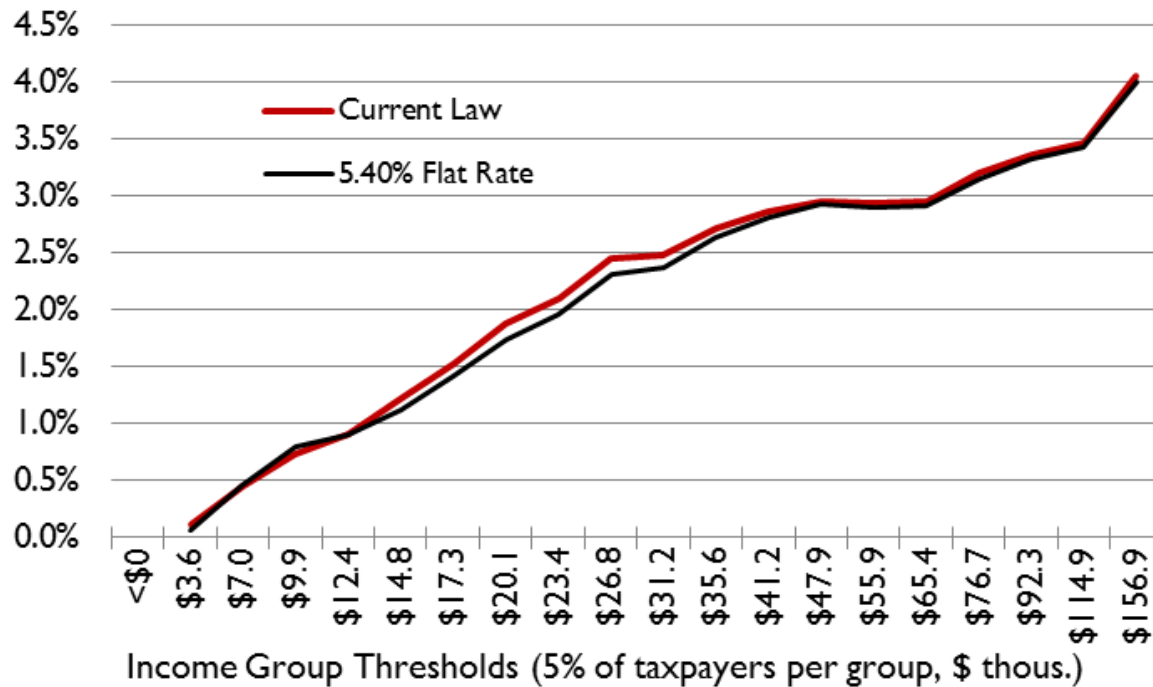
- All taxpayers mean change\*: **-\$34**; median: **-\$1**

\* Tax year 2012 changes.

# Analysis of the Tax Relief Act of 2016

## Personal Income Tax Reforms

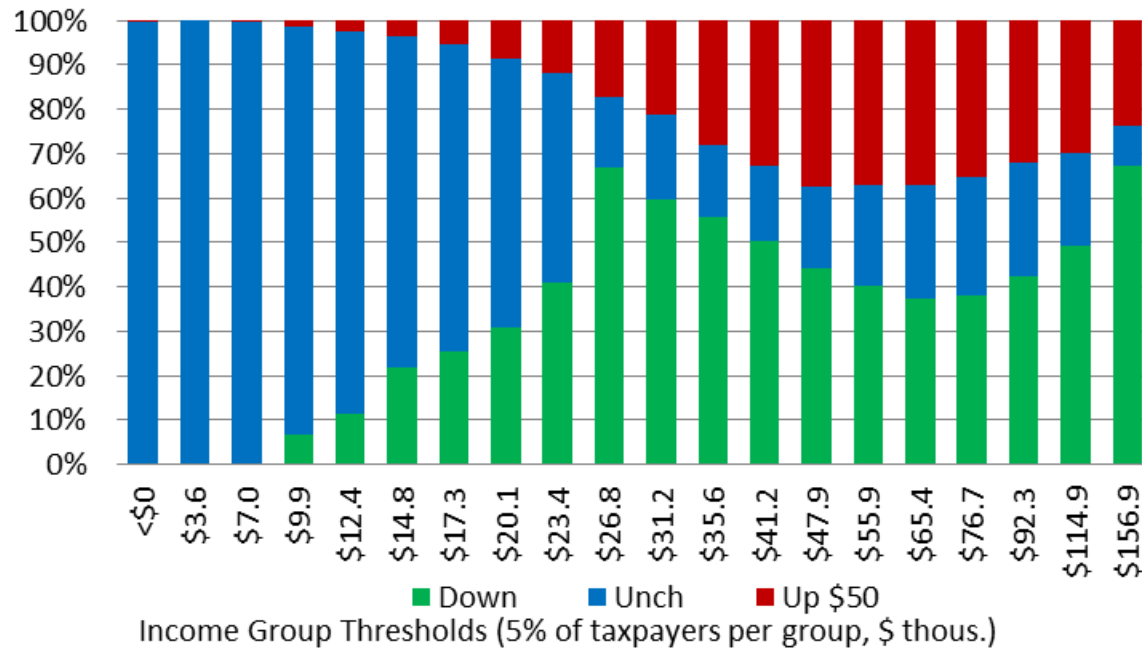
- Average Effective Tax Rates (AETR)  
Tax Net of Credits / Total Income



# Analysis of the Tax Relief Act of 2016

## Personal Income Tax Reforms

- Shares of taxpayers paying at least \$50 more (Up) or \$50 less (Down) versus current law:



# Analysis of the Tax Relief Act of 2016

## Summary of State Revenue Effects

<i>(\$ millions)</i>	<b>FY2017</b>	<b>FY2018</b>	<b>FY2019</b>	<b>FY2020</b>	<b>FY2021</b>
Income Tax Changes	(\$97)	(\$218)	(\$229)	(\$240)	(\$251)
Added Sales Tax Collections	\$1	\$2	\$2	\$2	\$3
CNWT Repeal	(\$13)	(\$47)	(\$48)	(\$49)	(\$50)
Total Revenue Effect	(\$109)	(\$263)	(\$274)	(\$286)	(\$299)