Fiscal Research Center

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

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Analysis of the Tax Relief Act of 2016

**NOTE:**

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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
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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**

  ![Bar Chart]

  Source: Georgia Department of Revenue

- Would be repealed effective January 1, 2017.
- Revenue loss $47 million in FY 2018.
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Personal Income Tax Reforms

- Replace graduated rates with a 5.4% flat rate.
  - Revenue- and distributionally-neutral flat rate ≈ 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.
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Personal Income Tax Reforms

- Who itemizes deductions?

![Graph showing the percentage of itemizers and mean and median income deductions by income group thresholds.](image)
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Personal Income Tax Reforms

- Mortgage interest deductions

Total Mortgage Interest

Income Group Thresholds (5% of taxpayers per group, $ thous.)
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Personal Income Tax Reforms

- Charitable deductions

Total Charitable Deductions

- 95th Pctl
- 5th Pctl
- Median

Income Group Thresholds (5% of taxpayers per group, $ thous.)
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Personal Income Tax Reforms

- Medical deductions

**Total Medical Deductions**

Income Group Thresholds (5% of taxpayers per group, $ thous.)
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Personal Income Tax Reforms

- "Neutral" 5.50% case change in tax liability

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

* Tax year 2012 changes.
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Personal Income Tax Reforms

- Proposed 5.40% rate change in tax liability

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

* Tax year 2012 changes.
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Personal Income Tax Reforms

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

![Graph showing average effective tax rates (AETR) with Income Group Thresholds (5% of taxpayers per group, $ thousands).]
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

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