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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:

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.

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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

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

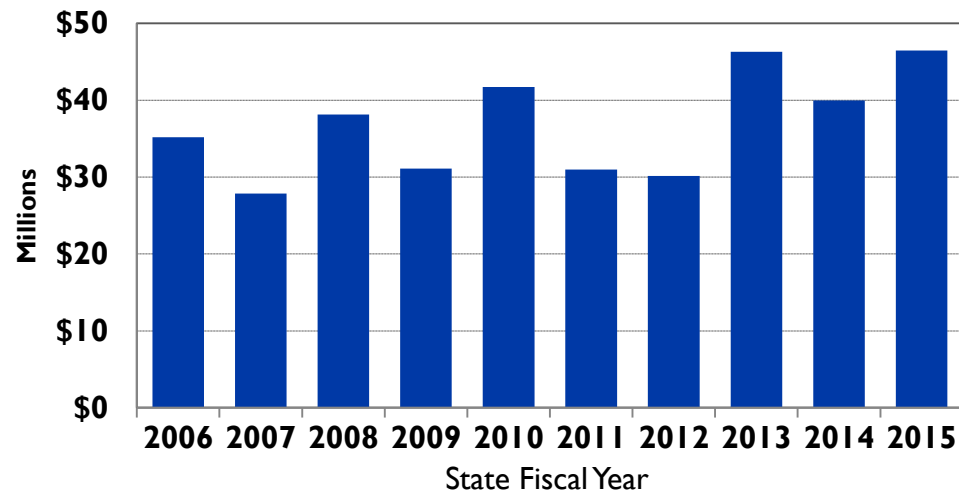
Corporate Net Worth Tax

- 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- Would be repealed effective January 1, 2017.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

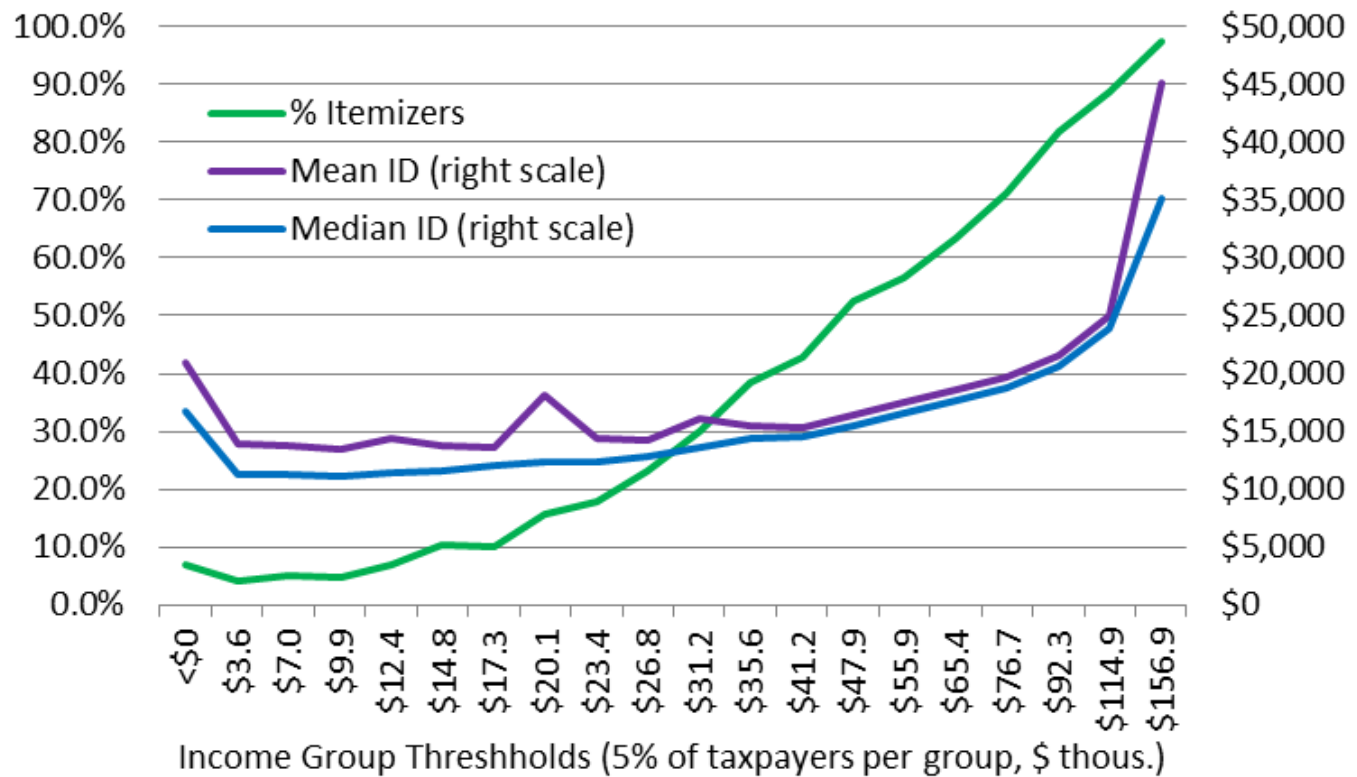
Personal Income Tax Reforms

- 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?

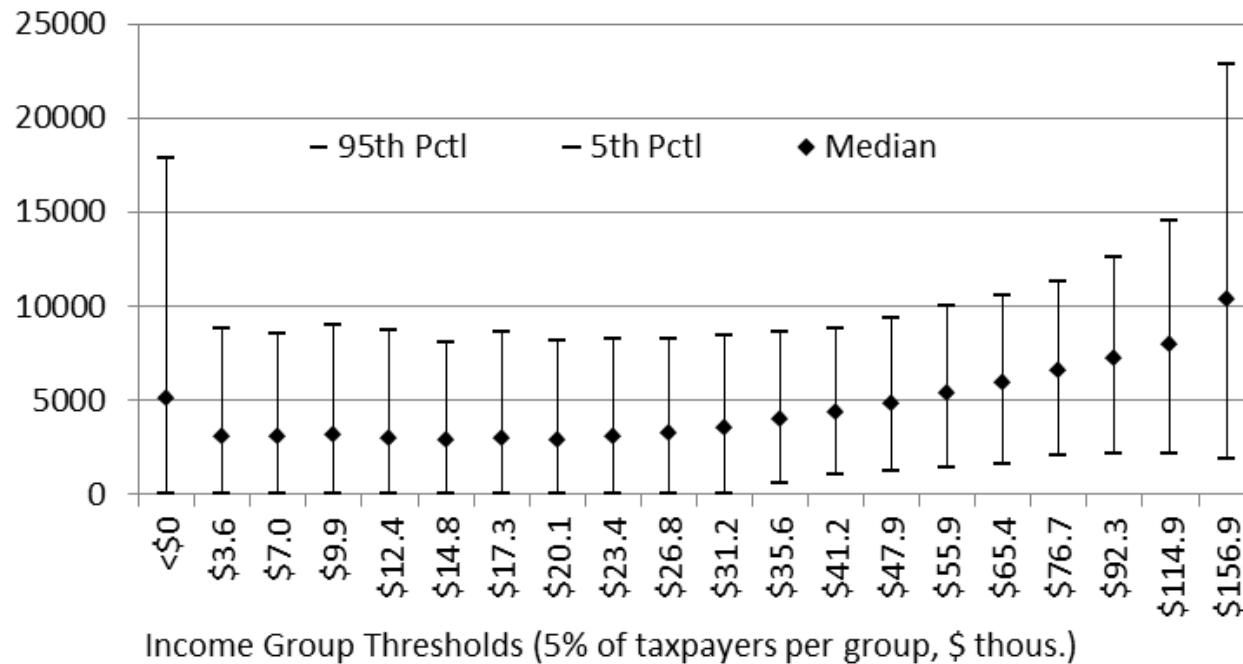


Analysis of the Tax Relief Act of 2016

Personal Income Tax Reforms

- Mortgage interest deductions

Total Mortgage Interest

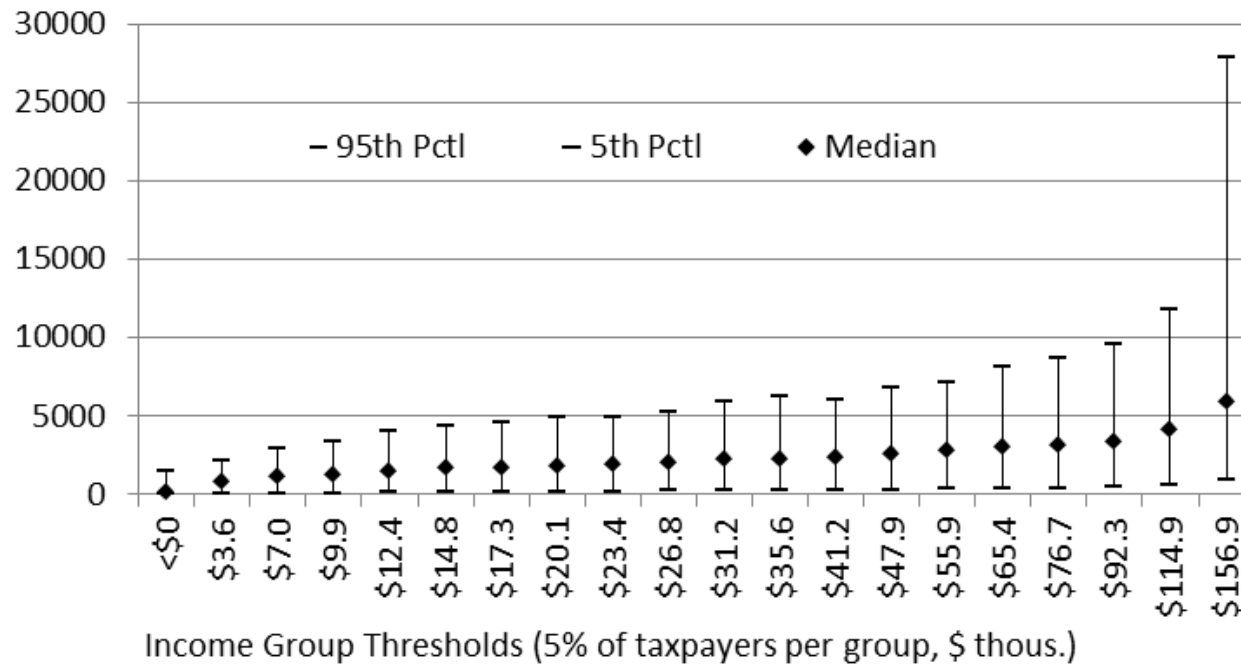


Analysis of the Tax Relief Act of 2016

Personal Income Tax Reforms

- Charitable deductions

Total Charitable Deductions

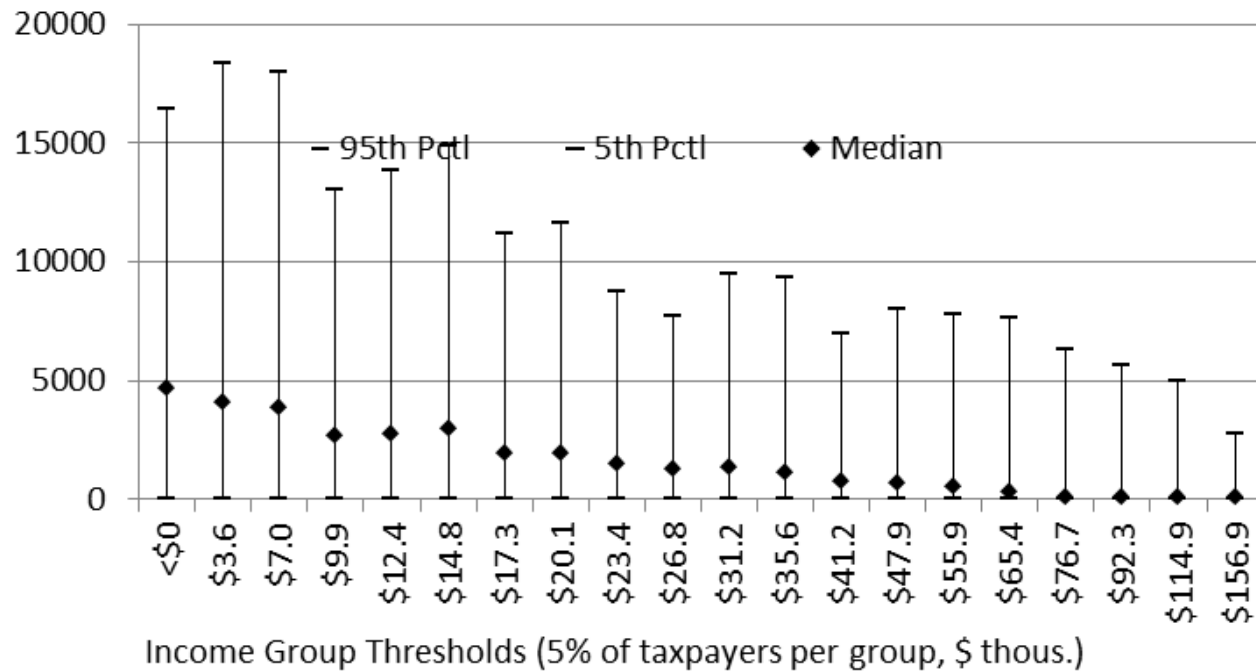


Analysis of the Tax Relief Act of 2016

Personal Income Tax Reforms

- Medical deductions

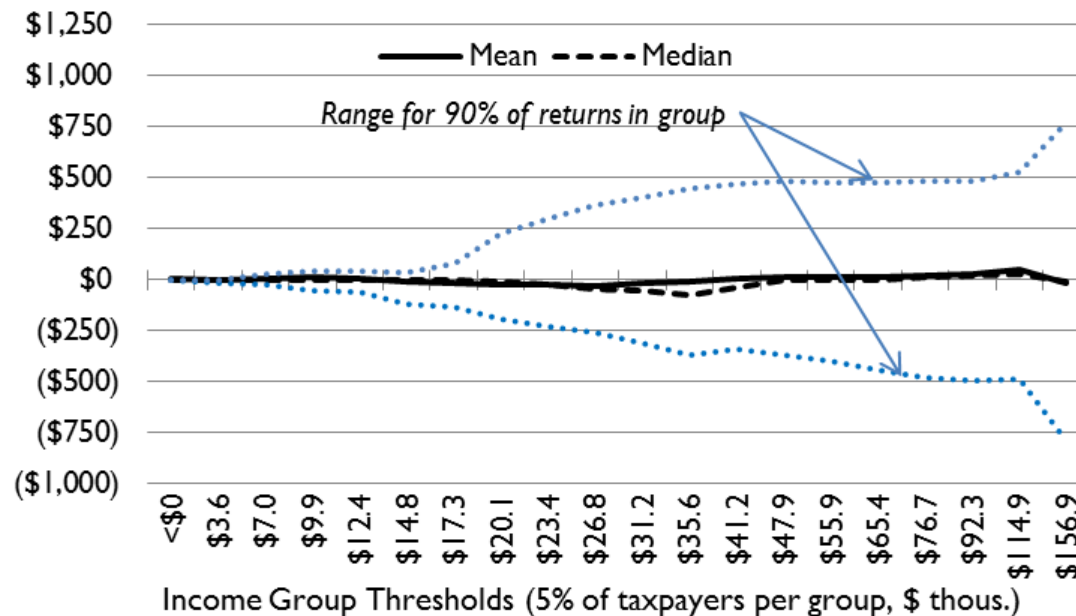
Total Medical Deductions



Analysis of the Tax Relief Act of 2016

Personal Income Tax Reforms

- “Neutral” 5.50% case change in tax liability



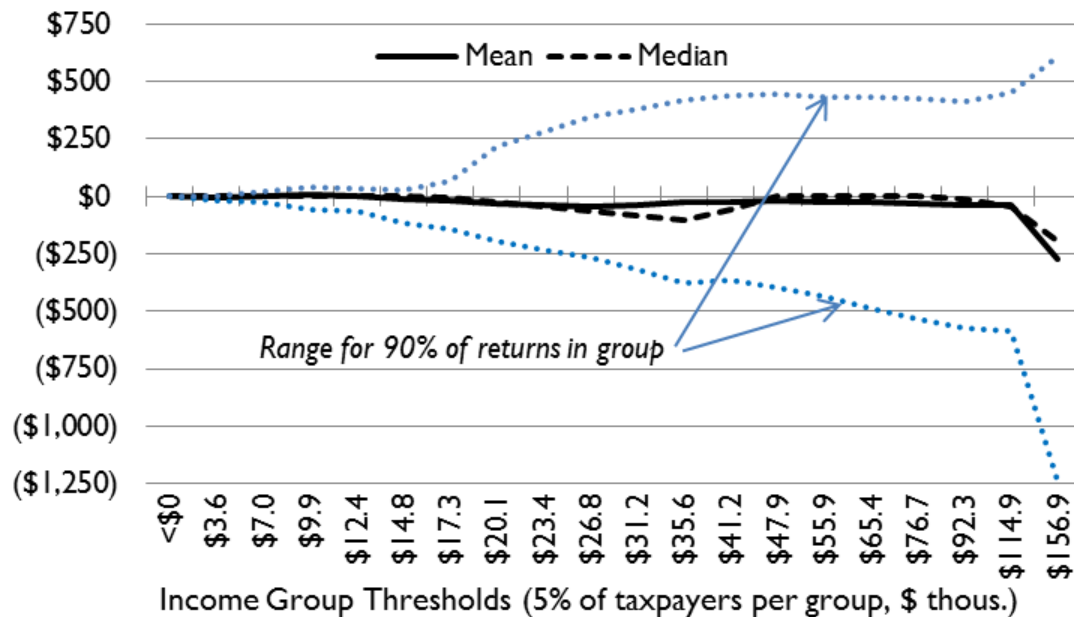
- All taxpayers mean change*: **-\$0.63**; median: **\$0**

* Tax year 2012 changes.

Analysis of the Tax Relief Act of 2016

Personal Income Tax Reforms

- Proposed 5.40% rate change in tax liability



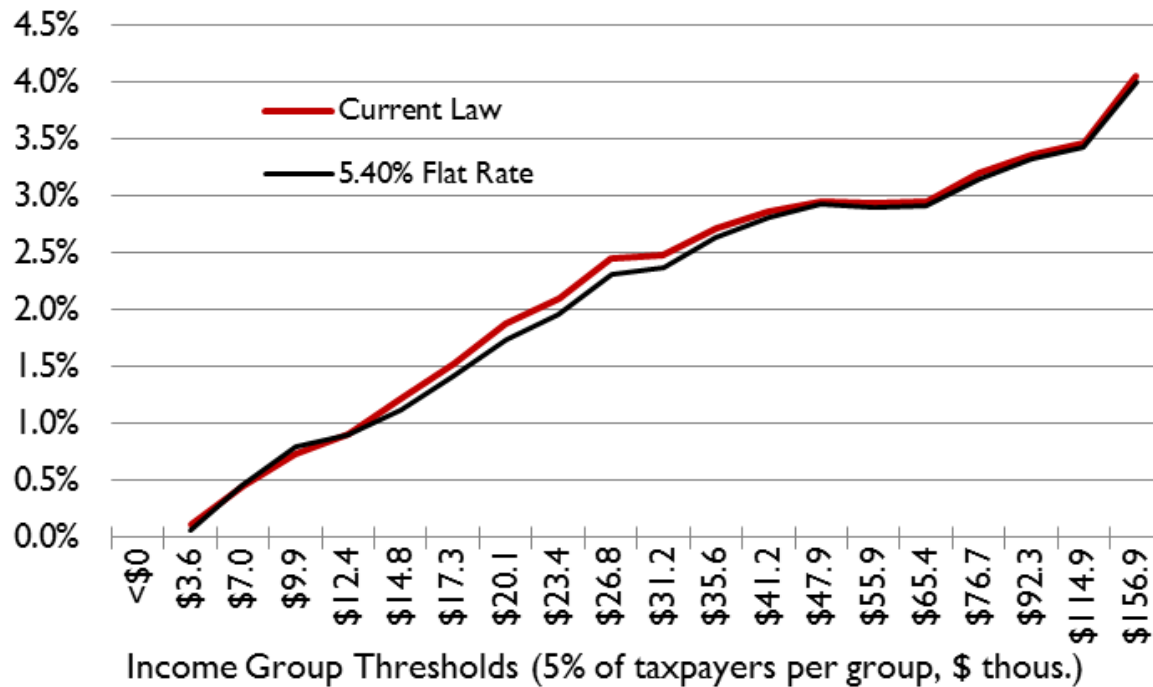
- All taxpayers mean change*: **-\$34**; median: **-\$1**

* Tax year 2012 changes.

Analysis of the Tax Relief Act of 2016

Personal Income Tax Reforms

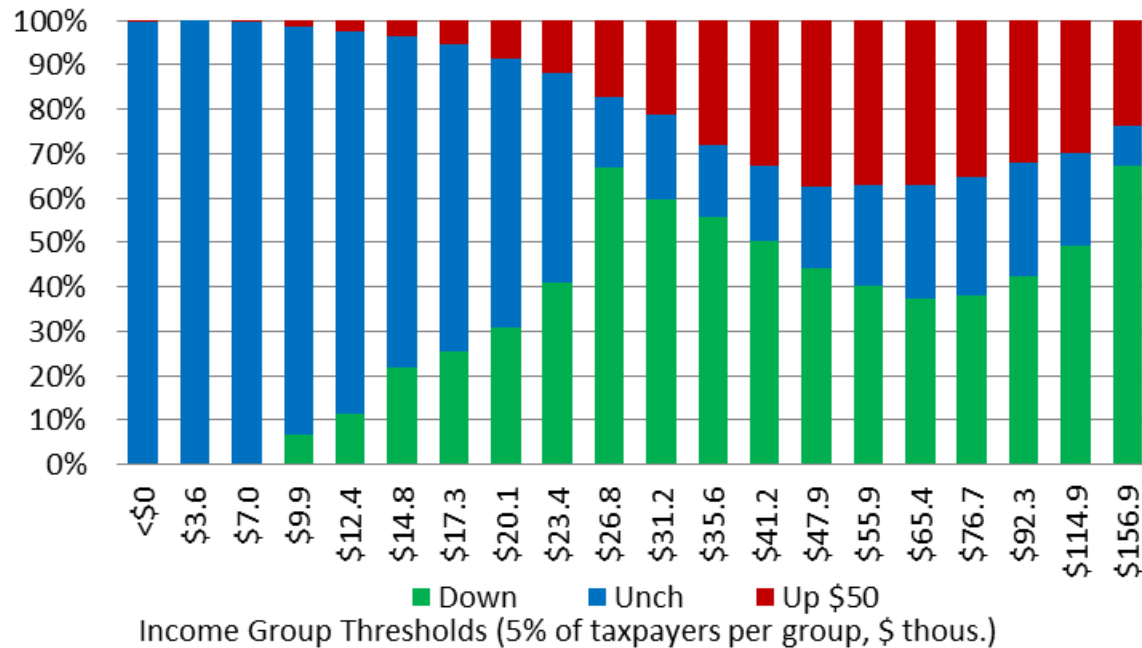
- Average Effective Tax Rates (AETR)
Tax Net of Credits / Total Income



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>	FY2017	FY2018	FY2019	FY2020	FY2021
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)