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Georgia's Tax System: A Factual Foundation for Fundamental Tax Reform

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As policymakers begin the 2007 legislative season, it is evident that tax policy will be one of the major policy items on the agenda. Several leading elected officials have recently offered their own tax reform plans, and these will be among the options considered by the legislature during this year's session. One tax reform plan would eliminate the statewide income tax; another would eliminate the state property tax; and others would make smaller changes, such as reducing taxes for seniors and cutting the "car tag tax."

However, before lawmakers proceed to consider possible changes to the tax structure, it is important to examine how Georgia's tax system ranks when compared to other states - especially contiguous states that compete with Georgia in today's competitive economic environment.

Georgia's Tax Burden
In both real and comparative terms, Georgia's state and local tax burden has increased substantially since 1970. By "burden" we mean the fraction of state income taken by taxes of any kind. Georgia's 2006 tax burden of 10.4 percent of income is average and ranks 25th nationally. However, when compared regionally, taxpayers pay the second highest tax burden among bordering states - only residents of North Carolina pay more at 10.5 percent (see Table 1).

Table 1. Georgia's State-Local Tax Burden Has Increased Since 1970

State	2006 Burden	2006 Rank (1 is highest)	1970 Burden	1970 Rank (1 is highest)
North Carolina	10.5%	23	8.7%	37
Georgia	10.4%	25	8.7%	41
South Carolina	10.2%	30	8.5%	43
Florida	9.7%	39	8.8%	36
Alabama	8.8%	46	8.2%	46
Tennessee	8.6%	47	8.7%	40

Source: Tax Foundation, based on data from Bureau of Economic Analysis, Dept. of Commerce. See http://www.taxfoundation.org/taxdata/show/336.html

In 1970, Georgia's tax burden ranked among the lowest nationally, and in the lower-tax South, it was "middle of the pack" in 1970. It is interesting to note the historical perspective offered by Florida and Tennessee. Over the period analyzed, those two states exhibited an ability to retain a steady, but below-average tax burden. They are also the only states in the region that that do not have a statewide income tax.

Table 2. Georgia Tax Rankings at a Glance

From the Tax Foundation (2006)		
Tax Freedom Day 2006	April 22nd	(25th latest)
Federal Tax Burden	20.20%	(25th highest)
State and Local Tax Burden	10.40%	(25th highest)
From the Census Bureau (2004)		
Personal Income Tax Collections Per Capita	$766	19th highest
Corporate Income Tax Collections Per Capita	$55	39th highest
Sales Tax Collections Per Capita	$796	24th highest
Property Tax Collections Per Capita	$880	34th highest

Georgia's Tax Structure

Often, policymakers concentrate a large portion of their attention on their state's tax burden, which is the percentage of income that individuals pay in taxes. Because state tax systems diverge so widely, tax burden data does indeed provide a valuable basis for comparison. However, tax burden data does not offer policymakers specific guidance about which taxes should be reduced if the tax burden is deemed to be too high.

Therefore, when seeking to create sound tax policy at the state level, analyzing tax burdens exclusively is not sufficient. Evaluating state tax structures is also a fundamental tool to produce good public policy.

Table 3. Major Tax Rates in Georgia and Surrounding States

State	Corporate Income Tax	Individual Income Tax	Sales and Use Tax	Weighted Average of Local Sales Tax Rates	Capital Stock Tax
Florida	5.50%	None	6.00%	0.45%	None
Tennessee	6.50%	None*	7.00%	3.41%	0.250%
Georgia	6.00%	6.00%	4.00%	1.10%	0.023%
Alabama	6.50%	5.00%	4.00%	2.67%	0.175%
North Carolina	6.90%	8.00%	4.25%	2.56%	0.150%
South Carolina	5.00%	7.00%	5.00%	0.48%	0.100%
* Tennessee has no tax on wage income but does tax interest and dividend income at a six percent rate.					

Source: Tax Foundation; Commerce Clearing House

The 2007 *State Business Tax Climate Index* is a helpful tool for policymakers to use when analyzing state tax structures. The *Index* compares the states in five areas that impact business: individual income taxes; sales taxes; corporate taxes; unemployment insurance taxes; and taxes on property, including residential and commercial property. Each year the Tax Foundation publishes this comprehensive study of the 50 state tax systems as a guide to lawmakers who wish to make their state's business tax climate more competitive in the regional, national and international marketplace.

Table 4. Georgia's Rankings in the 2007 *State Business Tax Climate Index* (1 is best, 50 worst)

State	Overall Business Tax Climate Ranking	Component Indices				
		Corporate Tax Index	Individual Income Tax Index	Sales Tax Index	Unemployment Insurance Tax Index	Property Tax Index
Florida	5	14	1	17	3	31
Tennessee	18	12	8	48	33	37
Georgia	19	6	22	7	32	23
Alabama	20	21	20	21	8	15
South Carolina	26	11	26	9	43	28
North Carolina	40	25	43	42	4	38

Source: Tax Foundation's *2007 State Business Tax Climate Index*

The 2007 *Index* gives Georgia's tax structure a slightly above-average score, placing it 19th best nationally and 3rd in its region (see Table 4). Georgia received excellent marks for its corporate tax system and its sales tax, while receiving less competitive marks for its individual income tax, unemployment insurance tax and taxes on wealth.

Even though the 2007 *Index* does not give Georgia's tax system extremely poor marks in any one area, lawmakers should certainly be looking at ways to improve the state's business tax climate for the future. Georgia's neighbor to the south perennially has one of the most competitive business tax climates in the nation. Florida enjoys this advantage primarily because it manages without taxing personal income, yet its other taxes are still competitive.

The Principles of Taxation

When considering large changes to Georgia's tax system, it is also important to review some general principles of sound tax policy:

1) *Simplicity*: The tax system should be simple, easy to understand, and not impose excessive compliance burdens on taxpayers.

2) *Transparency*: Taxes should be visible to taxpayers, who should easily be able to understand who and what is being taxed.

3) *Stability*: Tax law should not change continually, and changes in tax law should not be retroactive.

4) *Neutrality*: Taxes should aim to raise revenue with a minimum of economic distortion, and should not attempt to micromanage the economy.

5) *Growth promotion*: Taxes should raise revenue for programs while consuming as small a portion of national income as possible, and should interfere with economic growth as little as possible.

Conclusion

If Georgia is to compete with the likes of Florida for new business investment, lawmakers must seriously consider fundamental tax reform. Not all "tax reform" is created equally. While lawmakers are considering tax changes during the 2007 legislative session, they should continually adhere to the principles of sound tax policy to maximize the economic benefits of tax reform in Georgia.

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