

# **Georgia Taxes Hit Poor & Middle Class Much Harder than the Wealthy**

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Low- and middle-income families in Georgia pay a much higher share of their income in state and local taxes than do the richest Georgians, according to a new study by the Institute on Taxation & Economic Policy.

“State and local governments are being called upon to take on more and more responsibilities,” said Robert S. McIntyre, ITEP’s tax policy director and lead author of the study, titled *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*. “Unfortunately, when it comes to paying for services, Georgia has an unfair tax system.”

## **Georgia’s Tax Code: Tax the Poor & Middle Class More Than the Wealthy**

When all Georgia taxes are totaled up, the study found that:

- The state and local tax rate on the best off one percent of Georgia families—with average incomes of \$995,000—is 7.5% before accounting for the tax savings from federal itemized deductions. After the federal offset, the effective tax rate is only 5.4%.
- The average tax rate on families in the middle of the income distribution—those earning between \$26,000 and \$41,000—is 10.6% before the federal offset and 10.3% after, nearly twice the effective rate the richest pay.
- But the tax rate on the poorest Georgia families—those earning less than \$15,000—is the highest of all. At 11.9%, it more than doubles the effective rate on the very wealthy.

“Georgia’s income tax fails to offset the regressivity of its sales and excise taxes, giving the state a regressive tax system,” McIntyre said. “Taxes ought to be based on people’s ability to pay them, which means that the share of income paid in taxes should rise as income grows, not fall as is the case in Georgia.”

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## Tax Regressivity Has Grown Since 1989

The study also examined the impact of changes in the regressivity of Georgia taxes since 1989, when the last cycle of state government shortfalls began. The study's findings include:

- Tax burdens rose on low- and middle-income families and dropped for the highest-income families.
- Exempting groceries from the sales tax, a progressive change, did not offset rising property tax burdens.

"Low- and middle-income taxpayers in Georgia continue to shoulder the highest tax burdens in the state," said McIntyre. "As lawmakers consider budget-balancing strategies in 2003, they should remember that their past actions have served to shift a greater share of the tax burden onto low-income taxpayers."

### **Two pages of tables detailing the Georgia findings of the study follow**

The Institute on Taxation and Economic Policy is a nonpartisan Washington-based research group. The full *Who Pays?* report is available in PDF format at [www.itepnet.org](http://www.itepnet.org). Printed copies can be ordered by calling ITEP at 202-737-4315.

*Who Pays?* examines the tax systems of all 50 states and the District of Columbia, using the Institute on Taxation & Economic Policy Microsimulation Tax Model. The ITEP Model is similar in methodology and data sources to the elaborate computer models used by the U.S. Treasury and the congressional Joint Committee on Taxation, except that the ITEP Model adds state-by-state estimating capabilities.

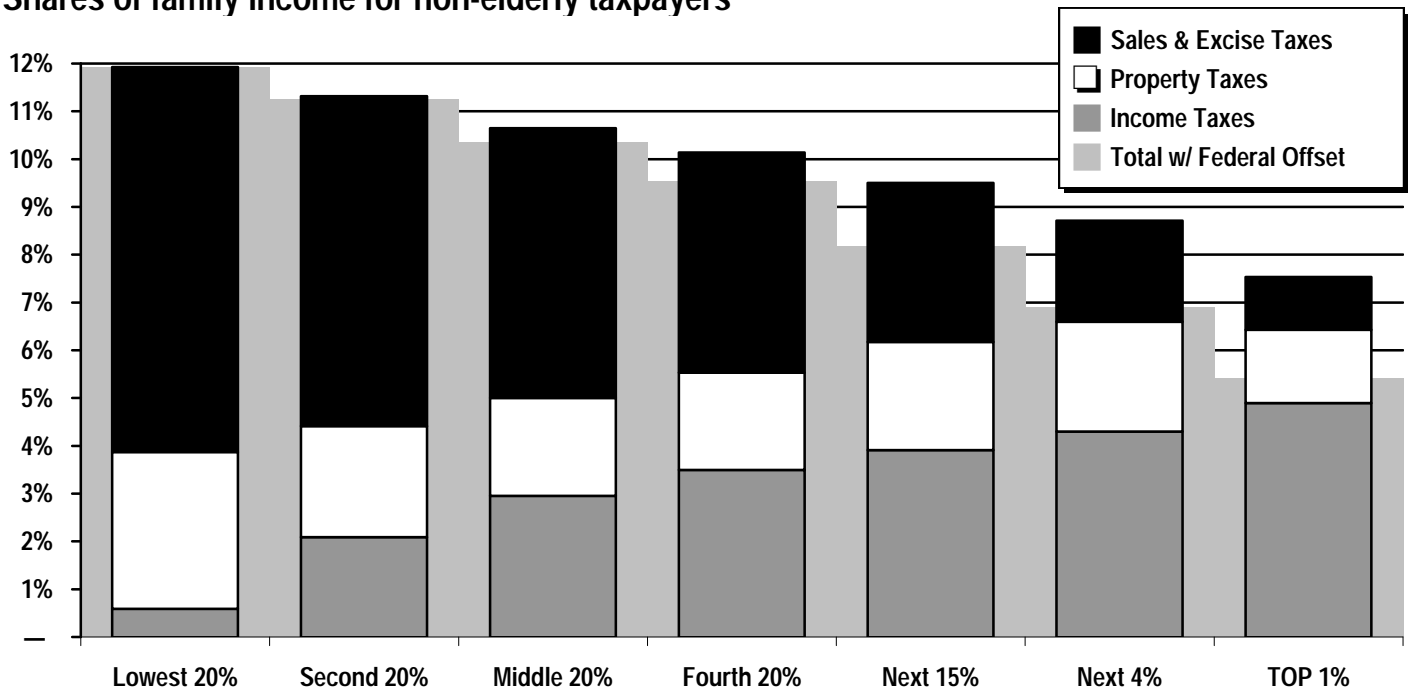
The findings published in the study detail state and local taxes paid by non-elderly couples and individuals. The study includes all major state and local taxes: personal and corporate income taxes, property taxes, and sales and excise taxes.

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# Georgia

## State & Local Taxes in 2002

Shares of family income for non-elderly taxpayers



| Income Group                    | Lowest 20%         | Second 20%          | Middle 20%          | Fourth 20%          | Top 20%              |                       |                   |
|---------------------------------|--------------------|---------------------|---------------------|---------------------|----------------------|-----------------------|-------------------|
|                                 |                    |                     |                     |                     | Next 15%             | Next 4%               | TOP 1%            |
| Income Range                    | Less than \$15,000 | \$15,000 – \$26,000 | \$26,000 – \$41,000 | \$41,000 – \$69,000 | \$69,000 – \$142,000 | \$142,000 – \$281,000 | \$281,000 or more |
| Average Income in Group         | \$9,100            | \$19,600            | \$32,500            | \$53,200            | \$93,000             | \$192,000             | \$995,000         |
| <b>Sales &amp; Excise Taxes</b> | <b>8.1%</b>        | <b>6.9%</b>         | <b>5.6%</b>         | <b>4.6%</b>         | <b>3.3%</b>          | <b>2.1%</b>           | <b>1.1%</b>       |
| General Sales—Individuals       | 4.6%               | 4.0%                | 3.4%                | 2.9%                | 2.1%                 | 1.4%                  | 0.7%              |
| Other Sales & Excise—Ind.       | 0.8%               | 0.6%                | 0.5%                | 0.4%                | 0.2%                 | 0.1%                  | 0.0%              |
| Sales & Excise on Business      | 2.7%               | 2.2%                | 1.7%                | 1.4%                | 1.0%                 | 0.6%                  | 0.4%              |
| <b>Property Taxes</b>           | <b>3.3%</b>        | <b>2.3%</b>         | <b>2.0%</b>         | <b>2.0%</b>         | <b>2.3%</b>          | <b>2.3%</b>           | <b>1.5%</b>       |
| Property Taxes on Families      | 3.2%               | 2.3%                | 2.0%                | 1.9%                | 2.1%                 | 2.0%                  | 0.9%              |
| Other Property Taxes            | 0.1%               | 0.1%                | 0.1%                | 0.1%                | 0.2%                 | 0.3%                  | 0.7%              |
| <b>Income Taxes</b>             | <b>0.6%</b>        | <b>2.1%</b>         | <b>3.0%</b>         | <b>3.5%</b>         | <b>3.9%</b>          | <b>4.3%</b>           | <b>4.9%</b>       |
| Personal Income Tax             | 0.6%               | 2.1%                | 2.9%                | 3.5%                | 3.9%                 | 4.2%                  | 4.7%              |
| Corporate Income Tax            | 0.0%               | 0.0%                | 0.0%                | 0.0%                | 0.0%                 | 0.1%                  | 0.2%              |
| <b>TOTAL TAXES</b>              | <b>11.9%</b>       | <b>11.3%</b>        | <b>10.6%</b>        | <b>10.1%</b>        | <b>9.5%</b>          | <b>8.7%</b>           | <b>7.5%</b>       |
| Federal Deduction Offset        | -0.0%              | -0.1%               | -0.3%               | -0.6%               | -1.3%                | -1.8%                 | -2.1%             |
| <b>TOTAL AFTER OFFSET</b>       | <b>11.9%</b>       | <b>11.3%</b>        | <b>10.3%</b>        | <b>9.5%</b>         | <b>8.2%</b>          | <b>6.9%</b>           | <b>5.4%</b>       |

Note: Table shows 2002 tax law at 2000 income levels.

# Georgia Tax Trends

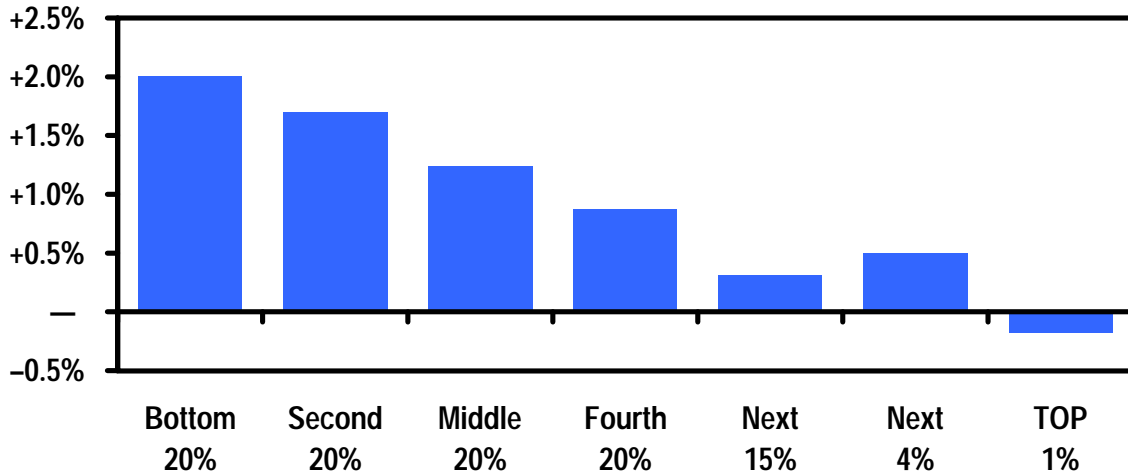
## Progressive Features

- ✓ Groceries exempt from sales tax
- ✓ Refundable low income credits
- ✓ Homestead exemption

## Regressive Features

- ✗ Deduction for state income taxes

### Changes in Taxes as Shares of Income, 1989 – 2002

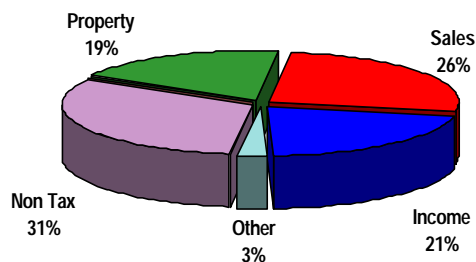


|                | Bottom 20% | Second 20% | Middle 20% | Fourth 20% | Top 20%  |         |        |
|----------------|------------|------------|------------|------------|----------|---------|--------|
|                |            |            |            |            | Next 15% | Next 4% | TOP 1% |
| Sales & Excise | +1.0%      | +1.0%      | +0.8%      | +0.7%      | +0.5%    | +0.3%   | +0.2%  |
| Property       | +1.0%      | +0.6%      | +0.4%      | +0.2%      | -0.1%    | -0.0%   | -0.1%  |
| Income         | -0.0%      | +0.2%      | +0.2%      | +0.2%      | +0.2%    | +0.4%   | +0.4%  |
| Federal Offset | +0.0%      | -0.0%      | -0.2%      | -0.2%      | -0.2%    | -0.2%   | -0.6%  |
| Overall Change | +2.0%      | +1.7%      | +1.2%      | +0.9%      | +0.3%    | +0.5%   | -0.2%  |

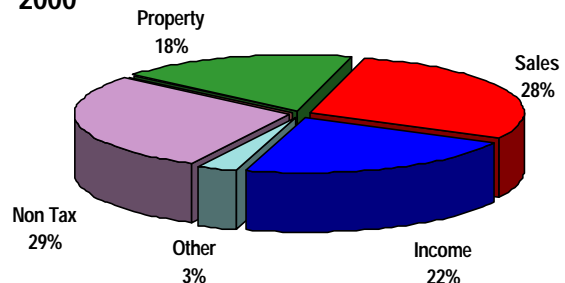
Georgia joined other states in eliminating the regressive state sales tax on groceries but local sales taxes, which do apply to groceries, rose over the decade. Inflationary pressures meant an implicit income tax hike for Georgia taxpayers. A new low income credit and increased personal exemptions offset these inflationary pressures for low-income Georgians.

## Composition of Revenues

1989



2000



Source: Government Finances, US Department of Census