

## Considering income tax return

By JACK HILL

I always feel I must start any discussion of state taxes with a short primer on where the state presently gets its budgetary sources and briefly where the majority of those funds go.

Georgia took in \$17 billion in tax collections in the fiscal year ending in June of this year. About half of that came from the Individual Income Tax category which includes individuals' payments, withholding taxes and some small business's income taxes. About one-third of tax revenue comes from Sales Taxes, presently at a 4 percent rate for the state portion. So those two categories make up about 85 percent of total collections, with the balance coming mostly from Corporate Income taxes, the new Tag Title fee replacing sales taxes on autos, motor fuel taxes with a little over 2 percent coming from alcohol and tobacco taxes.

The State funds budget is about \$19.9 billion dollars for the current fiscal year with the balance from tax collections coming from fees like tuition, lottery proceeds and other fees.

The State spends about 53 percent of the state budget on education -- pre-K to postsecondary, colleges and technical schools. The largest expenditure is K-12 schools totaling about 40 percent of the state budget. In fact, one-third of the entire state budget goes for teachers' salaries alone. Additionally, about 8 percent of the state budget goes for benefits for teachers like health insurance and retirement. So any reduction or change in taxes has an immediate effect on education and local schools. Of course about 23 percent of the budget goes for Medicaid, Foster Care, Nursing Homes, and Mental Health and 9 percent is spent on the courts and public safety.

Georgia has a fairly balanced tax collection (revenue) system. Most taxpayers in the state pay a 6 percent income tax rate. Ironically, though, most of what I hear from citizens and taxpayers focuses on not the state income tax, but federal income taxes and the complicated tax code which most citizens say needs simplifying and flattening. The other issue I hear about is usually local property taxes and issues around assessments and evaluations.

The other reason we probably don't hear as much about Georgia's income taxes is the fact that few senior citizens now pay any income tax at all. A couple of years ago, the state made permanent an exclusion from state income taxes for all seniors over 65 for virtually all income -- until their retirement and other income exceeds \$65,000 for each spouse. That means of course, that senior couples in Georgia pay "zero" state income taxes on up to \$130,000 for both spouses, \$65,000 each. So a pretty good percentage of Georgia taxpayers owe little or no state income taxes.

Every state is different as a review of tax practices will demonstrate. But Georgia usually ranks pretty well in terms of attractiveness to new business and industry. The state has a huge advantage because of our infrastructure in the ports and Atlanta's airport, just to name a couple. We have top-notch universities and technical colleges which contribute to our attractive workforce, usually a main driver in business location. Forbes magazine just ranked Georgia 2nd in the country in favorable regulatory environment and 11th in growth prospects. To make the state more competitive, the Legislature last year removed the sales tax on energy in production in manufacturing and agriculture. That exemption cost the state \$100 million in revenue.

But there is a body of belief that new investment and job creation can be encouraged with measurable results by lowering income taxes and some states who have no income taxes are held up as leading in new investment. Of course some of those states have oil and gas resources or economies built on tourism.

I will look to examine a lot of data looking at total tax environments in states before I have an opinion on eliminating income taxes. The volatility of sales tax collections and the narrow focus of Georgia's sales taxes tells me that some of the recommendations of the Tax Commission of a few years ago, need to be reviewed as well. Part of those recommendations included expanding the sales tax to services not currently taxed and the Commission concluded that because Georgia's sales tax is on goods only, there was an inconsistency with the growing services industry. Online sales tax loss was another identified weakness but only federal legislation will address that issue.

Georgia's sales tax collections grew less than 1 percent last fiscal year. But any effort to increase sales tax on services will be controversial as the proposal to add sales tax to satellite TV coverage produced a few years ago.

So there is a lot to study and consider and I hope leaders will take a comprehensive look at the present and immediate future and consider all angles. Georgia with only a 5 percent growth rate barely covers the new costs of Medicaid, education growth, retirement funding and other increasing costs as things presently stand.

But we all want to promote job growth and economic progress for our state, for its citizens and our children and grandchildren. For me, though, the only way to plot a successful course is through careful, thoughtful and methodical examination and decision-making.

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