

## **POLICY MEMORANDUM**

**Fiscal Research Center  
Andrew Young School of Policy Studies  
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**SUBJECT: Estimated Change in Tax Liability of Joint Committee's Tax Reform Legislation**

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The Memorandum presents estimates of the change in tax liability for the tax changes included in the March 27 version of the legislation being proposed by the Joint Committee on Georgia Revenue Structure. The estimates in this memorandum are based on those presented in the FRC Memorandum issued March 8, 2011, but modified to reflect the major differences between the provision of the Tax Reform Council's recommendations and those contained in the Joint Committee's legislation.

These are not revenue estimates, but rather an attempt to measure the degree of "revenue neutrality" of the proposed changes. There are many ways to define "revenue neutrality." This memorandum uses the total estimated change in tax liability for all of the tax changes for a given year. Thus, the estimates presented below are a measure of the degree of revenue neutrality for the provision in the proposed legislation.

The estimates are for FY 2012 other than for the income tax, which are for CY 2012. The estimates are presented in the following Table. Explanations for the estimates can be found in the original Memorandum. For the Personal Income Tax we provide a range of estimates based on alternative assumptions.

These are not revenue estimates since revenue by fiscal year will depend on adoption dates of the provisions and in the timing of the flow of revenue to the state. For example, sales taxes are paid

in one month, but the state does not receive that revenue until the following month, and the income tax is paid through withholding throughout the year but with adjustments in the following year when tax returns are filed. FRC is currently preparing revenue estimates that will account for these timing issues. In addition, the FRC is updating the revenue estimates based on additional analysis and a careful review of the provisions of the legislation as drafted.

Estimates for the sales tax are for state revenue only; local sales tax liability would be about 70 percent of state revenue.

The Table includes a range, expressed as a percentage, for each estimate that indicates how confident we are in the estimate. The ranges are not always uniform around the estimate since there are reasons to believe that an estimate is, for example, more likely to be on the low side than the high side. The confidence level, which is obviously subjective, depends on the quality of the underlying data, the nature of the assumptions that had to be made, and the number of imputations necessary to develop the estimate. The confidence level for the Personal Income Tax is from the mid-point of the range of the estimate.

<b>Table 1. Estimated Changes in Tax Liability for the Joint Committee’s Tax Reform Proposals (in millions of \$)</b>		
<b>Recommendations</b>	<b>Change in Tax Liability</b>	<b>Confidence Level</b>
4.5% Flat Rate Personal Income Tax	-\$214 to -\$232	+15%/-15%
Tax Casual Sales	\$151	+10%/-5%
Revamp Agriculture exemptions	-\$4	+5%/-5%
Add an Energy Exemption	-\$162.8	+25%/-25%
Tax Auto Repair Services	\$45.6	+15%/-5%
3.5% Communication Tax	\$195	+5%/-5%
<b>TOTAL</b>	<b>-\$7.2 to \$10.8</b>	