



A State FairTax for Georgia

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Economists have long pointed out that a consumption tax is superior to an income tax on the ground that it eliminates a bias against saving and investment that is inherent to the income tax. The federal FairTax proposal implements a consumption tax by replacing most existing federal taxes with a national retail sales tax levied at a tax-inclusive rate of 23 percent. The FairTax would repeal the federal personal income tax (including the capital gains tax and the alternative minimum tax), the corporate income tax, payroll taxes, and the estate and gift tax. The FairTax is intended to be revenue neutral.

Most proposals for a consumption tax are made at the national level.¹ However, there is interest in enacting a FairTax at the state level. One state in which there is this interest is Georgia.

In this study, The Beacon Hill Institute at Suffolk University calculates the rate at which a Georgia FairTax would be imposed. We assume that the new tax would replace the state personal income tax, corporate income tax and existing sales tax. We also assume that it would be revenue neutral.

The Georgia *Budget in Brief* for Fiscal Year (FY) 2016, published by the Governor's Office of Planning and Budget, indicates that the taxes to be replaced generated \$15.659 billion in revenue in FY 2015. This amount is the numerator in our calculation of the Georgia FairTax rate.² In other words, the Georgia FairTax must raise this amount of revenue in order to be considered a revenue neutral tax change (neither raising nor lowering tax revenues).

¹ For a comprehensive review of the FairTax proposal see the series of research papers at <http://www.beaconhill.org/FairTaxPapers.htm>. These papers include discussions of the macroeconomic effects of the FairTax, its effects on charitable giving, methods for determining the FairTax rate, administrative issues and the implications for fiscal federalism.

² Governor's Office of Planning and Budget, "Budget in Brief, Amended Fiscal Year 2015 and Fiscal Year 2016," <http://opb.georgia.gov/budget-briefs>, 20.

The next step in calculating the rate is to determine the tax base to which the rate applies.

The FairTax base includes all private consumption expenditures (including services), state and local government consumption spending and wages. However, the FairTax base excludes items such as spending on intermediate goods (inputs into the production of another good), the sale of used goods, exported goods that are produced in Georgia and sold outside the state, and both private and public spending on education.

To address equity concerns about regressivity, the FairTax calls for a “prebate” that excludes all consumption spending up to the national poverty line from the tax base. We need to account for these changes in calculating the Georgia FairTax rate. We subtract from the base the aggregate amount of household spending that equals the poverty line for each household in Georgia.

We calculate the tax base using data from IMPLAN Group, LLC. IMPLAN provides detailed datasets for state and local economies. IMPLAN data show business-to-business, government-to business, business-to-household, and government-to-household transactions.³ The IMPLAN data allow us to calculate the FairTax base using a single comprehensive state dataset. Table 1 displays the results of the calculation.

Table 1: The Calculation of the Georgia FairTax (millions \$)

Tax Base	IMPLAN
Private consumption (services)	323,614
State and local Gov. Consumption	40,612
Gross tax base	364,226
Prebate	-73,851
Net tax base	290,375
Tax revenue (to be replaced)	
Individual Income	9,365
Corporate Income	955
Sales and Use	5,340
Total	15,659
Tax rate	5.4%

Totals may not add due to rounding.

³ IMPLAN Group LLC, State Data Package: Georgia, http://www.implan.com/index.php?option=com_virtuemart&view=category&virtuemart_category_id=2501&Itemid=1808.

IMPLAN provides comprehensive private consumption data.⁴ However, we exclude spending on education and imports from private consumption. We estimate the private consumption base of \$283.364 billion in Georgia for Calendar Year (CY) 2011, the most recent data available. We grow the 2011 data to 2015 using the growth rate of state GDP for each sector from 2010 to 2014 and then take half from 2014 and half from 2015 to produce our estimate for FY 2015 of \$323.614 billion. This is displayed in the first row of Table 1.

IMPLAN also provides the data for state and local government consumption spending.⁵ Georgia state and local government spending on goods and services was \$35.707 billion in 2012, the year of our dataset. We grow the 2012 data to FY 2015 using the same method as with private consumption spending, yielding \$40.612 billion. This gives us a gross FairTax tax base of \$364.226 billion. The second and third rows of Table 1 respectively.

A Beacon Hill Institute study showed the national FairTax gross tax base to be 80% of the national economy in 2007.⁶ We estimate Georgia State GDP to be \$486.921 billion in FY 2015, which means our gross FairTax base is about 73% of state GDP. While, it is a bit lower, it gives us confidence that our gross FairTax is reasonable.

As noted, the FairTax also calls for a prebate that would be paid to all households to make the tax more progressive across all income groups. The prebate is based on the federal poverty guidelines adjusted to remove any marriage penalty. The prebate may be thought of as a rebate, except that it is paid at the beginning of each month in advance of that month's consumption expenditures. The size of the monthly prebate provided to a given household is set at the amount of FairTax that given household would pay over the course of the month, were it consuming goods and services at the federal poverty line.

The U.S. Department of Health and Human Services publishes the poverty guidelines by household size for the 48 lower states.⁷ The U.S. Census Bureau provides estimates of the number of Georgia households by family size.⁸ Using these figures, we calculate that the

⁴ IMPLAN Group LLC, State Data Package: Georgia, http://www.implan.com/index.php?option=com_virtuemart&view=category&virtuemart_category_id=2501&Itemid=1808.

⁵ IMPLAN Group LLC, State Data Package: Georgia, http://www.implan.com/index.php?option=com_virtuemart&view=category&virtuemart_category_id=2501&Itemid=1808.

⁶ See David G. Tuerck, Jonathan Haughton, Paul Bachman, Alfonso Sanchez-Penalver, *A Comparison of the FairTax Base and Rate with Other National Tax Reform Proposals*, (February 2007). <http://www.beaconhill.org/FairTax2007/FairTaxBaseandRate3-15-07FINAL.pdf>.

⁷ U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, 2015 Poverty Guidelines, <http://aspe.hhs.gov/poverty/15poverty.cfm#thresholds>.

⁸ U.S. Department of Commerce, U.S. Census Bureau, Table B11016: Household Type by Household Size, Georgia,

prebate will reduce the tax base by \$73.851 billion thus bringing the total net tax base to \$290.375 billion. Table 2 displays the details of the prebate calculation.

Table 2 Computing the FairTax Base Reduction Due to the Prebate for FY 2015

I. Single Households

Household Size	Family Consumption Allowance	Number of Households	Prebate Base Reduction (thousands)
1	11,770	933,730	10,990,002
2	15,930	149,209	2,584,833
3	20,091	23,231	466,710
4	24,250	8,818	213,836
5	28,410	1,800	51,138
6	32,570	799	26,023
7 or more	36,730	414	15,206
Subtotal, Single Households		1,118,001	14,139,846
II. Married Households			
2	20,090	997,072	20,031,176
3	24,250	568,150	13,777,637
4	28,410	487,435	13,848,028
5	32,570	218,40	7,113,321
6	36,730	80,574	2,959,483
7 or more	40,890	48,464	1,981,692
Subtotal, Married		58,250	59,711,339
TOTAL		113,031	73,851,155

We divide the \$15.659 of tax revenue that the FairTax would replace by the modified base of \$290.375 which yields a rate of 5.4 percent for FY 2015.

Thus, to convert the Georgia sales tax to a FairTax, that would replace the individual income tax, the corporate income tax and the sales tax, would require Georgia to broaden its sales tax base and raise the rate to 5.4 percent. The rate does not appear to be prohibitively high as to hinder such a change.

http://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS_13_5YR_B11016&prodType=table.