Eliminating the Property Tax for Education
Analysis of House Resolution 58

Background

House Resolution (HR) 58 is a constitutional amendment that would eliminate property taxes for education and replace those revenues through a new state sales tax of up to 3 percent. In order to raise the over $4.56 billion needed to fund Georgia schools, the new sales tax would need to be between 3 and 4 percent depending on the exemptions included.1 HR 58 excludes all exemptions that are in the current state sales tax, including the exemption on food; however, the bill allows the General Assembly to add back exemptions as they deem necessary. Without knowing what exemptions, if any, will be included in the new sales tax, it is uncertain what the exact sales tax rate will need to be to raise $4.56 billion. While the exact details of the funding scheme are unknown, conceptually this legislation would significantly alter Georgia’s tax system.

Issues to Consider

In recent months, legislators held meetings throughout the state to introduce HR 58 and receive feedback from residents. As Georgians consider the arguments for and against the bill, here are several important issues to consider:

1. Property owners are not the only ones paying property taxes. Households and businesses that rent properties also contribute. Property taxes are figured into rental costs; and thus, renters bear a portion of the property tax obligation. It should also be noted that non-residential property owners pay about half of all school district property taxes. Homeowners are not the only Georgians to generate revenues for the state through property taxes.

2. In Georgia, property taxes are less regressive than sales taxes. Both property and sales taxes are regressive – meaning, low income Georgians pay a higher percent of income in taxes than high income Georgians pay. However, property taxes are less regressive than sales taxes in Georgia. The appendix of this report provides updated data from the Institute on Taxation and Economic Policy showing that sales taxes continue to be far more regressive than property taxes. In 2004, Georgians with the lowest incomes had an 8.3% sales tax obligation, while those with the highest incomes paid between 1.1% and 3.4% of income. For property taxes, low income Georgians had a 3.6% tax obligation compared to a 1.8% to 2.4% obligation for high income Georgians.

3. Property taxes are more stable than sales taxes. Property taxes have become a more stable revenue source than sales taxes in recent years.2 Stability should be an important feature of any revenue source used to fund Georgia schools.

2Ibid.
4. **Georgians pay less in property taxes than in sales taxes.** In 2002, the most recent year for Census data on state and local taxes, Georgia collected $6.6 billion in property taxes and $7.5 billion in sales taxes.³ Although the property tax is widely regarded as the least popular of taxes, it is not the highest source of state and local revenue.

5. **Compared to the rest of nation, Georgia's property taxes are relatively low.** Nationally, Georgia had the 35th highest property taxes as a percent of income in 2002. In comparison to its neighbors, Georgia maintained a moderate property tax obligation. The average property tax obligation for Georgia and its five border states was 2.4% of income. Georgia had a slightly higher obligation of 2.7%, giving Georgia the 3rd highest property tax obligation of the six Southeastern states. ⁴

6. **Switching from property taxes to sales taxes changes the collection method, not the dollars needed.** If the property tax for education is eliminated and a new sales tax put in place, the same amount of money will need to be raised. Residents who dislike the fact that their property tax dollars support local public schools will continue to fund schools – they’ll just do so through pennies on purchases.

---

**Winners and Losers**

A tax swap, such as the one proposed in HR 58, creates winners and losers. Some households and businesses will experience a tax decrease, while others will experience a tax increase. For example, a business with significant land holdings might have a lower tax obligation under HR 58. On the other side, retail businesses in border counties might lose customers to other states as Georgia’s sales tax rate rises to 10% in some counties.

The same holds true for families. Elderly Georgians who are currently exempt from the school district property tax will experience an increased tax obligation under HR 58. Also, low income households might be negatively impacted since sales taxes are more regressive than property taxes. In contrast, households with high property taxes might receive a lower tax obligation.

Since the amount of revenue needed remains the same, everyone cannot receive a lower tax obligation. Thus, a tax swap raises the same amount of money while shifting the tax burden from certain taxpayers to other taxpayers. Georgians must ask themselves what shift will occur under HR 58, and what shift they would like to occur. Are certain taxpayers not paying their fair share? Who are those taxpayers in Georgia – businesses, households, seniors, middle age families, wealthy, poor, middle income households? Out of whose pockets should property tax relief come?

---

**Other Options**

“All or none” is rarely the only option. Numerous other options exist for alleviating the impact of property taxes, such as increasing the homestead exemption or lowering the assessment ratio. A recent report by the GSU Fiscal Research Center, titled Financing an Increased State Role in Funding K-12 Education: An Analysis of Issues and Options, details a myriad of reform options, some of which lower property taxes and others that focus on enhancing school funding. See http://frp.aysps.gsu.edu/frp/frpreports/report114/index.htm.

The following list of alternatives focuses solely on ways to enact and fund property tax relief. While obviously not exhaustive, the list provides a sense that there are many alternatives to the “all or none” approach of HR 58. In addition, certain alternatives provide the benefit of making the tax system more progressive than the current system or the proposed HR 58 system.

---

⁴Ibid. (Note: Comparison of Alabama, Florida, Georgia, North Carolina, South Carolina, and Tennessee.)
Providing Relief

- **Restrict property tax abatements.** Certain companies receive property tax abatements from local governments when they locate or expand in Georgia. Abatements typically reduce or eliminate the company’s property taxes for a fixed amount of time. Tax abatements shrink the tax base, which leaves fewer taxpayers to carry the burden. One way to lower property taxes is to have more people paying – meaning, a broader tax base. The base could be broadened by restricting and monitoring the amount of tax abatements granted for the purposes of economic development.

- **Create a property tax “circuit breaker.”** Circuit breakers provide tax relief by restricting property taxes to a certain amount of income. When taxes exceed that amount of income, the excess tax is refunded or credited through the income tax system. As of 2002, thirty-four states had some form of circuit-breaker program. Some states have a circuit breaker for seniors only, while others target the relief to low-income families of all ages. Some states even include renters. Wisconsin, for example, has a homestead credit that acts as a circuit breaker for households (renters and owners of all ages) with incomes less than $24,500. Qualifying households receive 80% of the property tax payment that is considered excessive by applying for the credit on their income tax forms. Georgia could enact a circuit breaker for low and moderate-income households to provide targeted relief and make the property tax less regressive.

- **Expand the Homeowners’ Tax Relief Credit.** The current Homeowners’ Tax Relief Credit provides property tax relief through a state-funded tax credit program. All homeowners who qualify for the homestead exemption automatically qualify for the relief tax credit. As of 2005, the credit provided an $8,000 exemption for homeowners and cost the state about $420 million. Increasing the exemption, which was intended to be increased if funds were available, is another option for providing homeowner tax relief.

Funding Relief

- **Broaden the sales tax base.** To pay for property tax relief, legislators could broaden the existing sales tax base to include services. A broader sales tax base would bring in new revenues at the existing rate, while improving the sales tax in terms of stability and equity. The broader the sales tax base, the more stable the tax becomes. In addition, a base that includes services is less regressive since wealthier households consume more personal services than lower income households. As detailed in a GBPI report, broadening the sales tax to include more services could raise at least $600 million at the existing tax rate.

- **Enhance the income tax.** Another option for increasing state aid, whether for a circuit breaker or some other relief effort, is an enhancement of the income tax system. Georgia currently has a progressive, but relatively flat income tax since the top rate (6%) begins at $10,000 of income. A two-fold reform of broadening the tax brackets and creating a new top rate would bring in new revenues while making the tax more progressive. One option would be to broaden the lower brackets and create a new rate of 6.5% for $40,000 to $80,000 of income and 7.0% for $80,000 and above (married filing jointly). Adjustments could also be made to remove the marriage penalty that currently exists by making brackets for single filers exactly 50% of brackets for married filers. These rate and bracket reforms would actually lower income taxes for a majority of Georgians, while bringing in an estimated $304 million for property tax relief. The increased income taxes for Georgia’s highest earners would be partially offset by federal tax reductions.

- **Enact a minimum corporate income tax.** Numerous states apply a minimum corporate income tax ranging from $10 in Oregon to $800 in California. With the abundant tax incentives and abatements for companies, a minimum tax ensures that companies pay a nominal fee for the services provided by state government. Creating a minimum corporate tax could raise additional state dollars for property tax relief by expanding the income tax base to include every corporate citizen.

- **Decouple Georgia’s estate tax.** Georgia’s estate tax revenues have dwindled in recent years due to changes at the federal level. Collections declined from $148 million in 2000 to $65 million in 2004 (non-inflation adjusted). Georgia lawmakers could protect and restore estate tax revenues by decoupling from the federal tax code, which is currently

---

phasing-out the estate tax. Eighteen other states and the District of Columbia have maintained their estate taxes, either through decoupling or creating a separate estate tax.\(^9\) By decoupling from the federal tax code as it pertains to estate taxes, Georgia could protect this revenue source and provide additional state dollars for property tax relief.

Appendix

The following chart and table show that Georgia’s tax system is regressive – meaning, low income Georgians pay larger shares of their incomes for taxes than do Georgians with higher incomes. Sales taxes are the most regressive tax of the three analyzed. Property taxes are somewhat regressive, while income taxes are progressive.

---

The Georgia Budget and Policy Institute (GBPI) is an independent, nonprofit, non-partisan organization engaged in research and education on the fiscal and economic health of the state of Georgia. The GBPI provides reliable, accessible and timely analyses to promote greater state government fiscal accountability as a way to improve services to Georgians in need and to promote quality of life for all Georgians.

---