SUMMARY OF

Single Sales Factor Apportionment in GEORGIA
What is the NET Revenue Effect?
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Introduction --

Updates an earlier 2001 report that estimated the corporate income tax revenue impact as a result of changing Georgia's double-weighted sales, three-factor apportionment formula (like Virginia has) to the single sales factor apportionment formula

The earlier study estimated there would be a reduction in Georgia's 2002 corporate income tax collections of $60.3 million

It also said that research in the economics literature suggested that there would be a positive impact in terms of increased payroll and property of multistate firms and gains in personal income tax collections that could offset some of the corporate income tax losses, however, no calculations were actually made as part of the 2001 study

This study used more recent tax return data (through 2000 as opposed to 1997) and the more recent economic conditions to estimate the effect on corporate income tax collections as well as personal income tax collections

According to the author, property of multistate businesses would likely "be stimulated" if the single sales factor were adopted while sales of multistate businesses would likely "diminish" in GA but these cannot be reliably measured

Therefore, the focus is on losses in corporate income tax revenues and gains in personal income tax revenues due to the adoption of the single sales factor formula

Estimated Changes in Corporate Income Tax Collections --

First step - project total corporate income tax collections under the current double-weighted sales formula for 2003 - 2008

Second step - Estimate the share of total corporate income tax collections received from multistate businesses that are subject to apportionment by examining corporate income tax returns from 1992 - 2000

Third step - Calculate multistate corporate income tax collections under both the double-weighted sales formula and the single-sales factor apportionment formula, based on actual 1992 - 2000 tax returns

Fourth step - Estimate the multistate corporate income tax collections under the single-sales factor apportionment formula

The results show declines in corporate income tax collections of $101.7 million in tax year 2004 growing to $133.7 million by 2008

Estimated Changes in Personal Income Tax Collections --

Using actual Georgia corporate income tax returns data, the professor suggests there is a correlation between a reduction in the effective tax rate on payroll and an increase in the statewide payroll of multistate corporations

Estimates a 6.9% increase in Georgia's multistate corporate payroll over a 3-year period, which would level off after 3 years

Predicts that such an increase in payroll would occur in the same year that a single sales factor formula is adopted and the resulting personal income tax revenue growth would offset the resulting corporate income tax revenue losses

In 2004, projected a minimum of $32.4 million ($65.9 million maximum) increase in Georgia's personal income tax collections that would grow to a minimum of $118 million ($239.8 million maximum) in 2008

Utilizes the mid-point of the low and high revenue estimates (because no way of knowing what personal income tax rates would apply to the new payroll) to come up with a "likely scenario" that shows a decline in Georgia's net income tax revenues for the first 2 full taxable years followed by a net increase in the third and following taxable years

In 2004, net revenue loss of $52.6 million, followed by a loss in 2005 of $5.4 million. In 2006 and beyond, predicts a $45 million net revenue increase

Suggests passing the legislation but delaying its effective date for at least 2 years in order to eliminate the net revenue loss in the first 2 years. Corporations "...would be expected to respond immediately to a policy change known *with certainty* to come in the future." The author argues that "...the assumption underlying this estimate is that in making personnel decisions, corporations would behave as if the sales only scheme were operational in 2004 (the first year), even thought its implementation is delayed until a later date."

Unfortunately, no support is provided in the report for this delayed effective date assumption