OUR EDITORIAL BOARD'S OPINION

Our view: Tax cuts made at risky time and with no sense

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To understand the skewed priorities of our state Legislature, imagine that you come home to discover that your house is ablaze.

Do you pour water on it? Or gasoline?

The General Assembly would choose gasoline.

This year, faced with rapidly declining tax revenues that threaten to deepen in the months to come, legislators were forced to cut state budgets to the bone, compromising education, law enforcement, transportation, environmental protection and other state responsibilities.

And while they were doing so, they recklessly approved tax cuts that the Atlanta-based Georgia Budget and Policy Institute estimates will strip state coffers of an additional $116 million during the upcoming fiscal year and a total of $1.2 billion by 2012.

And lawmakers did so without any evidence that proposed tax breaks will generate jobs, spur the economy or improve the state’s bottom line. In fact, they voted for bills where the evidence was clearly to the contrary.

For example, one of the provisions in House Bill 481 gives a $2,400 tax credit to employers who hire and retain the unemployed. While that might sound reasonable on its surface, an unbiased, professional fiscal analysis requested by the Legislature suggests that HB 481 represents a colossal waste of money.

The analysis found that the bill would lead to 1.5 percent employment growth and generate $55 million in revenues, but would ultimately cost the state $850 million. Even without a calculator on hand, lawmakers had to understand that the math of spending $850 million to make $55 million is a bad deal for taxpayers.

If legislating without regard to facts constituted a crime, Georgia lawmakers would be staring down a life sentence. The additional tax cuts, combined with already plummeting government revenue from sales taxes, property taxes and income taxes, create a time bomb that will detonate in the next few years, and the chief victims will be Georgia’s towns, neighborhoods and schools.

The cutbacks will be felt by Georgians who drive on state roads, who send their kids to local schools and who expect government to meet its basic obligations to keep citizens safe.

In fact, if all the tax breaks passed by legislators are signed into law by Gov. Sonny Perdue, the state could confront a $3 billion hole in 2012 without the safety net of federal stimulus dollars or state reserves, which helped soften the impact of budget shortfalls this year.

And while legislators insist that the intent of all the tax cuts is to create jobs, the likely outcome will be more furloughs and layoffs of state employees.

“We will be reducing services when Georgians need them most,” said Sarah Beth Gehl, deputy director of the Georgia Budget and Policy Institute. “When these breaks take effect on July 1, the economy will not be rosy. Georgians are still going to be unemployed. They are going to need job training and Medicaid and food stamps. These tax cuts are going to further reduce our ability to provide those services.”

In one of the worst breaches of legislative diligence, the General Assembly gave its blessing to an eleventh-hour amendment cutting long-term capital gains taxes by 25 percent for gains in 2010 and by 50 percent after that. Capital gains are profits from the sale of stocks, mutual funds, bonds and other investments such as vacation real estate, antiques and fine arts.

In defending the out-of-the-blue tax break, state Sen. Chip Rogers (R-Woodstock) said the reduction would help the many Georgians who own stocks.

“Cutting the capital gains tax is one of the best things we can do to help our economy,” he said.

What Rogers failed to acknowledge is that most Georgians, like most other Americans, own stocks only through employee-sponsored retirements plans.

While half of all U.S. households now own stock, about two-fifths of this stock is held in 401(k)s and IRAs. Only about 20 percent of Americans own individual stocks outside an employee-sponsored plan. The capital gains and dividend income within those retirement accounts won’t get any tax benefit from Rogers’ reduction in the tax rates on capital gains, because they are taxed as ordinary income.

So who will see a boon from a capital gains tax break?

A very wealthy few. People in the top 10 percent of the income spectrum own about 70 percent of taxable stocks. In its analysis of the capital gains tax break, the Washington-based Institute on Taxation and Economic Policy concluded that 77 percent of the tax cut would go to the very richest 1 percent of Georgians.

The Legislature contends that this investment class will use the money to reinvest, spurring a trickle-down effect that jump-starts the stock market and eventually creates job opportunities.

However, these are far from conventional economic times. “I think that trickle-down is not likely to have very much flowing in the trickle,” says Emory law professor and foreclosure expert Frank Alexander. “Because those who will receive the greatest benefit from the state’s capital gains tax break have become quite leveled in the last three years and seen serious hits to their portfolios. They are going to take those capital gains and cover their own debts and losses.”

In its 2003 report “Economic and Revenue Effects of Permanent and Temporary Capital Gains Tax Cuts,” the Congressional Research Service concluded:

“A capital gains tax cut appears the least likely of any permanent tax cut to stimulate the economy in the short run; a temporary capital gains cut is unlikely to provide any stimulus.”

The problem isn’t just that lawmakers approved tax breaks that target a limited few. By repealing Homeowner Tax Relief Grants, they eliminated a tax break that helped far more Georgians.

For most homeowners, the end of the grants means a $200 to $300 increase in property tax bills. In effect for nearly a dozen years, the grants reduce Georgia property taxes by about $430 million a year. Now that money will come out of the pockets of homeowners.

In the end, a baffled Alexander says the Legislature set the stage for a longer and deeper recession in Georgia because of its inexplicable choices and its indifference to the housing collapse.

“We are going to see prices here decline further, and recovery — when it does begin — will be much longer here than in other parts of the country,” he predicted.

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