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DISTRIBUTION OF THE GEORGIA CORPORATE AND NET WORTH TAX LIABILITIES, 1998 AND 2005

The Georgia corporate income tax is a 6 percent tax on a base of net corporate income, which is a close derivative of the Federal corporate taxable income. In 2006 the state began a two-year transition from a 3-factor apportionment formula to a single-factor apportionment formula that is based entirely on sales. Prior to 2006, firms with multistate income used a 3-factor formula with a 50 percent weight on sales, and a 25 percent weight on property and payroll.[1]

In addition to the corporate tax, Georgia also levies a Net Worth (NW) tax computed on the same return as the state corporate income tax. The base of the tax is the sum of a firm's issued capital stock, paid-in surplus, and retained earnings. The NW tax liability ranges in discreet increments from $10 for firms with net worth up to $10,000 to $5,000 for firms with asset values in excess of $22,000,000.[2]

In combination, these two taxes provided 7 percent of total net revenues for the state in 1998 and 5 percent in 2005.[3] This brief provides a description of the distribution of the corporate tax filing population by corporate income tax and the corporate net worth tax liabilities; the purpose is to shed some light on the interaction between the Corporate and Net Worth tax.

Table 1 shows the distribution of corporate tax filers by the size of their corporate tax liability. In 1998, there were 95,247 corporate tax filers with an aggregate tax liability of $757 million.[4] 61 percent of corporate filers owed no corporate tax while 43 percent of the aggregate tax liability was paid by 83 firms. A similar pattern is found for 2005, with 66 percent of firms having no corporate tax liability and 78 firms paying 33 percent of the aggregate tax liability. Of the 83 firms in 1998, 12 are also found in the group of 78 in 2005.

Table 2 provides the distribution of the Net Worth tax liability for corporate filers for 1998 and 2005. This distribution is only slightly less skewed than that of the corporate income tax. For instance, 49 percent of firms had a NW tax liability equal to the minimum amount of $10. At the other end of the spectrum, 1 percent of all firms had assets in excess of $22 million and paid the maximum liability of $5,000 per firm, or 26 percent of the aggregate NW tax liability for 1998. This same pattern is repeated in 2005.

The function of the NW tax is to act as a minimum tax, but unlike the Federal Alternative Minimum Tax, firms pay both liabilities instead of choosing the greater of the two. Table 3 provides the distribution

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TABLE 1. DISTRIBUTION OF CORPORATE TAX LIABILITIES, 1998 AND 2005

	# of Observations (% of Total Firms)	Mean Corp. Liability	Aggregate Liability (% of Aggregate Liability)
Year = 1998			
Tax liability=$0	58,000 (61%)	$0	$0 (0%)
0<Tax liability<$1,000	17,980 (19%)	$307	$5,522,273 (1%)
$1,000≤Tax liability<$5,000	11,077 (12 %)	$2,403	$26,612,643 (4%)
$5,000≤Tax liability<$10,000	2,893 (3%)	$6,978	$20,186,114 (3%)
$10,000≤Tax liability<$50,000	3,527 (4%)	$22,217	$78,359,960 (10%)
$50,000≤Tax liability<$100,000	783 (1%)	$70,556	$55,245,350 (7%)
$100,000≤Tax liability<$500,000	793 (1%)	$210,596	$167,002,867 (22%)
$500,000≤Tax liability<$1,000,000	111 (0%)	$681,430	$75,638,731 (10%)
$1,000,000≤Tax liability	83 (0%)	$3,959,491	$328,637,715 (43%)
Year = 2005			
Tax liability=$0	54,639 (66%)	$0	$0 (0%)
0<Tax liability<$1,000	13,253 (16%)	$294	$3,896,757 (1%)
$1,000≤Tax liability<$5,000	7,625 (9%)	$2,393	$18,245,641 (3%)
$5,000≤Tax liability<$10,000	2,056 (3%)	$7,049	$14,492,087 (2%)
$10,000≤Tax liability<$50,000	2,860 (3%)	$22,451	$64,211,861 (11%)
$50,000≤Tax liability<$100,000	748 (1%)	$70,860	$53,003,355 (9%)
$100,000≤Tax liability<$500,000	783 (1%)	$210,256	$164,630,147 (27%)
$500,000≤Tax liability<$1,000,000	122 (0%)	$705,314	$86,048,247 (14%)
$1,000,000≤Tax liability	78 (0%)	$2,544,846	$198,497,960 (33%)

Source: Georgia Department of Revenue corporate tax return data file. Authors' calculations.

TABLE 2. DISTRIBUTION OF NET WORTH TAX LIABILITY, 1998 AND 2005

	# of Observations (% of Total Firms)	Mean NW Liability	Aggregate Liability (% of Aggregate Liability)
Year = 1998			
NW Tax liability=$10	46,956 (49%)	$8.48	$398,273 (2%)
$10<NW Tax liability<$50	10,929 (11%)	$27.63	$302,010 (2%)
$50≤NW Tax liability<$100	6,990 (7%)	$66.4	$464,398 (2%)
$100≤NW Tax liability<$500	20,459 (21%)	$190.0	$3,887,512 (20%)
$500≤NW Tax liability<$1,000	4,442 (5%)	$657.7	$2,921,701 (15%)
$1,000≤NW Tax liability<$2,500	3,826 (4%)	$1,260.1	$4,821,273 (24%)
$2,500≤NW Tax liability<$5,000	616 (1%)	$3,242.8	$1,997,584 (10%)
NW Tax liability=$5,000	1,021 (1%)	$5,000	$5,105,000 (26%)
Year = 2005			
NW Tax liability=$10	43,117 (52%)	$8.15	$351,301 (2%)
$10<NW Tax liability<$50	7,325 (9%)	$27.66	$202,616 (1%)
$50≤NW Tax liability<$100	4,956 (6%)	$66.5	$329,553 (2%)
$100≤NW Tax liability<$500	16,531 (20%)	$194.5	$3,214,845 (16%)
$500≤NW Tax liability<$1,000	4,378 (5%)	$662.6	$2,900,994 (14%)
$1,000≤NW Tax liability<$2,500	3,920 (5%)	$1,262.9	$4,950,587 (24%)
$2,500≤NW Tax liability<$5,000	704 (1%)	$3,314.3	$2,333,291 (11%)
NW Tax liability=$5,000	1,233 (2%)	$5,000	$6,165,000 (30%)

Source: Georgia Department of Revenue corporate tax return data file. Authors' calculations.

TABLE 3. NET WORTH TAX LIABILITY BY LEVEL OF CORPORATE TAX LIABILITY, 1998 AND 2005

	Net Worth Tax Liability, No. of Firms (% of all filers)					
Year=1998						
Corporate Tax liability	$10	$10<x<$100	$100≤x<$500	$500≤x<$1,000	$1,000≤x<$5,000	$5,000
$0	4,970 (5.2)	40,726 (42.8)	7,973 (8.4)	1,633 (1.7)	2,096 (2.2)	595 (0.6)
$0<x<$1,000	1,104 (1.2)	12,984 (13.6)	3,559 (3.7)	248 (0.3)	77 (0.1)	8 (0.0)
$1,000≤x<$10,000	347 (0.4)	4,189 (4.4)	7,764 (8.2)	1,252 (1.3)	401 (0.4)	17 (0.0)
$10,000≤x<$100,000	160 (0.2)	280 (0.3)	1,136 (1.2)	1,266 (1.3)	1,381 (1.5)	86 (0.1)
$100,000≤x<$500,000	42 (0.0)	52 (0.1)	26 (0.0)	41 (0.0)	449 (0.0)	183 (0.2)
$500,000≤x	10 (0.0)	11 (0.0)	1 (0.0)	2 (0.0)	38 (0.0)	132 (0.1)
Year=2005						
Corporate Tax liability	$10	$10<x<$100	$100≤x<$500	$500≤x<$1,000	$1,000≤x<$5,000	$5,000
$0	6,218 (7.6)	35,366 (43.0)	7,989 (9.7)	1,906 (2.3)	2,347 (2.9)	812 (1.0)
$0<x<$1,000	982 (1.2)	9,063 (11.0)	2,741 (3.3)	319 (0.4)	136 (0.2)	12 (0.0)
$1,000≤x<$10,000	285 (0.4)	2,925 (3.6)	4,950 (6.0)	1,087 (1.3)	409 (0.5)	25 (0.0)
$10,000≤x<$100,000	154 (0.2)	281 (0.3)	819 (1.0)	1,025 (1.3)	1,240 (1.5)	89 (0.1)
$100,000≤x<$500,000	48 (0.1)	49 (0.1)	30 (0.0)	39 (0.1)	456 (0.6)	161 (0.2)
$500,000≤x	14 (0.0)	12 (0.0)	2 (0.0)	2 (0.0)	36 (0.0)	134 (0.2)

Source: Georgia Department of Revenue corporate tax return data file. Authors' calculations.

of NW tax liabilities of firms by the value of their corporate tax liabilities. For instance, in 1998 of the firms that had no corporate tax liability, 4,970 (5.2 percent of all firms) paid the minimum NW tax amount of $10 and 595 (0.6 percent of all firms) paid the maximum amount of $5,000. The majority of firms with no corporate tax liability in 1998 (40,726) incurred a NW tax liability of between $10 and $100. These firms represent 42.8 percent of all firms filing corporate return in 1998. On the other hand, 132 firms with a 1998 corporate tax liability greater than $500,000 paid the maximum NW liability of $5,000 each.

The information provided in this brief illustrates the distribution of corporate and net worth tax liabilities among Georgia corporations. Both the corporate income and the net worth tax liabilities increase with a firm's income. Thus, at one end of the profit spectrum, the majority of corporate tax filers (43 percent) had a tax net worth tax liability of no more than $100 in 2005 and no corporate tax liability. At the other end of the spectrum, 134 firms in 2005 faced the maximum net worth tax liability and a corporate income tax liability of at least $500,000. Thus, the most profitable firms were hit by both taxes. Redesigning the net worth tax so that it is creditable against the corporate income tax or so that it is indirectly related to a firm's profitability would level the overall distribution of the corporate tax burden and ensure that all firms pay at least some amount in return for government services.

NOTES

[1]For more information on the computation of the Georgia Corporate Income tax, see FRC Report 78 (2002).
[2]For more information on the computation of the Georgia Net Worth Tax, see FRC Report 78 (2002).
[3]Georgia Department of Revenue Annual Statistical Report, Table H-2.
[4]This figure includes only those firms filing as c-corporations.

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