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THE MAGNITUDE AND DISTRIBUTION OF GEORGIA'S LOW INCOME TAX CREDIT

In Georgia, individuals may qualify for a low income tax credit. This policy brief shows how the value of the credit is distributed across income classes.

The value of the low income tax credit depends on the taxpayers Federal Adjusted Gross Income (FAGI). Table 1 shows the allowable value of the credit by FAGI level. The credit is allowed only if FAGI is less than \$20,000. A credit is granted for each dependent of the tax payer, including spouse and a natural or legally adopted child of the taxpayer. Individuals who received food stamps during the year are not entitled to claim the credit.

In the event that the credit exceeds the income tax due from a taxpayer, the excess has been refundable to the taxpayer. However, legislation adopted this year eliminates the ability to receive a refund for the amount that the credit exceeds the income tax liability.

Beneficiaries

To calculate the distribution of the LITC received, we used information from income tax returns filed for tax year 2006, which is the most recent year for which we have information on tax returns.

For 2006, the total number of tax returns that claimed the low income tax credit was 978,474, as shown in

Table 2. (There were 7 tax returns with FAGI that exceeded \$20,000 that claimed the LITC. These tax filers were not eligible, and their inclusion may be due to some sort of error either in data entry or by the tax filers themselves. In the later case, these would have been detected in an audit.) As can be seen 83 percent of the recipients of the credit had FAGI of \$5,000 or more.

In CY 2006, 510,086 tax filers received a refund due specifically to the low income tax credit, that is, the low income tax credit was greater than their income tax liability (Table 3). These tax filers represent fourteen percent of the approximately 3.7 million Georgia income tax filers, but 52.1 percent of those claiming a low income tax credit. The other 468,388 tax filers who claimed a low income tax credit would be unaffected by the new legislation since their low income tax credit is less than taxes owed, and thus the credit reduces their tax liability but does not result in an actual refund.

Monetary Values

Tables 4 shows the value of the low income tax credit for all claimants, while Table 5 shows the value of the refunds due to the low income tax credit for each

TABLE 1. THE STRUCTURE OF THE GEORGIA LOW INCOME CREDIT

Federal Adjusted Gross Income	Tax Credit
Under \$6,000	\$26
\$6,000 to \$7,999	20
\$8,000 to \$9,999	14
\$10,000 to \$14,999	8
\$15,000 to \$19,999	5

TABLE 2. NUMBER OF BENEFICIARIES OF THE LITC

FED_AGI	Frequency	Percent
Less than 1,000	53,330	5.45
1,000-2,000	20,097	2.05
2,000-3,000	25,736	2.63
3,000-4,000	30,745	3.14
4,000-5,000	35,418	3.62
5,000-10,000	245,298	25.07
10,000-20,000	567,843	58.03
Total recipients	978,474	100

Total includes 7 returns with FAGI that exceed \$20,000.

TABLE 3. NUMBER FILERS WHO RECEIVE REFUND DUE TO LITC

FED_AGI	Frequency	Percent
Less than 1,000	53,197	10.41
1,000-2,000	20,089	3.93
2,000-3,000	25,709	5.03
3,000-4,000	30,673	6.00
4,000-5,000	35,294	6.91
5,000-10,000	177,692	34.78
10,000-20,000	168,179	32.92
Total recipients	510,836	100

* LITC – Low income tax credit. Total includes 3 returns with FAGI that exceed \$20,000.

income bracket and the credit per tax return in the income bracket.

The total cost of the low income tax credit to the state, including the reduction in taxes owed by those who did not receive refunds, was \$22,849,593 (Table 4). The average value of the credit was \$23.35. However, taxpayers with FAGI of less than \$5,000 generally received a credit of about \$43. Although the credit is phased out as income increases, 67 percent of the credit goes to taxpayers with FAGI of over \$5,000.

The value of refund issued as a result of the low income credit totaled \$16,753,929, or an average of \$32.85 per recipient

(Table 5). Because of the nature of the low income credit, the removal of the refundability would affect the poorest households disproportionately.

The major difference between Tables 4 and 5 is found in the \$10,000 to \$20,000 category. Because taxpayers in this category have higher income, they consequently have more tax liability from which the fairly small low income tax credit is deducted instead of refunded. Thus, the refund is particularly small for that income class. Table 4 also shows the total credit received by those taxpayers who get a refund. The difference in the two amounts reflects the difference between the credit allowed and the refund.

TABLE 4. VALUE OF THE LITC TO ALL BENEFICIARIES

FED_AGI	Total LI Credit	Credit per Tax Return
Less than 1,000	2,672,007	50.10
1,000-2,000	874,151	43.50
2,000-3,000	1,117,579	43.42
3,000-4,000	1,333,723	43.38
4,000-5,000	1,552,332	43.83
5,000-10,000	7,866,781	32.07
10,000-20,000	7,432,760	13.09
Total	\$22,849,593	\$23.35

The total includes \$255 claimed on tax returns with FAGI that exceeds \$20,000.

TABLE 5. VALUE OF THE REFUND DUE TO LITC

FED_AGI	Total LI refund	Refund per Tax Return	LI Credit	Credit per Tax Return
Less than 1,000	2,663,881	50.08	2,665,263	50.10
1,000-2,000	873,438	43.48	873,839	43.50
2,000-3,000	1,115,698	43.40	1,116,716	43.44
3,000-4,000	1,331,108	43.40	1,331,783	43.42
4,000-5,000	1,547,113	43.84	1,549,186	43.90
5,000-10,000	6,283,720	35.36	6,726,440	37.85
10,000-20,000	2,938,782	17.47	3,255,318	19.36
Total	\$16,753,929	\$32.80	\$17,518,733	\$34.29

The total includes refund of \$186 claimed on tax returns with FAGI that exceeds \$20,000.

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