A proposal has been advanced to replace the property tax for school purposes with an Education Sales Tax. It is expected that the Education Sales Tax rate would be about 3 percent. One issue associated with such a plan is the possible effect on cross-border shopping due to differential sales tax along Georgia's border. This Policy Brief compares the sales tax rates (state plus local) in the counties along Georgia's border (Map 1). For a discussion of issues associated with the proposed Education Sales Tax, see Matthews, Sjoquist and Smith (2004).

There are many studies (Mikesell 1970 and 1971, Mikesell and Zorn 1986, Fisher 1980, Fox 1986, Walsh and Jones 1988) that have found that differential sales tax rates along state borders affect shopping patterns. These studies generally find that a one percent higher sales tax rate is associated with per capita sales that are between 1 to 6 percent lower. For example, Walsh and Jones (1988) explored the effect on grocery purchases from a 3 percentage point phased-in reduction of West Virginia's sales tax rate. They find that grocery sales along the West Virginia border increased by about 5.9 percent for each percentage point reduction in the sales tax rate.

The combined state and local sales tax rate that apply to general purchases in each county that borders Georgia were determined. There are two complications. First, the sales tax rates in Alabama are not uniform throughout a county. In Alabama, local governments can set rates that differ from the county rate; thus we consider both city and county rates. In the other border states, Tennessee, North Carolina, South Carolina, and Florida, and in Georgia the sales tax rate applies uniformly throughout the border county. A further complication is that in some states different rates apply to certain purchases, e.g., automobiles; we consider only the general sales tax rate.

Map 2 shows the current sales tax rate for each county in all counties that form the Georgia border. The following can be seen:

? The sales tax rate is 7 percent in 39 Georgia's border counties and 6 percent in the other 7 counties.

? All of Tennessee's border counties have a combined state and local sales tax rate of 9.5 percent compared to a 7 percent rate in all of Georgia's counties that border Tennessee.

? The sales tax rates are the same in North Carolina and Georgia border counties.
With two exceptions, all of South Carolina’s border counties have a smaller sales tax rate than do Georgia’s border counties. In one exception the rates are the same, 6 percent, and in one case Georgia’s rate is 6 compared to 7 percent in the South Carolina county.

All of the border counties in Florida are either the same or higher than the county rates in Georgia. Four of the 7 Georgia border counties with a 6 percent rate are on the Florida border.

With two exceptions, the sales tax rates for Alabama counties are lower than the rates in Georgia’s border counties. In one case the rate in Alabama equals the rate in Georgia, while in the other case the rate in Alabama exceeds the rate in Georgia.

Map 3 shows the rates for all of the border counties if Georgia’s state sales tax rate increases by 3 percentage points to 7 percent. If that happened, the sales tax rate for all of Georgia border counties would exceed the rate in the counties in border states.

Along the Alabama border there are several jurisdictions that have rates that differ from their home county rate, but these jurisdictions are generally small. The major exceptions are Phoenix City (across from Muscogee), which has a rate of 5 percent compared to a 7 percent rate in the rest of the county and Eufaula which has a rate of 7 percent compared to a county rate of 5 percent. The tax treatment of food for home consumption differs between Georgia and its border states. In Alabama and South Carolina, food for home consumption is subject to state and local sales taxes. In Tennessee, food for home consumption is taxed at the state and local level, but the state rate is 6 percent rather than the 7 percent that applies to other goods and services. In Georgia and North Carolina, food for home consumption is taxed at the local level but is exempt from state sales taxes. Florida exempts food for home consumption for both local and state taxes. The Education Sales Tax proposal calls for food for home consumption to be subject to the Education Sales Tax. Map 6 shows the sales tax rates that apply to food for home consumption, where the tax rate for Georgia is the local rate plus an Education Sales Tax of 3 percent.

As noted above, with a 3 percent Education Sales Tax, Georgia’s general sales tax rates would be higher than the rates in other states (Map 3). With a 3 percent Education Sales Tax, Georgia’s tax on food for home consumption is higher than in most, but not all of its border counties (Map 4). In comparison with the general sales tax (Map 3), the differences in the sales tax rates on food for home consumption:

- are much larger along the Florida and North Carolina borders.
- are smaller along the Tennessee border.
- are much smaller along the Alabama and South Carolina borders, and for many counties there is no difference.

The implication is that other than along the Florida border, there is less incentive for Georgians to shop for food out of state than to shop for other taxable goods and services.

The extent to which an increase in Georgia’s sales tax rate will effect border shopping depends on the ease of shopping in another state, the size of the population along the border, and the average income in the county.

Map 2 also shows the major road system in the counties, including the interstate highways. With the exception of those parts of the border formed by a river, i.e., the border with southern Alabama and with
South Carolina, cross border access between Georgia counties and those in other states is generally good. 

Map 5 shows the population in each of the border counties. Cross-border access is generally good in the major population center of Georgia such as Columbus and Augusta. With the exception of Chattanooga, and to a lesser extent Phoenix City, there are no significant population centers in other states near the Georgia border. Thus, the opportunity to do major shopping in other states is limited. However, shopping for things like groceries is likely feasible. 

With the exception of Columbus and Augusta, Georgia border counties are, in general, not very populated. The average population density for the border counties in the Columbus and Augusta area is 304 persons per square mile, while for the other border counties density is 96 persons per square mile. The density for the entire state is 148 people per square mile of land area. About 23 percent of Georgia's population lives in border counties.

As seen in Map 6, income per capita is, in general, low in Georgia's border counties relative to the state average, but about the same or a bit higher than in neighboring state border counties. The data do not allow us to predict the effect on sales in Georgia from an increase in the sales tax rate by 3 percentage points. However, the increase would result in the sales tax rate in all of Georgia's border counties exceeding the rate in the border counties in the neighboring states. A substantial population lives in Georgia along its borders, and for much of the border, the ability to cross appears to be relatively easy. However, there are few major commercial centers in border counties of other states.

NOTES

1The population for the three Georgia border counties in the Columbus metropolitan area (Chattahoochee, Harris, and Muscogee) is 230,926, while the border county in Alabama (Russell) has a population of 48,986.

2The population for the three Georgia border counties in the Augusta metropolitan area (Columbia, McDuffie, and Richmond) is 317,099, while the two border counties in South Carolina (Aiken and Edgefield) have a combined population of 177,439.

3The population densities for the border counties in the other states are: 89 for Alabama, 314 for Florida, 166 for North Carolina, 135 for South Carolina, and 136 for Tennessee.

REFERENCES


ABOUT THE AUTHORS

Lakshmi Pandey is Research Associate and Data Manager in the Fiscal Research Center of the Andrew Young School of Policy Studies at Georgia State University. He holds B.S., M.S. and Ph.D. degrees in Physics from Banaras Hindu University, India. Dr. Pandey has published over 80 papers in the field of physics.

David L. Sjoquist is Professor of Economics, holder of the Dan E. Sweat Distinguished Scholar Chair in Educational and Community Policy, and Director in the Fiscal Research Center of the Andrew Young School of Policy Studies at Georgia State University. He has published widely on topics related to state and local public finance and urban economics. He holds a Ph.D from the University of Minnesota.
MAP 1: COUNTIES ON GEORGIA’S BORDER
MAP 2: CURRENT SALES TAX RATES AND ROAD NETWORK IN BORDER COUNTIES
MAP 3: SALES TAX RATES IN BORDER COUNTIES (WITH GEORGIA STATE SALES TAX RATE AT 7%)
MAP 4: SALES TAX RATES IN BORDER COUNTIES AND PLACES IN ALABAMA (WITH GEORGIA STATE SALES TAX RATE AT 7%)
MAP 5. SALES TAX RATES ON FOOD FOR HOME CONSUMPTION IN GEORGIA AND BORDER COUNTIES (WITH EDUCATION SALES TAX IMPOSED)
MAP 6: POPULATION OF BORDER COUNTIES

Total Population (2000 Census)
- 15,000 or less
- 25,000 < POP ≤ 35,000
- 15,000 < POP ≤ 25,000
- 35,001+
MAP 7: PER CAPITA INCOME OF BORDER COUNTIES

Per Capita Income (2000 Census)

- $15,000 or less
- $17,500 < PCI ≤ $20,000
- $15,000 < PCI ≤ $17,500
- $20,001+
ABOUT FRC
The Fiscal Research Center provides nonpartisan research, technical assistance, and education in the evaluation and design of state and local fiscal and economic policy, including both tax and expenditure issues. The Center’s mission is to promote development of sound public policy and public understanding of issues of concern to state and local governments.

The Fiscal Research Center (FRC) was established in 1995 in order to provide a stronger research foundation for setting fiscal policy for state and local governments and for better-informed decision making. The FRC, one of several prominent policy research centers and academic departments housed in the School of Policy Studies, has a full-time staff and affiliated faculty from throughout Georgia State University and elsewhere who lead the research efforts in many organized projects.

The FRC maintains a position of neutrality on public policy issues in order to safeguard the academic freedom of authors. Thus, interpretations or conclusions in FRC publications should be understood to be solely those of the author. For more information on the Fiscal Research Center, call 404-651-2782.

RECENT PUBLICATIONS

What Georgians Are Thinking About Taxes III. This brief is the third of three briefs reporting on telephone surveys of Georgians. (April 2005)

What Georgians Are Thinking About Taxes II. This brief is the second of three briefs reporting on telephone surveys of Georgians. (April 2005)

Fiscal Capacity of Counties in Georgia. This brief examines the fiscal strength of Georgia’s counties. (April 2005)

Status of Health and Pension Benefits for Employees of the State of Georgia in 1994. This report analyzes the Health and Retirement Package offer to employees of the State of Georgia. (April 2005)

What Georgians Are Thinking About Taxes I. This brief is the first of three briefs reporting on telephone surveys of Georgians. (March 2005)

A Historical Perspective of Georgia’s Economy. This report chronicles the history of Georgia’s economy from the 1950s to the present and provides an outlook for the future growth areas in Georgia. (February 2005)

How Different are Sales Tax Rates Along Georgia’s Border? This brief provides a comparison of sales tax rates in counties on Georgia’s borders. (February 2005)

An Initial Evaluation of a Proposed Statewide Education Sales Tax. This report provides a preliminary analysis of a proposal to replace education property taxes with a statewide sales tax. (December 2004)

Financing Georgia’s Future. This report explores how Georgia finances its expenditures through various revenue sources and compares Georgia’s taxes across states and over time on multiple dimensions. (December 2004)

The Advantage of Accessibility to Goods and People: Transportation and Georgia’s Economic Development. This report describes how transportation affects Georgia’s economic development at present and what is likely in the future, and makes a set of recommendations for the direction of state transportation policy. (November 2004)

Distribution of Per Capita Income in Georgia: 1969-2000. This paper examines major changes in the county-level distribution of per capita income between 1969 and 2000. The analysis focuses on income convergence and geographic shifts in per capita income over the 31-year period. (September 2004)

Alternative Formulas for Allocating LOST Revenue To Counties and Municipalities. This study explores the procedure for allocating LOST revenue and suggests alternatives. (April 2004)

Firm Location Decisions and Information Needs. This report explores the perceptions of professional consultants and state and local economic development practitioners of useful information in the economic development site location process. (March 2004)

Performance Measurement in State Economic Development Agencies: Lessons and Next Steps for GDIIT. This study provides the basis for a comprehensive performance monitoring system for GDIIT. (February 2004)

Does Georgia Need A Unitary Tax? This report explores the issues associated with using a unitary tax approach to the state’s corporate income tax. (February 2004)

International Trade and Economic Development Strategy: Can Foreign Direct Investment Be Predicted? This study identifies factors that might be used by the state to better target foreign industries and countries that are more likely to be seeking investment opportunities in the U.S. (December 2003)

The Economics of Cigarette Taxation: Lessons for Georgia. This report provides estimates of the fiscal effects of increasing taxes on cigarettes. (December 2003)

Single Factor Sales Apportionment Formula in Georgia. What Is the NET Revenue Effect? This report provides an update of the static revenue loss and provides estimates of the indirect revenue effects from switching to a single factor sales apportionment formula. (October 2003)

Financing Georgia’s Schools: A Primer. This report provides an explanation of how K-12 education is financed in Georgia. (October 2003)

Getting Serious About Property Tax Reform in Georgia. This report lists problems with the property tax in Georgia and outlines a set of policy options for reforming the property tax. (August 2003)

For a free copy of any of the publications listed, call the Fiscal Research Center at 404/651-4342, or fax us at 404/651-2737. All reports are available on our webpage at: //frc.aysps.gsu.edu/frc/index.html.
How Different are Sales Tax Rates Along Georgia’s Border? - Brief

Publisher(s): Fiscal Research Center of the Andrew Young School of Policy Studies
Author(s): Lakshmi Pandey; David L. Sjoquist
Date Published: 2005-02-01
Rights: Copyright 2005 Fiscal Research Center of the Andrew Young School of Policy Studies
Subject(s): Community and Economic Development; Government Reform