Policy Memorandum

FISCAL RESEARCH CENTER

GEORGIA STATE UNIVERSITY
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FISCAL RESEARCH PROGRAM
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REVENUE ANALYSIS: An estimate of the revenue loss from the elimination of the income tax on capital gains.

ISSUE: What would the revenue loss be from eliminating capital gains from the Georgia income tax.

Analysis Prepared by Sally Wallace

Using a simple tax calculator we estimate an average effective tax rate on capital gains in Georgia of about 5.2%. We obtained the value of net realized capital gains from *Survey of Income* published by the Internal Revenue Service. If we assume that capital gains faces this 5.2% rate, then based on 2000, the elimination of net realized capital gains from the personal income tax would reduce the individual income tax revenue by 10-12%, or $671 to $805 million based on fiscal 2002 revenues.

We did not compute the impact on the corporate side, but we do not believe it would mean very much of a revenue impact.

Eliminating capital gains at the state level is likely to have a relatively small impact in terms of the "dynamic" effects for most individuals. The state income tax rate is about a quarter of the federal rate, so the elimination represents some reduction in liability on realized gains, but the federal tax is much larger. Even at the Federal level there is a substantial debate whether the elimination of the tax on capital gains would do anything other than change the timing of capital gains realization.

For the elderly, the elimination of the tax on capital gains would not have as large a revenue impact since the elderly pay taxes on a smaller portion of their income given Georgia's current income exclusions for the elderly. Therefore, we should expect less of an impact on the elderly than on, say, high-income, non-retired individuals. Very high-income asset holders will benefit the most from a capital gains tax exclusion.