Address to the
Special Joint Committee on Georgia Revenue Structure

2010 Special Council on Tax Reform and Fairness for Georgians

Tax Council Representatives:
Brad Dickson, Roy Fickling,
Gerry Harkins, Skeetter McCorkle,
Dr. Christine Ries, Suzanne Sitherwood,
Dr. David Sjoquist, Dr. Roger Tutterow

February 8, 2011

Introductions & Agenda

Dr. Roger Tutterow
Mercer University

Tax Council's Goal

The goal of the Tax Council's recommendations is to make Georgia's tax system as jobs friendly as it can be in line with today's 21st century economy.

The intended result is a change in the philosophy of taxation and aims to be fundamentally revenue neutral, more transparent, and with an increased perception of fairness for all.

Today's Speakers

- Roy Fickling – Sales & Use Tax, Exemptions
- Dr. Christine Ries – Manufacturing & Mining Policy Changes
- Skeetter McCorkle – Agriculture Policy Changes
- Brad Dickson – Personal Services, E-Commerce
- Skeetter McCorkle – Excise Taxes
- Suzanne Sitherwood – Ancillary Recommendations

Sales & Use Tax

Roy Fickling
Fickling & Company

Recommendation: Sales & Use Tax

- Food for Home Consumption
  - Eliminate exemption June 30, 2011 and the exemption for food purchased with food stamps (SNAP) and WIC be retained
- Sales Tax Holidays
  - Do not re-enact sales tax holiday legislation
- Casual Sales
  - Recommends sales and use tax be applied to casual sales of titled personal property including motor vehicles, watercraft, and aircraft

Recommendation: Sales & Use Tax

- Exemptions
  - Make existing business and agriculture input exemptions permanent
  - Governmental exemptions should remain in law and not sunset
  - Exempt energy as a business input used in the manufacturing, mining, and agriculture industries to be competitive with Al, FL, SC, TN who already exempt
  - Sunset or eliminate all other current exemptions in June 2014 when they can be re-considered by the Legislature
  - New exemptions or credits should be filed in the first year of a legislative term, layover 1 year before adoption, or be approved by 2/3 supermajority in introduction year
  - New exemptions should be given a sunset date when written
  - Appendix F – list of existing exemptions to sunset

Manufacturing and Mining Industry Policy Changes

Dr. Christine Ries
Georgia Institute of Technology

CPR1

Guiding Principles and Philosophy

- Growth Enhancing – focus on creating jobs
- Efficient – simplified process to enhance compliance
- Stable – minimize steep increases and decreases
- Clear – simple, understandable, predictable
- Fair and Equitable – taxpayers believe they're getting a fair shake
- Properly Developed – based in fact and analysis
- Provides an Avenue for Resolution – appeals process

- Avoid tax pyramiding

Slide 9

CPR1 After Roy: Before Skeetter
Repeating this slide and highlighting items efficient and clear
Christine Ries, 2/7/2011

Current Business Input Exemption Code

- Code developed over decades
  - Generally correct structure: corresponds to ‘no business inputs’ principle

- Holes and loopholes; overlapping and obsolete

- Very significant costs of compliance broadly defined, pervasive and extensive

Rationalize, Modernize, Streamline

- ‘Piggyback’ on existing rules and definitions (GAAP and IRS) rather than invent our own
  - Inputs and machinery and equipment

- Challenged to state ‘existing’ code items in one simple statement.
  - “Items used in the business of (farming) and allowed by the IRS as a deductable, direct business expense.”

- Revenue neutral

Historical Development of Code: Mining and Manufacturing

- Developed piecemeal and over time often as outcome of adjudication
- Costly migration from ‘Direct Use’ standard to ‘Integrated Plant’ approach for exemption of machinery and equipment
- In 2008, integrated plant doctrine language written into code with substantial explanatory material contained in DOR regulations
- Three or four separate exemptions for industrial materials, excluding energy.

Prior to Integrated Plant Adoption

- Narrower definition of what machinery and equipment was exempt

- Large cost differential made expensive exemption certification process necessary.
  - Significant professional services fees for exemption certification process when building new plant.
  - Significant DOR costs of administration and auditing

Integrated Plant Manufacturing Exemptions (2008); Costs of Current Exemption Process and Code/Regulation Structure

- Hodgepodge of language in manufacturing and mining exemptions
- Explanations and clarifications contained in DOR regulations not permanent
- Expensive and unnecessary vestigial exemption certification process for new plants

Recommendation: Manufacturing and Mining

- Recommended replacement code in Appendix H

- Simplified, clarified and streamlined code
  - One comprehensive statement of exemption qualification; in one place
  - Permanent
  - Eliminate obsolete exemption certification process
  - Reduces requirement for legal assistance to interpret many items

Agriculture Policy Changes

Skeetter McCorkle

McCorkle Nurseries

Recommendation: Agriculture

- Rewrite of Agriculture’s Tax code
  - Certification process
  - Direct business inputs
  - Energy

- Expected State Revenue Impact: Revenue Neutral

Personal Services, E-Commerce Transactions

Brad Dickson

Windham Brannon

Recommendations

- Personal Services (Appendix I)
  - Services purchased by consumers
  - Consideration given to likelihood that if a sales tax is imposed, producers may leave the state or that purchases would be made out of state
  - Did not recommend taxing b-to-b services (accounting or legal services)
  - Did not recommend taxing services with a high cost of compliance (babysitting services)

- E-Commerce
  - Recommends full compliance with Streamlined Sales & Use Tax agreement
  - Collect sales & use tax using state resources and/or external recruiters to entice remote vendors to collect sales & use tax

Cigarette Tax, Motor Fuel Tax, Communications Services Tax, Insurance Premium Tax

Skeetter McCorkle

McCorkle Nurseries

Recommendations

- Cigarette Tax
  - Recommends increasing to the average of surrounding states which is $0.68 per pack & then index for inflation
  - National average is $1.45 per pack
  - State Revenue Impact: $120 - $130 million

Recommendations

- Motor Fuel Tax
  - 1Q/2010 "Cents per Gallon" by surrounding States
    - Alabama: 16.0
    - Georgia: 13.4
    - Tennessee: 20.0
    - Florida: 29.6
    - South Carolina: 16.0
- State Revenue Impact: Revenue Neutral
- Doesn't impact the 1% state sales tax or local taxes

Taxes (mln)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Motor Fuel	$680.7	$731.9	$850.9	$821.2	$939.0	$994.8	$884.1

Recommendations

- Motor Fuel Tax
  - Recommends converting the current 3% motor fuel tax on gasoline to a cents per gallon rate (no recommendation for change of the 1% state sales tax on gasoline) to be combined with the current 7.5 cents per gallon rate, and adjusting this total rate annually by the highway construction index.

Recommendations

- Insurance Premium Tax
  - Georgia State Portion = 2.25%, Local Portion =2.5%; 2009 Total Taxes $314.6 million
  - Georgia relative to other states
  - Companies re-domesticating from Georgia
    - AFLAC, Association Insurance, Atlanta Casualty Insurance, Commercial Casualty Insurance, Georgia Int'l Life Insurance, Laurier Indemnity Insurance, Maxum Casualty Insurance, Omni Indemnity, Omni, Peachtree Casualty Insurance, Southern Insurance Co of Virginia, States Self-Insurer Risk Retention Group, Travelers Indemnity
  - Benefits of reducing the Insurance Premium tax rate
    - Foster economic growth
    - Create a competitive environment for companies to invest in Georgia
    - Create well-paying and environmentally friendly jobs
    - Create an opportunity for more competitive rates and possible cost reductions for Georgia consumers

Recommendations

MAG Mutual – Retaliatory Taxes to States Outside of Georgia 2005 -2009

	2005	2006	2007	2008	2009	Total 2005 – 2009
Florida	$2.9	$2.6	$2.4	$2.3	$1.9	$12.1
North Carolina	.2	.2	.2	.3	.2	1.1
All Other States	.2	.2	.3	.3	.3	1.4
Total	$3.3	$3.1	$2.9	$2.9	$2.4	$14.6

Recommendations

- Insurance Premium Tax
  - Recommends that the total insurance premium tax rate for both life and property-casualty insurance be reduced to a rate of 1.75% which is believed to be revenue neutral for the State based on decreases in direct revenues offset by increases in retaliatory taxes.
  - This will accomplish the objective of making Georgia competitive in attracting and retaining insurance companies.
  - The Council believes the Legislature is the appropriate body to determine the portion of the state and local premium taxes which make up the 1.75% .
  - It is assumed that if the reduction comes from local governments, the revenues that local governments currently receive from the premium tax is expected to be offset or increased from revenues generated by the broadened sales tax base and the communications services tax base.