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Simple • Transparent • Fair

November 29, 2010

Mr. A.D. Frazier  
Chair, Special Council on Tax Reform and Fairness  
c/o Donna Moore, Project Management Consulting, Inc.  
2930 Briarglen Drive  
Atlanta, GA 30340

Dear Mr. Frazier:

Georgians For Fair Taxation is submitting the attached presentation entitled "A Progressive Consumption Tax for Georgians" for consideration by you and the other members of the Special Council on Tax Reform and Fairness as you assess and recommend the changes in the revenue collection mechanism for Georgia. We strongly believe that a progressive consumption tax structure in Georgia will not only align our tax code with many of the Guiding Principles stated by the Commission, but will also serve as a powerful driver toward job growth and positive economic development.

Georgians For Fair Taxation (GFFT) is an entity committed to rational alignment of government revenue collection:

- We are a grass-roots arm of AFFT (Americans for Fair Taxation), the non-partisan group supporting awareness and passage of US House Resolution 25, known as the Fair Tax Plan
- Our leadership and membership has a broad array of backgrounds, careers, social preferences – unified by one fundamental economic goal
- GFFT has been involved in scores of education and awareness campaigns across Georgia
- GFFT is non-profit, self-funded through individual donations, led and staffed by volunteers
- We have no large advertising budgets or promotional capabilities
- We are committed to non-political and non-partisan approach. Violations have resulted in termination of assignments to leadership posts within GFFT
- GFFT operates with our feet-on-the ground within our communities - from Sweet Auburn, to Dahlonega, to Augusta

Thank you for your consideration of the attached information as worthwhile for the Council's review and analysis. Thank you also for the time and effort you and the other Council members are investing in this important initiative for the State of Georgia.

Sincerely,

A handwritten signature in black ink, appearing to read "Matthew B. Wilkerson", with a long horizontal flourish extending to the right.

Matthew B. Wilkerson  
Board Member and District Director (US House 6<sup>th</sup> Dist.)

# A Progressive Consumption Tax for Georgians

Georgians For Fair Taxation  
Appeal to the  
Special Council on Tax Reform  
and Fairness for Georgians

December 1, 2010



# About Georgians For Fair Taxation (GFFT)



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# Guiding Principles



Economists generally agree that economic growth and development is best served by a tax system that:

1. Creates as few distortions in economic decision-making as possible
2. Has broad tax bases and low tax rates
3. Has few exemptions and special provisions
4. Promotes equity through transfers, subsidies, and tax credits rather than by having tax rates increase with income, that is through progressive tax rate structures
5. Taxes consumption rather than income in order to encourage saving and investment
6. Keeps tax rates low since taxes reduce the quantity or level of activity of the thing that is taxed

# Benefits of a National Progressive Consumption Tax System




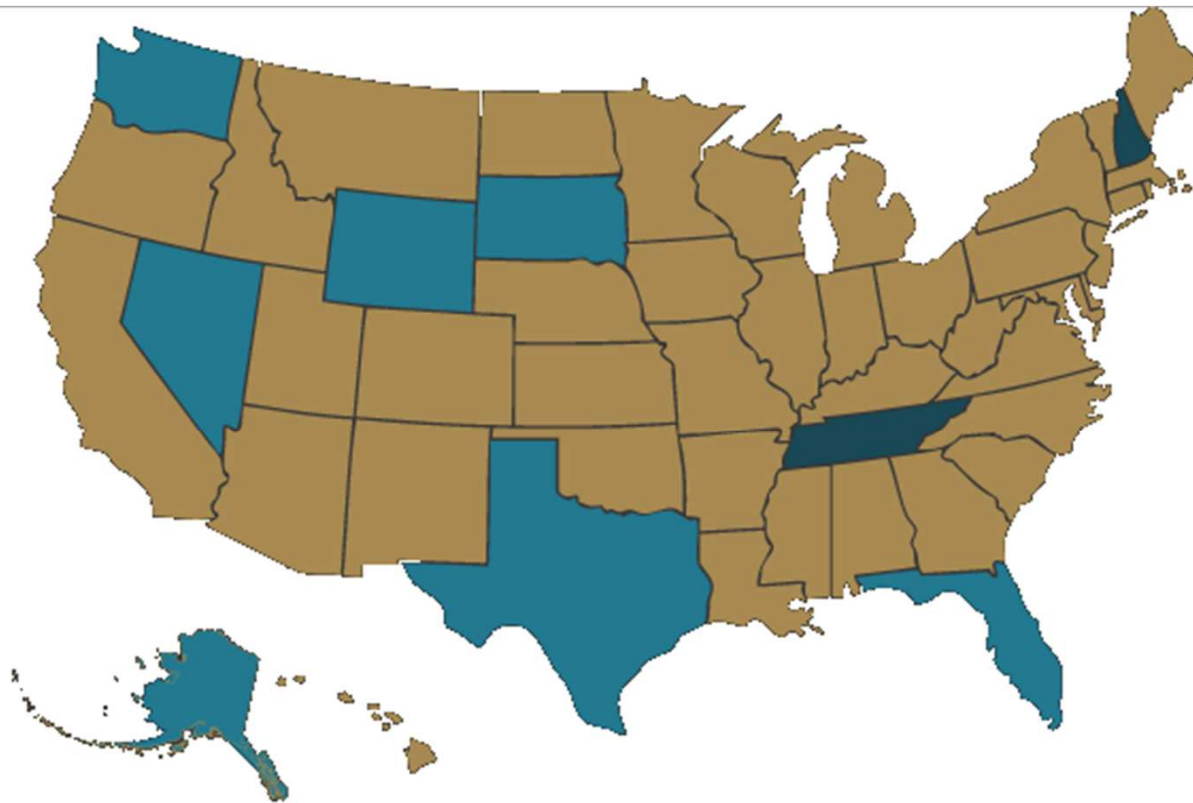
The proposed Fair Tax (US HR 25) has the following benefits:

\$	<b>Creates jobs where the current system destroys jobs.</b> By stripping out hidden federal income taxes and compliance cost, the Fair Tax makes U.S. goods more competitive overseas and more affordable at home, thereby sharply increasing job creation while sharply reducing our trade deficit.
\$	<b>Eliminates FICA withholding.</b> The most regressive tax of all, while ensuring the system fulfills its Social Security and Medicare promise to one generation without being a terrible burden on the next.
\$	<b>Eliminates the corporate taxes and cost of compliance</b> hidden in both wholesale and retail prices.
\$	<b>Dramatically lowers effective tax rates</b> for lower- and middle- income: a rebate covers taxes up to the poverty level.
\$	<b>Allows families to save more and faster</b> for home ownership, education and retirement.
\$	<b>Expands the tax base</b> to include elements of our economy which never see the light of day for taxation. This lowers the burden on individuals historically in compliance with the tax code.
\$	<b>Encourages attainment of citizenship</b> for undocumented immigrants in order to qualify for the tax rebate.
\$	<b>Allows homeowners to pay their entire home mortgage payment with pretax dollars</b> , a great improvement over the current home interest deduction.
\$	<b>Frees up time wasted</b> on filling out cumbersome and inscrutable IRS forms throughout the economy to the tune of \$300 billion (about three percent of GDP).
\$	<b>Raises the same amount of revenue</b> for the federal government (revenue neutral).

# States' Positions on Revenue Collection



 The nine states with no income tax



**\*New Hampshire and Tennessee tax dividends and interest**

# Missouri: Tax Reform Visionary



Missouri Proposing Revenue Collection Modeled After US HR 25

- Missouri House Bill 814 passed in 2009
- Missouri House Joint Resolution 56 passed in 2010
- Adjustments mainly for phase-in of provisions over several years (2013-2018)

## Key Elements:

- Elimination of income taxes
- Rebate to cover taxes up to the HHS-defined poverty level
- Sales tax revenue collection already established
- Expansion of retail services eligible for taxation

# Missouri HJR 56: Fair Taxation



“2. For all tax years beginning on or after January 1, 2012, no tax shall be imposed upon any income derived from any source within this state, and all revenues lost as a result of the prohibition on the taxation of income under this section shall be replaced by the levy and imposition of a tax upon the consumption or use in this state of taxable property or services...”

“3. The rate of the tax levied and imposed under subsection 2 of this section shall be five and eleven one-hundredths percent. As may be recommended by the tax adjustment commission established by subsection 8 of this section or otherwise, the general assembly may enact one rate adjustment, to be effective no later than the beginning of fiscal year 2013, after the imposition of such tax if the revenue lost as a result of the prohibition on the taxation of income is greater than or less than the revenue received from the tax imposed in this section...”

“5. The taxes that are replaced under this section are as follows:

- (1) Withholding taxes and individual and corporate income taxes;
- (2) Corporation franchise and bank franchise taxes;
- (3) All existing state sales and use taxes;
- (4) All local earnings taxes authorized by state law.”

“6. The department of revenue shall determine a method for providing sales tax rebate for each duly registered qualified household of this state. The sales tax rebate shall be distributed to each qualified household beginning January 1, 2012. The monthly amount of the rebate shall be equal to the product of the rate of sales tax established under this section and one-twelfth of the annual poverty guidelines updated periodically in the Federal Register by the United States Department of Health and Human Services...”





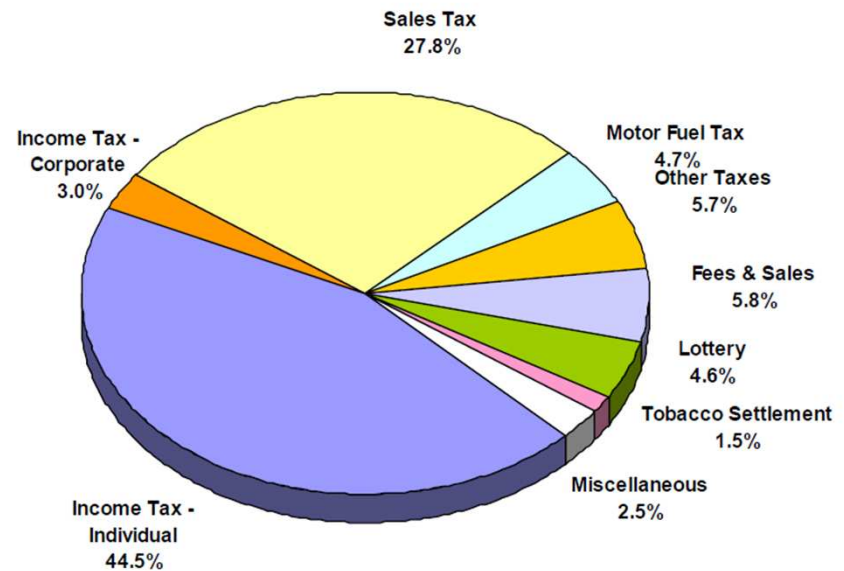
# What We (GFFT) Have Learned

- GFFT has been engaged in community awareness and education programs for over 10 years: The Georgia constituency understands and supports a progressive consumption tax, although their leaders may not, better than any other state
- Rallies, April 15 post office events, community meetings, parades, festivals and other events all indicate wide support across the political spectrum and socio-economic spectrum
- At the individual level there is far less fear of a significant change to taxation than leadership realizes
- Current national dialogue (debt crisis, pending debt commission recommendations) is bracing individuals and their leadership for the significant change needed at the federal level
- Georgians passed the referendum to exempt business inventory from property tax, demonstrating an understanding of core economic cause and effect

# Current State of Georgia Revenue



Revenue Category	Revenue (millions)
Individual Income Tax	\$8,900
Corporate Income Tax	\$600
Sales Tax	\$5,560
Motor Fuel Tax	\$940
Fees & Sales	\$1,160
Lottery	\$920
Tobacco Settlement	\$300
Other Taxes	\$1,140
Miscellaneous	\$500
<b>Total</b>	<b>\$20,000</b>





## What Would the Rate Be?

Once adopted as worthy of research, the council would need to recommend a complete economic analysis. Here are the basic assumptions that we volunteers from GFFT present for our general reference...

- Georgia's annual GDP is roughly \$395B
- Retail consumption of goods and services accounts for 65-70% of our GDP (\$255-275B)
- Georgia's annual state government budget is roughly \$20B
- Georgia population is 9.8M, average household is 2.65 persons
- Assume a provision for a monthly rebate up to the poverty line established by the HHS for ALL Georgia households
- Assume consumption tax based on ALL retail goods and services



# What Would the Rate Be?

- Very simplistic, thumbnail sketch indicates the revenue needs could be supported
- What other revenue categories should be eliminated - beyond individual and corporate income tax?
- Compatibility of tax code with specific county and municipality-level needs?
- What goods and services would fall under a state consumption tax that do not fall under the current GA sales tax?

Figure	Amount
Georgia GDP	\$395,000,000,000
Consumption (at 65%)	\$256,750,000,000
Population	9,800,000
Avg persons per household	2.65
Avg poverty level (at 2.65 persons)	\$17,001
Number of households	3,400,000
Consumption per household*	\$75,515
Avg poverty allowance per household	\$17,001
Net consumption per household	\$58,514
State revenue with tax rate of 7%	\$13,926,262,000
State revenue with tax rate of 8%	\$15,915,728,000
State revenue with tax rate of 9%	\$17,905,194,000
State revenue with tax rate of 10%	\$19,894,660,000
State revenue with tax rate of 11%	\$21,884,126,000

\* Business consumption represented within aggregate household consumption to simplify the illustration.



# Tax Gap and Behavior Concerns

The following concerns present the more significant challenges of sustaining and enforcing a consumption-based tax code in Georgia:

- **Broadened base** of retail goods and services for taxation
- **Compliance** for independent business - legitimacy of business production expenses versus consumption
- **Consumption** (and GA revenue) in cities/towns bordering low sales tax states moving across the border
- **E-Commerce** tax gap

# Compliance Reality Check



- Current income tax system necessitates detailed compliance measures across all individual filers
- Georgia's dual income tax + sales tax requires double duty on tax compliance: retail businesses AND all individual income tax filers
- Single, simplified tax code brings about significant reduction in Department of Revenue compliance measurement effort
- Tax code would self-regulate on the lower end of the personal consumption scale, broadest segment of the population for rebate eligibility
- Coordination of compliance measures between the GA Department of Revenue, GA Department of State, others for higher end of the personal consumption scale (those with means to setup corporations for consumption tax avoidance). *Note: The new federal healthcare law has proposed a means for legitimizing business expenses starting in 2012.*



## How GFFT Would Like to Help

- GFFT has a strong interest in serving the Special Council on Tax Reform and Fairness for Georgians
- We are available for additional input for the Council as you prepare your findings and report
- We will be promoting the findings of the Council with our grass-roots members and interested parties
- We are prepared to deliver the message to the community on your findings and are equally prepared to provide feedback from our membership to the Council
- Our organization has been established specifically for communicating the tax reform message. Keep our capabilities and our reach in mind for future activity.

**THANK YOU!**

# Closing Thought



“The income tax is bad because it has robbed you and me of the guarantee of privacy and the respect for our property that were given to us in Article IV of the Bill of Rights. This invasion is absolute and complete as far as the amount of tax that can be assessed is concerned. Please remember that, under the 16th Amendment, Congress can take 100% of our income anytime it wants to.

I believe that a better way to raise revenue not only can be found but must be found, because I am convinced that the present system is leading us right back to the tyranny from which those, who established this land of freedom, risked their lives, their fortunes and their sacred honor to forever free themselves....”

- T. Coleman Andrews  
Commissioner of Internal Revenue, 1953-1955



# Appendix

Supplemental Materials





# Key elements of US HR 25

Initially introduced in the U.S. Congress in 1999, H.R. 25:

- Replaces all federal income and payroll based taxes with an integrated approach
- Progressive national retail sales tax
- Monthly rebate to ensure no American pays federal taxes on spending up to the poverty level (as defined by US Health and Human Services, “HHS”)
- Dollar-for-dollar federal revenue neutrality
- Repeal of the 16th Amendment through companion legislation

*It abolishes all federal personal and corporate income taxes, gift, estate, capital gains, alternative minimum, Social Security, Medicare, and self-employment taxes and replaces them with one simple, visible, federal retail sales tax administered primarily by existing state sales tax authorities.*

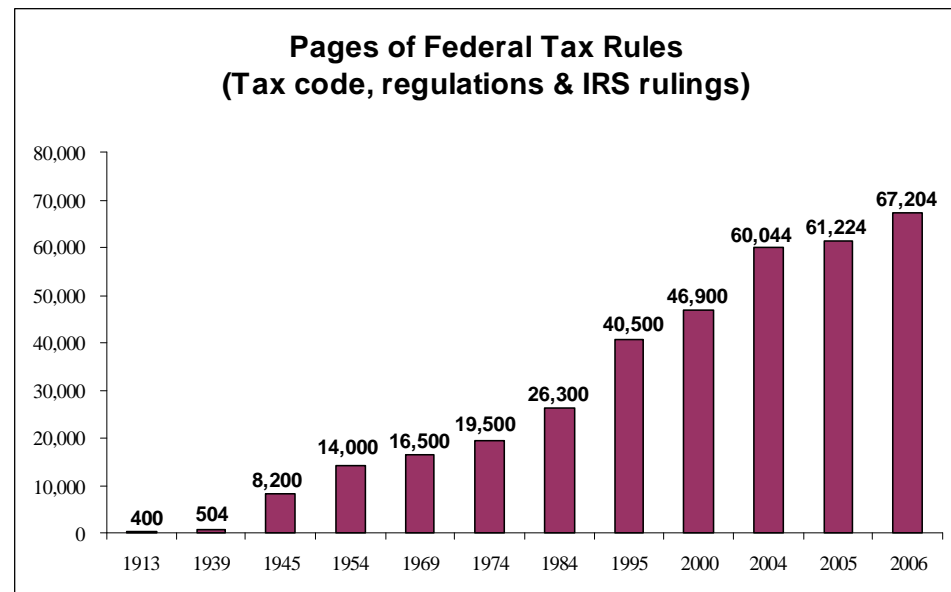


# History of the U.S. Tax System

## Federal Tax Revenue as compared with Gross Domestic Product

Year	GDP*	(FTR) Total Revenue*	% of GDP
1800	480	11	2%
1810	700	10	1%
1820	700	19	3%
1830	1,010	27	3%
1840	1,560	24	2%
1850	2,560	49	2%
1860	4,350	65	1%
1870	7,740	430	6%
1880	10,400	367	4%
1890	15,100	464	3%
1900	20,600	670	3%
1910	33,400	875	3%
1920	88,400	7,380	8%
1930	91,200	4,830	5%
1940	101,400	7,000	7%
1950	293,800	43,527	15%
1960	526,400	99,800	19%
1970	1,038,500	192,807	19%
1980	2,789,500	517,112	19%
1990	5,803,100	1,032,090	18%
2000	9,817,000	2,025,460	21%
2008	14,264,600	2,524,330	18%

\* \$Million not adjusted for inflation



*“The hardest thing in the world to understand is the income tax.”*

*— Albert Einstein*

# Macro View of Fair Tax - US HR 25



- For Business and Trade
  - Price shifts will substantially increase demand for U.S. goods and services in all markets
  - Manufacturing that avoids payroll tax comes home to the U.S.
  - Foreign corporations contribute to U.S. economy by locating offices and facilities here
  - U.S. assets parked offshore are repatriated
- For the Nation
  - A more efficient and fair way to collect taxes
  - Provide same revenue to Federal Government
  - Funds Social Security and Medicare, eliminating the looming problem of insolvency
  - Substantially improves trade deficit, budget deficit and U.S. status as a debtor nation
  - Transparency: Changes in gov't. spending become highly visible



## Business View of US HR 25

- Eliminates payroll and corporate income taxes which are embedded at each level of the U.S. supply chain, making more room for the following:
  - Capital investment
  - Employment and employee benefits
  - Pricing reductions
  - Expanded profits and shareholder benefits
- Encouraging investment in human capital continuously adds value to our work force
- No tax on Business-to-Business production costs
- Taxes Business and Government consumption
- Generally, implementation complexity is low due to existing procedures for collecting state and local sales tax



# Individual View of Fair Tax

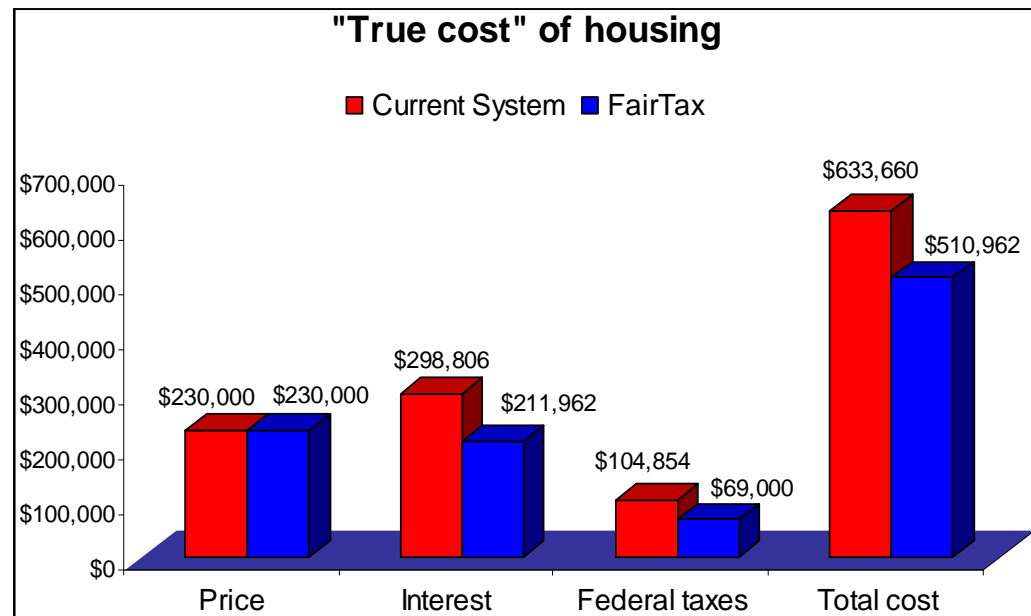
- Replaces mandatory federal income taxes with a voluntary tax on consumer purchases of new goods and services
  - No taxes are collected on used items
  - Educational expenses are not taxed
- The Fair Tax eliminates these mandatory taxes:
  - Personal income taxes
  - Estate taxes and gift taxes
  - Alternative Minimum Tax (AMT)
  - Capital Gains Taxes
  - Self-Employment Taxes



# Individual View of Fair Tax

## Housing, Mortgage and Charitable Deductions

- Deductions are not needed, because there is no income tax
- Taxpayers currently must itemize to take advantage of mortgage interest deduction and charitable deductions – only 30% do
- Everyone will pay mortgage payments with pre-income tax AND pre-payroll tax dollars.





# Fair Tax Objections

- "The 23% rate is misleading. It's actually 30%"
  - The 23% (*inclusive*) rate is presented to allow for a comparison to the current income tax. If comparing the Fair Tax to common sales tax, the 30% (*exclusive*) rate is appropriate.
- "It's not enforceable and evasion will be rampant"
  - More than 80% of all tax returns are eliminated under the Fair Tax. What remains are retail outlets collecting the Fair Tax. Sales tax revenue collection and compliance controls are already in place for most of the U.S.
- "It will not be revenue neutral at 23%"
  - The Fair Tax rate of 23% has been thoroughly researched to provide all the revenues now collected under both the income tax system and through FICA payroll taxes. Reports otherwise are largely based on President Bush's Advisory Panel on Tax Reform (2008) which declared the rate would have to be much higher. This panel quietly devised their own national consumption tax which they loaded with the exemptions and deductions they felt were "politically realistic"



# Fair Tax Objections



- "The Fair Tax is not politically viable"
  - Great public policy changes do not happen easily. We believe, however, in the promise of the Founding Fathers that this is a nation, "of, by and for the people". In the last year we have seen more Congressional co-sponsors come on board faster than ever before. We have seen five of eight GOP candidates and one Democratic candidate embrace the FairTax. With increased media coverage, as at least one candidate has made this a central plank of his campaign, more and more Americans have come to understand the powerful benefits the FairTax offers the nation.
- "The Fair Tax is regressive and shifts the tax burden onto lower and middle income people"
  - The FairTax actually eliminates and reimburses all federal taxes for those below the poverty line. This is accomplished through the universal prebate and by eliminating the highly regressive FICA payroll tax. Today, low and moderate income Americans pay far more in FICA taxes than income taxes. Those spending at twice the poverty level pay a FairTax of only 11.5 percent -- a rate much lower than the income and payroll tax burden they bear today.



## Current Public Opinion

- A plurality of Americans would support a national sales tax if it meant getting rid of the federal income tax:
  - 43% favor that trade-off, but 38% are opposed
  - Pluralities of Republicans and unaffiliateds like the idea, while a plurality of Democrats are against it
  - Forty-eight percent (48%) say a national sales tax is fairer than an income tax while 26% hold the opposite view
  - The sales tax is viewed as fairer by 52% of Republicans, 44% of Democrats and 49% of unaffiliateds