

Address to the 27th Biennial Institute for Georgia Legislators

2010 Special Council on Tax Reform and Fairness for Georgians

*A.D. Frazier, Chair
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Origins of the Tax Council

- HB1405 signed into law on June 1, 2010
- Mission is to study the state's current tax revenue structure and make recommendations to the Speaker of the House and the Lieutenant Governor by January 10, 2011
- 11 Council Members
 - Governor Perdue, Suzanne Sitherwood (GCC), Gerry Harkins (NFIB), Bradford Dickson, Skeetter McCorkle, Roy Fickling, AD Frazier, Dr. Roger Tutterow, Dr. David Sjoquist, Dr. Jeffrey Humphreys, and Dr. Christine Ries

Work of the Tax Council

- 5 formal meetings
 - Presentations from tax experts and opinion leaders to understand current system and future opportunities
- 11 fact finding sessions across the state
 - 750 attendees, ~200 speakers
- Established guiding principles
 - to align with a 21st century tax system that is pro-growth, job-friendly, and fair for our citizens

Guiding Principles

- The following are basic principles that guided this work, understanding that there are trade-offs across these principles. The Council seeks to identify a tax system that is:
 - Growth Enhancing
 - Efficient
 - Stable
 - Clear
 - Fair and Equitable
 - Properly Developed
 - Provides an Avenue for Resolution

Georgia as an Enterprise

- Georgia is well-managed
 - Ranked 45th in state taxes per capita with a AAA bond rating
- Georgia is a business-friendly state
 - Business drivers include an educated workforce, infrastructure, transportation, training, and quality of life factors all of which rank high in Georgia however rank at the bottom in K-12 education
 - *Site Selection* magazine recently ranked Georgia 6th in terms of “a good place to do business”
 - Council on State Taxation (COST) ranks Georgia 10th on business taxes as a percent of state GDP

Georgia's Tax Revenue Today

- 83% of the forecasted \$15.1 billion in FY 2011 tax revenue will come from personal and sales & use

Source	FY 2011 Estimate	%
Personal Income Tax	\$7.3 billion	48.1
Sales & Use Tax	\$5.3 billion	34.7
Corporate Income Tax	\$602.0 million	4.0
Motor Fuel Sales Tax	\$856.2 million	5.7
Insurance Premium Tax	\$378.6 million	2.5
Motor Vehicle License Tax	\$283,2 million	1.9
Tobacco Tax	\$226.8 million	1.5
Alcohol Beverages Tax	\$177,4 million	1.2
Property Tax	\$81.5 million	0.5
Total	\$15.1 billion	100%

Georgia is at a Crossroads

- We need to start on a path now to begin to reduce personal and corporate income tax and begin replacing them with consumption taxes
- We currently tax the wrong things (income) versus taxing consumption and personal choices in discretionary spending
- This will be an evolutionary process in recognition of the portion of personal income tax (48%) contribution to total state revenues

Tax Philosophy for the Future

- Offset income taxes with consumption taxes
- Maintain diverse tax revenue streams
- Seek stability of structural, recurring revenue streams
- Expand the base of tax-paying entities in anticipation of lowering the rate
- Avoid tax pyramiding
- Improve competitiveness of tax structure with surrounding states
- Use tax credits for both new companies and existing businesses
- Preserve the AAA bond rating

Personal Income Tax

- Nearly half (48% or \$7.3 bln) of tax revenue today comes from personal income tax
- Current tax rate schedule is flat with the top tax rate reached at a taxable income of \$10,000 for a joint return
- Complexity from brackets, deductions, exemptions, credits

Corporate Income Tax

- Volatile revenue stream
- \$602 million or 4% of the current tax revenue
- Currently have 33 corporate income tax credits
- The system of corporate income tax credits is hard to qualify for, and is particularly disadvantageous to small business

Corporate Income Tax

- Opportunity for a new scheme to simplify and broaden:
 - Department of Economic Development would prepare a budget and authorization request
 - Legislature reacts to the authorization request and establishes a discretionary fund limit
 - Give the Commissioner of Economic Development the latitude and flexibility to customize incentive packages to attract new business and expand existing businesses with the approval of the Governor
 - Offer two broad credits (job creation and capital investment), simplify the application process, and focus economic development on small business
 - Track and measure the return on investment of credits

Strategy: Administrative & Governance Policy Improvements

- **Exemptions**

- Make existing business and agriculture input exemptions permanent
- Exempt energy as a business input used in the manufacturing, mining, and agriculture industries to be competitive with AI, 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 should 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
- These policy changes will enhance transparency and fairness, maintain stability of the tax base

Strategy: Administrative & Governance Policy Improvements

- **Tax Court**
 - Establish a tax court to handle tax appeals
 - Most progressive states have already implemented
 - Dispute resolution which is fair and equitable, simple and transparent
- **Local Governments**
 - Allow local governments to use non-LOST sales tax for operating revenues if they will rollback inventory tax and/or property tax
 - Inventory tax is perceived as the most anti-business policy in our tax code

Strategy: Administrative & Governance Policy Improvements

- Department of Revenue
 - Establish better alignment with local governments
 - Timely reimbursements
 - Transparency and accounting of payments
 - Aggressive pursuit in identifying abuse and uncollected sales tax revenues
- Review tax revenue structure every 4 or 8 years in alignment with the gubernatorial election cycle
- Establish look-back analyses for effectiveness of decisions

Conclusion

Recommendations of the Tax Council, taken as a complete system, will result in a change to the philosophy of taxation and aims to be fundamentally revenue neutral, more transparent, and with an increased perception of fairness for all. The goal of the recommendations is to bring Georgia's tax system in line with a modern 21st century economy.