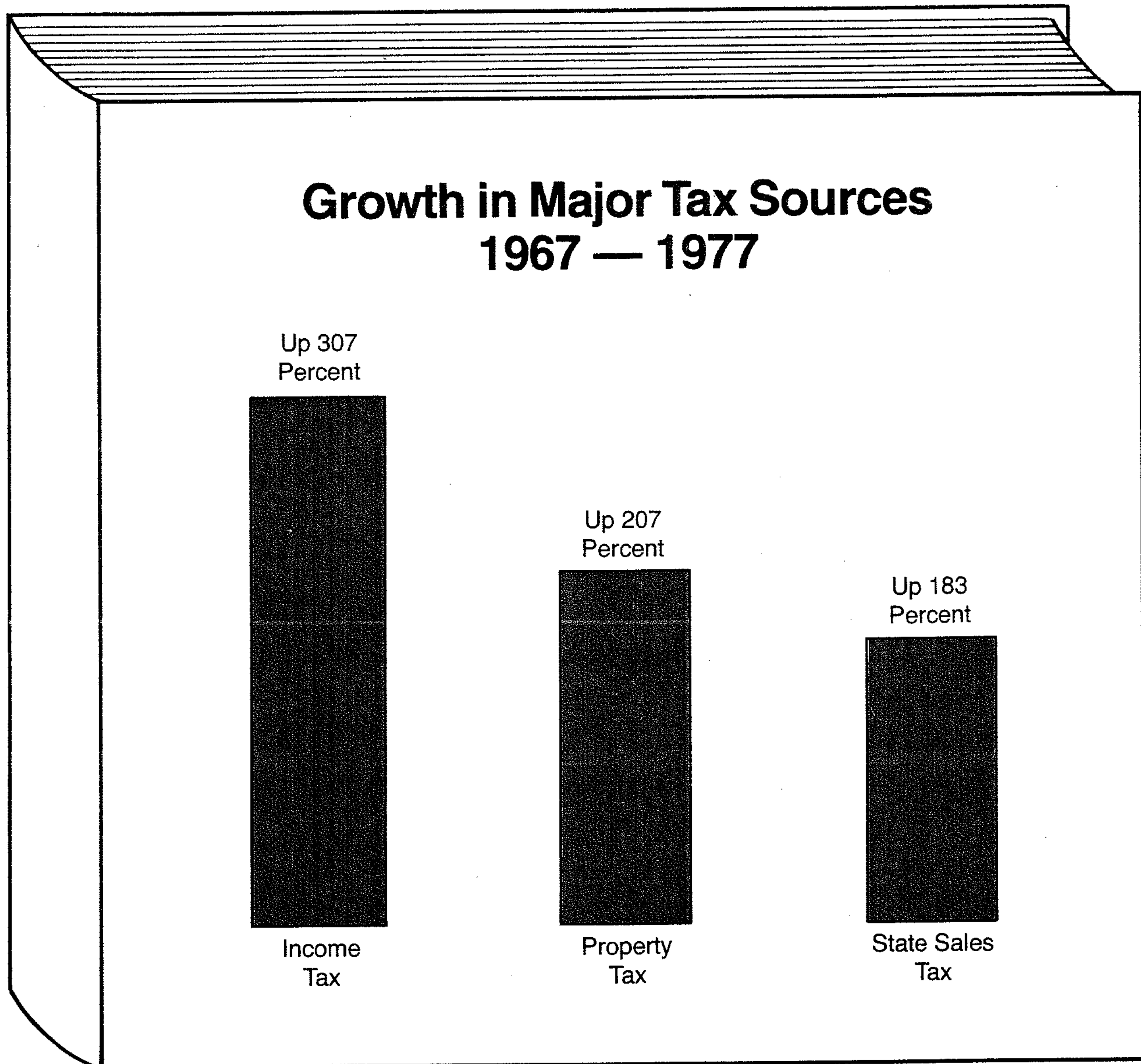
Georgia Tax Reform Commission
Combined Report



Findings and Recommendations
1979 — 1981

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Part 1

A RESOLUTION

Creating the Georgia Tax Reform Commission; and for other purposes.

WHEREAS, the economy of the State of Georgia has undergone dynamic growth during the last several decades and undoubtedly will continue to experience a lively expansion since Georgia stands as the business/industrial hub of the South; and

WHEREAS, these developments have contributed significantly to the potential for a richly diverse revenue mix for the State and local governments; and

WHEREAS, the reliance on traditional tax revenue sources, when coupled with the rapid increase in the demand for governmental services, has yielded a strained revenue structure unable to respond to current and future fiscal needs in a balanced, equitable fashion and has increasingly troubled and financially burdened the individual taxpayers of the State; and

WHEREAS, the various inequities and imperfections which seem relatively trivial when the tax burden is less cannot be ignored as the tax burden rises; and

WHEREAS, the revenue structure of Georgia, like that of other states, has received only sporadic, piecemeal revision over the years, and these changes too frequently have been made in an isolated context without due regard for the overall tax system and the principle of neutrality; and

WHEREAS, the ideal tax structure necessarily varies from state to state depending on the employment mix, the economic base, and the developmental patterns in the particular state, and each of these variables has changed significantly in Georgia in the absence of a comprehensive and exhaustive review and study of the consequences and fairness of the resulting system; and

WHEREAS, the goal of designing a balanced tax system with the fewest inequities within the structure of the various taxes will enable decisions of individuals and businesses with respect to location, investment, and spending to proceed unclouded by or be minimally influenced by tax consequences.

NOW, THEREFORE, BE IT RESOLVED BY THE GENERAL ASSEMBLY OF GEORGIA:

Section 1. There is hereby created the Georgia Tax Reform Commission. The Commission shall be composed of twenty-one members as follows:

(a) Six members of the Senate to be appointed by the President of the Senate.
(b) Six members of the House of Representatives to be appointed by the Speaker of the House of Representatives.
(c) (1) Nine members to be appointed by the Governor.
   (2) Of the Governor's appointees, one each shall be appointed upon the recommendation of:
      (A) The Georgia Municipal Association and shall be an elected municipal official.
      (B) The Association of County Commissioners and shall be an elected county official
      (C) The Georgia Chamber of Commerce.
      (D) The Georgia Farm Bureau.
      (E) The Georgia League of Women Voters.
      (F) The Georgia Property Owners Association.
   (3) Each such organization shall recommend to the Governor a list of not less than three names for appointment to the Commission. From each such list the Governor shall appoint one member as provided in this Section.

Section 2. The Commission shall conduct a comprehensive and exhaustive study of the tax laws and tax policy of this State with a view toward modernizing and revitalizing the revenue structure so as to create an equitable and flexible tax system which properly balances the taxes based on fixed wealth, current expenditures, and current flow of income.

Section 3. The Commission is authorized to appoint and employ staff personnel as it may deem necessary, including an executive director, and to contract for professional and research services to effectuate the purposes of this Resolution. The Office of Legislative Counsel shall serve as counsel to the Commission.

Section 4. The Commission shall elect a chairman from among its membership. The first meeting of the Commission shall be upon the joint call of the President of the Senate and the Speaker of the House of Representatives. Thereafter, the Commission shall meet upon the call of the chairman.

Section 5. The Commission may request and, upon such request, shall be afforded the assistance and cooperation of the State Revenue Department, the Department of Law, the Institute of Government, and each other agency or institution of the State.

Section 6. The Commission is encouraged to seek the active cooperation and assistance in its work of the Georgia Association of Tax Officials, the Georgia Forestry Commission, the Georgia Society of Certified Public Accountants, the Georgia School Boards Association, the Tax Section of the State Bar of Georgia, and other interested organizations and individuals, and is expressly encouraged to take advantage of the expertise and experience in matters affecting taxation and tax policy which is available through institutions of higher learning in this State.

Section 7. All members of the Commission shall receive the allowances authorized by law for legislative members of interim legislative committees. Any members of the executive or judicial branches of government shall receive such allowances from State funds from which they are otherwise compensated. The other allowances and all other funds necessary to carry out the provisions of this Resolution shall come from the funds appropriated to or otherwise available to the legislative branch of government.

Section 8. The Commission shall make a preliminary report to the 1979 Session of the General Assembly and a comprehensive report of its findings, recommendations, and suggestions for proposed legislation to the 1980 Session of the General Assembly.

Section 9. This Resolution shall become effective upon its approval by the Governor or upon its becoming law without his approval. Appointments to the Commission shall be made as provided in this Resolution as soon as practicable after its approval or otherwise becoming a law.

MEMBERS OF THE COMMISSION

Jimmy Lester, Chairman
Senator, District 23
Augusta

William J. Breeding
Board of Education
Greensboro

* A. L. Burruss
Representative, District 21
Marietta

Curtis H. Cadenhead, Jr.
Deloitte, Haskins & Sells
Atlanta

Bobby Carrell
Representative, District 75
Monroe

* Marcus E. Collins, Sr., Vice-Chairman
Representative, District 144
Pelham

Tom Faircloth
Mayor
Thomasville

Hugh Gillis
Senator, District 20
Soperton

* Gil Harbin
Mayor
Valdosta

Charles Hatcher
Representative, District 131
Albany

* Al Holloway
Senator, District 12
Albany

Constance Hunter
Walton EMC
Athens

Charles Kent
Board of Commissioners
Tifton

Sidney J. Marcus
Representative, District 26
Atlanta

Charles McDaniel
State Superintendent of Schools
Atlanta

George L. O'Kelley, Jr.
University of Georgia
Athens

* John R. Riley
Senator, District 1
Savannah

* Clark Stevens, Secretary
Director, Office of Planning & Budget
Atlanta

Lex Strickland
Claxton

Horace E. Tate
Senator, District 38
Atlanta

Loyce W. Turner
Senator, District 8
Valdosta

George Williamson
Representative, District 45
Atlanta

* Denotes Task Force or Subcommittee Chairman

STAFF OF THE COMMISSION

Jack W. Morton
Executive Director

Stephen W. Vaughn
Assistant Director

Marilyn Englehart
John R. Keys
Terry D. Lawler
Tina R. Perchik
John P. Ridley
Betty C. Swaim

Interns

Cathy Cox
Carol Feeney
Hubert Harper

FOREWORD

No one likes to pay taxes. It has been said that the best tax is the one that someone else pays. However, government under a democracy exists through contributions of the citizens for its support, commonly referred to as taxes.

In view of the increasing budget and demands of all of our governmental units, it has been necessary for the General Assembly of Georgia through the years to levey more and more taxes in order for the needs of the people of our State to be met. As a result, the tax system of Georgia over a period of years has evolved into an extremely complex system. For this reason the General Assembly in 1978 formed the Georgia Tax Reform Commission, charging it with the responsibility of conducting a comprehensive and exhaustive study of the existing tax laws and tax policy of the State.

Since its creation the members of the Commission and its staff have conducted a complete review of the State's tax laws. Many inequities have been found and recommendations of the Commission for their elimination is included in the report for the benefit of the General Assembly and the people of Georgia.

An adequate evaluation of our tax system, or any other tax system, cannot be made by considering any one tax standing alone. The problem always is to revise taxes already on the statute books, possibly eliminating some and adding others, so as to secure the best system in view of existing needs and circumstances considered in their entirety. Each form of tax has certain merits and demerits. The choice between them in the last analysis depends upon one's judgment, preferences, and sometimes prejudices.

I want to express my personal appreciation to each member of the Commission and its staff for their dedication and contributions in improving the tax system of Georgia. Their work will long be remembered. As the result of the Commission's efforts and its findings and recommendations, I believe the taxpayers of Georgia will receive relief from the inequities of our tax system and the existing burdens of taxation.

James L. Lester
Chairman

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PREFACE

The level of taxation for all units of government in our society has generated wide debate during recent years. The general public is apparently becoming more acutely aware of issues relating to the equity and fairness of our overall tax structure as well as the absolute dollar amount extracted by each of our tax levying entities.

It is within this environment that the Georgia Tax Reform Commission has worked over several months. Created by joint resolution during the 1978 Session of the Georgia General Assembly, the Commission has actively worked for slightly more than one year to fulfill its responsibilities under the Resolution creating the Commission.

There are many elements which may comprise tax reform. These indeed include tax *exemption,* tax *relief,* and tax *shift. Additional* and/or *alternative* levies must also be considered. However, before any, or a combination, of these results can be properly achieved, several inherent actions should be performed. Perhaps the first of these is *identification* for the policymaker must of necessity begin with an understanding of those sources of revenue currently being utilized and the extent of that utilization. Only then should the process of *analysis* be undertaken whereby those sources of revenue are carefully examined for fairness, equity, and adequacy. Finally, the results of such efforts should be tested. A test of *reasonableness* and *feasibility* should be applied to determine whether in fact the suggested change can be properly implemented and whether the change contributes to the overall, long-term tax policy benefits as well as short-term benefits. And then the test of *acceptability* should be applied, for without implementation, tax reform cannot be realized.

The purpose of this report is to provide the findings and recommendations of the Georgia Tax Reform Commission. The report is organized into three volumes. Volume I, which comprises this report, presents our recommendations with a brief discussion of pertinent information relevant to those recommendations. Volume II of the report is a compilation of the official minutes of Commission and Task Force meetings together with a summary of each of the eight public hearings conducted by the Commission. Volume III contains the informational and technical reports prepared by the staff, principally during our task force work efforts.

The Commission and its task forces and subcommittees reviewed many other tax areas and issues in addition to those represented by these recommendations. These include, for example, the corporate income and franchise tax, sales tax on necessities other than prescription drugs, motor fuel tax issues, local option income taxes, sales taxation of services, sales tax vendors' compensation and several business tax issues. In addition, numerous alternatives within the issues wherein recommendations are made were explored. Information within these areas is found in Volumes II and III.

Chapter 1

GEORGIA TAX REFORM COMMISSION ORGANIZATION AND WORK

The Georgia Tax Reform Commission was created by joint resolution during the 1978 Session of the Georgia General Assembly (S.R. 307; Ga. Laws 1978, p. 1076). The Commission thus created is comprised of twenty-one members — six appointed from the membership of the House; six appointed from the memberhsip of the Senate; and nine appointed by the Governor. Senate Resolution 307 specifically recognized that the revenue structure of our State has received only sporadic, piecemeal revision over the past several years. The Commission is therefore charged with the responsibility to "conduct a comprehensive and exhaustive study of the tax laws and tax policy of this State with a view toward modernizing and revitalizing the revenue structure so as to create an equitable and flexible tax system which properly balances the taxes based on fixed wealth, current expenditures, and current flow of income."

The Commission was organized on July 17, 1978, with the election of Senator Jimmy Lester as Chairman, Representative Marcus Collins as Vice-Chairman, and Mr. Clark Stevens as Secretary. A nine-member Executive Committee was created to assist in the administrative oversight of the staff, most of whom were recruited and employed during September and October of 1978.

The full Commission has conducted twenty-five public meetings at the State Capitol. In addition, eight public hearings were conducted by the Commission throughout Georgia. The official minutes of each of the Commission meetings and a detailed summary of each of the public hearings are found in Volume II of this report.

The first several meetings of the Commission were devoted to an overview analysis of our existing tax structure and our current level of taxation in all major areas. The primary purpose of this overview analysis was to provide necessary background information for later in-depth studies within each tax area. During this time the Commission also carefully considered work efforts necessary to properly complete its task, and through this process, a detailed work plan was prepared and adopted. This work plan, furnished in the preliminary report of the Commission filed in January 1979, divided work tasks into two broad categories — short-range and long-range.

As a result of the short-range work activities

completed during these first few months, the Commission did make several findings and recommendations to the 1979 Session of the Georgia General Assembly which are detailed in our preliminary report of January 1979. The principal recommendations thus made include:

1. A continuing program of relief from school property taxes should be mandated by law. For 1979, not less than $75,000,000 should be appropriated for reasonable distribution to local school systems, conditioned upon their agreeing to grant property tax credits using grant funds thus received. If the program for 1979 is found to be in conflict with the Constitution of Georgia, the 1979 appropriation for this tax relief should be retained by the State and added to the amount appropriated in 1980, subject to the approval of appropriate constitutional amendments. The tax relief program should be continued after 1979 in a manner that directs the relief to those taxpayers most inequitably burdened by school property taxes and only to those taxpayers who file returns for taxation to the local taxing officials.
2. Appropriate legislation should be introduced during the 1979 Session of the Georgia General Assembly to change the method of motor fuel taxation in our State from a cents-per-gallon method of taxation to a percentage-of-wholesale-cost method.
3. Legislation should be introduced during the 1979 Session of the Georgia General Assembly changing the State Revenue Commissioner's responsibilities regarding county tax digest review. His authority to "factor" the digest should be replaced with authority to reject the digest for correction at the local level, the rejection being based on specified assessment inadequacies. Adequate time shold be allowed for corrective action, and appropriate penalties should be imposed if compliance is deferred.
4. An administrative appeal process should be instituted for appeals by county governments where the county tax digest has been rejected by the State Revenue Commissioner.
5. The Resolution creating the Georgia Tax Reform Commission should be amended to specifically authorize the staff of the Commission to have access to State income tax records for sampling purposes only and under proper and reasonable guidelines and safeguards.
6. Requirements should be implemented providing for periodic filing by local governments of reports and revenue collections in a prescribed manner.

At the conclusion of the 1979 Session of the General Assembly, the Commission was divided into various task forces and subcommittees to perform a detailed examination of tax policy areas sufficiently narrow in scope to allow proper in-depth analysis. Exhibit 1 depicts the organization of these task forces and subcommittees, and the following outline reflects the general, overall responsibilities assigned to each:

State Revenue Sources. This task force looked specifically at the major sources of revenue currently utilized by our State government. In addition, some alternative sources of revenue were given consideration. In identifying relevant policy issues, the task force concentrated on considerations of equity among taxpayers, administrative or substantive obsolescence, administrative efficiency and uniformity, and the role of each individual tax source within the overall revenue scheme.

Local Revenue Sources. This task force was given the responsibility for examination of all current and potential sources of revenue for local governments in our State. The primary emphasis was an examination of currently available sources of revenue to determine whether or not they can be better and more efficiently utilized. In addition, a significant portion of time was spent on several issues relating to the general property tax.

Intergovernmental Relations. This task force was responsible for an analysis of the fiscal relationships between the State and its local units of government. The task force also reviewed the role of the federal government in Georgia's fiscal system with particular emphasis on the short and long-term outlook for federal funds' availability to the State and its local governments. This task force also was given the responsibility for an analysis of public education fiscal issues in our State.

Tax Incidence and Impact. This task force was responsible for the technical and statistical work efforts necessary to provide accurate data on relative tax burdens among taxpayers in our State. Classification of Georgia taxpayers, the sampling process within each classification, and the tax burden analysis within each classification constituted the basic responsibility of this group. Work thus far has been concentrated in the income tax and property tax areas.

Business Taxation Subcommittee. This group was created specifically to analyze Georgia's tax policies as they relate to the business taxpayer in our State. Thus, the subcommittee looked across tax lines to examine the equity of and the adequacy of Georgia's tax impact upon this segment of our taxpaying public.

Property Tax Assessment Administration Subcommittee. This subcommittee was given the responsibility for examining in detail the administration of Georgia's property tax. The primary concern was to insure that the administrative process now in place

is adequate to achieve the uniform and fair assessment of property for property tax purposes throughout the State and insure that the process is properly responsible to the taxpaying public.

Commission Task Forces and Subcommittees performed the bulk of their work during the spring and summer months with most meeting at least twice per month. Minutes of these meetings are included in Volume II of this report.

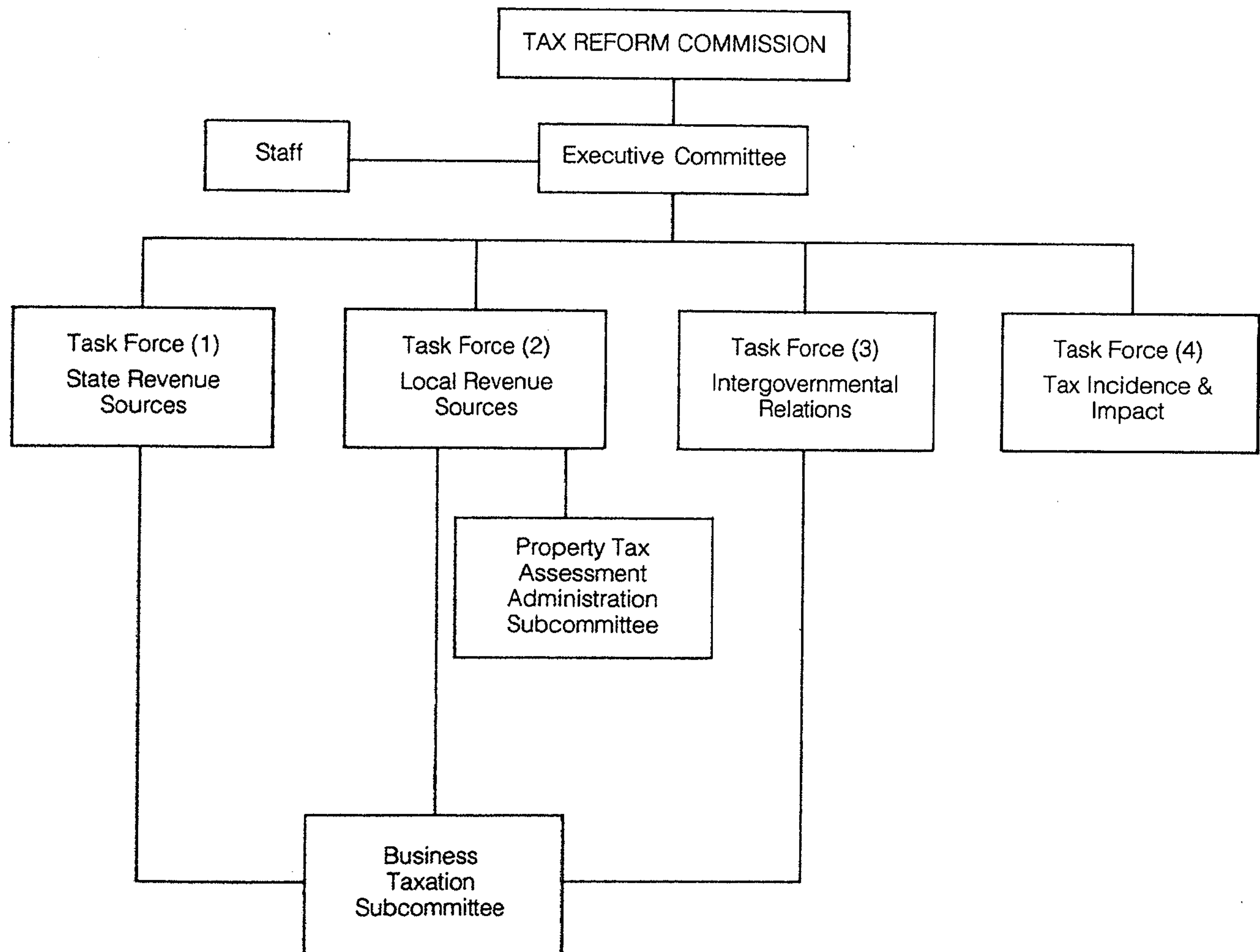
During this process, information and presentations were provided by persons nationally recognized in the field of taxation, by various organizations and associations involved in Georgia's own tax process, by State departments and agencies, and by Commission staff personnel. In addition, a number of informational and technical reports were prepared by the staff to assist the working groups of the Commission in their deliberations. Exhibit 2 lists these staff reports which comprise Volume III of this report.

Task force and subcommittee work efforts were ended during October 1979, and task force recommendations were completed at that time.

The Commission conducted a series of eight public hearings throughout Georgia during November 1979. These hearings were designed to accomplish two major objectives. In the first instance, the Commission believed it highly desirable to receive general public opinion with respect to all pertinent tax policy questions. In addition, the major recommendations of our task force and subcommittees were outlined during each hearing, and public reaction to those recommendations was solicited. A brief summary of the consistent opinions expressed during these hearings follows, and a detailed summary of each hearing is found in Volume II of this report.

At the conclusion of the public hearing processes and based upon all information received, the Commission adopted the findings and recommendations contained herein.

EXHIBIT 1



COMMISSION TECHNICAL AND INFORMATIONAL REPORTS

A Local Income Tax: Revenue Estimates on Alternative Approaches
Alternative Assessment Standards: Use Value and Classification
Collection Procedures: Delinquent Property Taxes
Corporation Taxes in Georgia
Equity Issues in Georgia's Personal Income Tax
Georgia Bond Debt and Pension Issues
Georgia Local Government Finances: An Informational Report
Georgia Local Option Sales Tax
Georgia Military Base Tax Exemptions
Georgia State-Local Fiscal Issues
Georgia's Intangible Property Tax
Georgia's Other Local Option Taxes
Indexation of the Income Tax Structure
Individual Income Tax Liability Analysis
Insurance Taxation in Georgia — Overview and Policy Options
Issues in Motor Fuel Taxation
Local Business Fees and Occupational Taxes
Local Homestead Exemptions: 1950-1980
Local Option Taxes: General Considerations
Mineral Resources Taxation in Georgia
Overview of Georgia State Taxation — 1965-1977
Personal Income Taxation in Georgia
Property Tax Administration and Assessment Procedures
Property Tax Relief Measures
Property Tax: The Assessment Appeal System
Sales and Use Taxation in Georgia
Sales Taxation of Necessities
Sales Taxation of Services
State Sponsored Local Government Investment Pools
State Tax Sources — Overview of Tax Exclusions
Tax Delinquency Penalties: Evaluation and Analysis
Taxation of Financial Institutions in Georgia
Taxation of Vending Machine Sales
Wealth Transfer Taxation and Georgia's Estate Tax

SUMMARY OF PUBLIC HEARINGS

GEORGIA TAX REFORM COMMISSION

The public hearings recently conducted by the Commission were attended by approximately 900 persons. Approximately 130-140 persons addressed the Commission during the hearings with respect to their concerns regarding various tax policy questions. Minutes of each hearing are available, and these minutes outline the opinions expressed by each speaker. Some reasonable consistent concerns, however, can be summarized and presented.

Elderly persons representing themselves individually and persons representing various elderly and/or retirement associations were present at each hearing. These persons normally spoke about the overall plight of elderly taxpayers on fixed incomes suffering from rapid inflation. They generally requested tax policy changes which would (1) provide greater homestead exemption or other property tax relief; (2) provide for sales tax exemptions for food and/or prescription drugs; or (3) provide income tax exemptions for retirement income.

Persons representing retired military personnel attended most of the hearings, and they generally supported any proposal to provide income tax exemptions for retirement benefits of military retirees with a particular request that no age qualification be required for the person to receive the exemption.

Persons representing retirees whose retirement income is currently exempt from State income tax spoke at several meetings and requested that these exemptions be continued.

Local government officials attended each meeting. County government representatives, and in several instances municipal government officials, spoke in opposition to any change in our Constitution which would authorize the use of motor fuel tax revenues for any transportation purposes other than "roads and bridges".

In addition, during each of the meetings, divided opinion was expressed by local government officials and others regarding local option sales tax versus a statewide sales tax increase for local government purposes.

Several citizens and several county government representatives voiced concern over the property tax in our State. These concerns ranged from (1) the high burden of property tax required because local governments, particularly the schools, must rely so heavily on the property tax; (2) the valuation techniques and methods utilized; (3) the process by which the Revenue Commissioner "factors" county assessments; (4) the fair market value standard required, particularly as it relates to farm and forest land; and (5) the fact that homestead exemptions have not kept pace with property value escalations over the years.

Several written and oral presentations were made by business and industry associations regarding one or more of our task force recommendations. Concerns included the fair market value standard for property tax assessment purposes, the sales tax as a means of providing property tax relief, vendor's compensation allowed for the collection of the sales tax, the manner in which the sales tax is levied on goods sold through automatic vending machines, and others.

As indicated earlier, the minutes prepared for each hearing outline the specific concerns raised by each speaker. In addition, all written presentations made during the hearings are attached as a part of the minutes of each hearing.

Chapter 2

SUMMARY OF RECOMMENDATIONS

I. PROPERTY TAX ASSESSMENT ADMINISTRATION

A. *Personal Property Assessment Procedures*

1. Property tax of tangible personal property should be continued.
2. Forms used by counties for the return of personal property should be uniform throughout the State. *(H.B. 1301; Passed/Vetoed)*
3. The procedures used by local assessment personnel when assessing personal property should be uniform, and the Revenue Department should be required to develop a procedural manual for local use. *(H.B. 1301; Passed/Vetoed)*
4. All counties should be required to have personnel trained and certified in the appraisal of personal property, in a manner similar to that in effect for real property appraisers. *(H.B. 1301; Passed/Vetoed)*
5. When State funds become available, all counties should be required to have a minimum level of personal property appraisers, and such level should be commensurate with the amount of personal property in the county.

B. *Sales Ratio Study*

1. The definition of arms-length transactions should be specified in law and all circumstances which would be considered "non-arms-length transactions" should be specified by law. If the agency responsible for doing the study wishes to add to the list of non-arms-length transactions, it should be authorized to do so by regulation subject to review by the General Assembly.
2. The composition of property in the study should be similar in composition to the property found in the county. A statistical consultant should be employed by the State on a one-time only basis to establish sample sizes and methods of sample selection to be used in the study.
3. The sales ratio study function should be transferred to the Department of Revenue.

C. *Property Tax Assessment Appeal Procedure*

1. Time limitations regarding appeals imposed

on taxpayers and the board of equalization should be continued as they currently exist.

2. First-level appeals of homestead exemption denials should be transferred from the Superior Court to the jurisdiction of the board of equalization. *(H.B. 1301; Passed/Vetoed)*
3. The issue of jurisdiction-wide uniformity should continue to be heard by the board of equalization, but a higher standard of proof should be required before the board of equalization could order a partial or total revaluation. *(H.B. 1301; Passed/Vetoed)*
4. Additional qualifications or training should be required for board of equalization members to be completed within a specified period of time after appointment. Terms of board of equalization members should be extended beyond one year. The grounds and method of permanent removal of members should also be considered. *(H.B. 1301; Passed/Vetoed)*
5. Qualifications for the board of equalization should be changed to allow persons exempt from jury duty under Code Section 59-112, Georgia Code Annotated, to be eligible to serve on the board of equalization with the provision that they could be excused from serving if they so desire. *(H.B. 1301; Passed/Vetoed)*
6. Third party appeals for individual taxpayers should continue to be prohibited.
7. Taxpayers should be statutorily allowed representation by another person before the board of equalization if the representative's name is specified in writing to the board. *(H.B. 1301; Passed/Vetoed)*
8. Assessors should continue to be authorized to appeal board of equalization decisions but, if the board of equalization changes the assessment by 15% or less, the board of tax assessors should be required, before filing any appeal, to notify the county governing authority in writing of its intent to appeal the reduced assessment and the governing authority should have a specified period of time in which to prohibit the appeal. In those jurisdictions where the board of tax assessors is a joint city-county board, the governing authorities of both jurisdictions must be notified. *(H.B. 1301; Passed/Approved)*
9. Counties should be allowed to appeal assessments on both the total public utility digest as well as specific public utility properties. *(H.B. 1301; Passed/Vetoed)*
10. At a minimum, the sales ratio study should be allowed to be introduced as evidence and be required to be considered by the board of equalization. *(H.B. 1301; Passed/Vetoed)*
11. At a minimum, the local boards of equalization should be required to establish their procedures by regulation, to be spread upon the minutes of the board. *(H.B. 1301; Passed/Vetoed)*
12. If an appeal is successful, either before the board of equalization or the superior court, actions taken by the board or the court to adjust or modify the assessment should be specified in law.
13. Provisions of the statute requiring the board of tax assessors to furnish the board of equalization with necessary facilities and clerical help and requiring the secretary of the board of tax assessors to be secretary of the board of equalization should be changed to require the county governing authority to provide all necessary facilities, clerical help and a secretary to the board of equalization. *(H.B. 1301; Passed/Vetoed)*

D. *The "Factoring" Procedure of County Digests*
The Tax Reform Commission recommends to the General Assembly and supports House Bill 561 as reflected in the draft dated November 8, 1979, with the exception that the effective date be changed to January 1, 1981. *(H.B. 561; Not Passed)*

E. *Taxation of Railroad Equipment Car Companies*
Specific statutory provisions should be enacted to subject railroad rolling stock owned by railroad equipment car companies to local government property taxation in a manner similar to that imposed on rolling stock owned by railroad companies. *(H.B. 610; Passed/Approved)*

II. INTERGOVERNMENTAL RELATIONS

A. *Local Government Financial Management*

1. Georgia local governments should be required to adopt a fiscal year and a budget (adopted by official action) for that year, and an audit of the government's financial records, a copy of which should be forwarded to the State. An appropriate State agency should then prepare an annual report based on these audits for submission to the Governor and General Assembly and to each local government. *(H.B. 776; Passed/Approved)*
2. The Georgia Financing and Investments Commission should study the use of debt by Georgia local units of government and report to the Governor and the General Assembly on ways in which the State

might assist local governments in debt management.

3. The State of Georgia should establish a voluntary local government investment pool to allow local units of government to draw on the State's investment expertise, as well as to afford local governments the opportunity to maximize interest earnings through the placing of temporarily idle funds in a larger revenue pool

B. *Federal Revenue Sharing*

1. Congress should be encouraged by the General Assembly to re-enact the Federal Revenue Sharing Program, given the increasing number of costs of unfunded federally-mandated programs to state and local governments, and given the flexibility accorded to state-local governments as to where Revenue Sharing monies may be spent. Congress' commendable efforts to balance the federal budget should be directed to a number of areas (in addition to state and local government aid), but if attention is directed to state-local aid, it should focus on those federal categorical programs which mandate how and where such money shall be spent.
2. The Georgia Municipal Association, the Association County Commissioners of Georgia, and the State of Georgia should actively work with the Georgia Congressional delegation to assure re-enactment of the Revenue Sharing Program.
3. The Georgia Congressional delegation should work to assure that federal aid formula factor proposals assure that aid is "targeted" to people in need, not places in need. In this regard, the delegation should place special attention on the re-enactment of the Federal Revenue Sharing Program.

C. *State Revenue Sharing*

The State, in recognition of its broader tax base and overall reduction in federal assistance, should review its programs of assistance to local governments and give cosideration to a wider and more equitable sharing of revenue with its local governments.

D. *Education Finance*

1. There exist a number of Constitutional impediments which work against lower educational services costs. Specifically, the "contracting powers" and consolidation of systems provisions in Article VIII of the Georgia Constitution are extremely rigid. The General Assembly should review the problems in this existing constitutional language with a goal of such review being the streamlining of the applicable sections.
2. The Commission recommends that the Constitution be amended to increase, by one cent on the dollar, the State sales tax. The proceeds of the increase should be used as replacement revenues for property taxes levied for school purposes and a formula for equitable distribution of such proceeds among local school systems should be included as part of the amendment.*(H.R. 75-290; Not Passed)*

III. BUSINESS TAXATION

A. *Utility Taxation*

Recommendations regarding utility taxation are deferred until all utility taxation issues can be considered collectively.

B. *Chartered Railroad Exemptions*

These exemptions appear to be inequitable and the General Assembly should take whatever lawful actions are necessary to remove these special tax exemptions.

C. *Insurance Premium Taxation*

1. The General Assembly should adopt appropriate legislation and/or a constitutional amendment to permit counties to levy an insurance premium tax in the unincorporated areas. *(H.B. 1500; Passed/Vetoed)*
2. Rates of local insurance premium taxation on all lines of insurance should be standardized.

D. *Taxation of Fuel Used by Business*

Further study should be made of the impact of rising fuel costs on industries that are energy dependent.

E. *Business Climate in Georgia*

Testimony has indicated that, overall, Georgia's tax policies do make the State competitive in encouraging industrial and business investment in Georgia. The commission encourages the State to maintain its competitive "business climate" with our neighboring states.

F. *Financial Institutions*

1. Recognize that under current law unclaimed deposits and property held by financial institutions become the property of the financial institution and that these deposits and properties currently amount to more than two million dollars. The General Assembly should amend the unclaimed

properties law to provide that unclaimed deposits and property held by financial institutions revert to the State to be used for public purposes. *(S.B. 471; Not Passed)*

2. The General Assembly should examine the desirability of placing the taxation of financial institutions, their property and their obligations, on a similar basis to that now applicable to other corporations and businesses. Any such legislation should provide for funding for local governments to replace lost current revenues and reasonably expected future revenues. *(H.B. 1702; Not Passed)*

G. *Corporate Income Taxation*
If the State sales tax is increased by one cent on the dollar and the proceeds are used to replace revenues from school property taxes, the General Assembly should closely examine the need to adjust the corporate income tax so as to minimize the property tax windfall to corporations.

IV. LOCAL GOVERNMENT REVENUE SOURCES

A. *Revenue Distribution Among Local Governments*
The Commission believes that the distribution of local tax revenues between local governments is a problem which relates to all "local option" taxes such as local option sales, income, insurance premiums, hotel-motel, mixed drink and alcoholic beverage taxes. The General Assembly should enact a comprehensive solution through one or more Constitutional amendments, and statutes if necessary, to establish the proper balance of the various tax revenues between cities, counties and schools. A "piecemeal" approach will not properly address the problem.

B. *Tax Collections*
With regard to insurance premium taxes and alcoholic beverages taxes, there exists a dual system of collection, in which the State and local governments collect taxes on the same products. The Commission makes no recommendation at this time as to whether this system should be changed or continued in its present form but suggests that further resources be devoted to more fully examine this issue.

C. *Property Taxes*

1. Recommendations on school property taxes can be found under *Education Finance* (Section IV (D) (2) of Chapter 2).
2. Tax Deferral for the Elderly
The General Assembly should authorize, by appropriate legislation, a program whereby residents aged 65 or over could defer a portion of the ad valorem taxes due on their homesteads until such time as use of the property as a homestead ceases or title to the homstead is transferred other than to a surviving spouse. The legislation authorizing such a program should place a maximum value on property eligible for the program, should establish a maximum percentage of the value of the property which may be deferred, should provide for the payment of interest on deferred taxes, and should authorize the issuance by local taxing jurisdictions of revenue anticipation obligations to make up for revenue shortfalls due to participation in the program. *(S.B. 469; Passed/Approved)*

D. *Local Option Sales Tax*
A local option sales tax should be available to counties and cities to broaden their base of revenues and to ease the burden of ad valorem taxation on local taxpayers. If found necessary or desirable, a constitutional amendment should be proposed to insure the availability of this tax to local governments. *(H.B. 1683; Passed/Approved)*

E. *Intangible Tax*
The Commission believes that recognition must be given to the fact that intangibles have become one of the major forms of wealth in this State and should rightfully bear a fair share of the burden of taxation. Therefore, the Commission recommends that the intangible personal property tax be revitalized so as to more properly take its place in sharing the burden of State, and, particularly, local needs for revenue. *(H.B. 11; Passed/Approved)*

F. *Hotel-Motel Tax*
The 7% percentage cap on total sales taxes and hotel-motel taxes should be changed to apply only to the total of local sales taxes and the hotel-motel tax. Such limit should not exceed 4%. *(H.B. 1382; Not Passed)*

G. *Local Alcoholic Beverage Taxes*
The General Assembly should specifically authorize counties and municipalities to levy a uniform tax on wine. *(H.B. 1330; Passed/Approved)*

H. *Mixed Drink Tax*
The Commission believes that no significant changes are needed at this time.

V. STATE REVENUE SOURCES

A. *General Recommendations*

1. Tax Exemptions

A termination date should accompany each tax exemption in existence and those created in the future. A comprehensive oversight by the General Assembly of these exemptions should be undertaken by the appropriate legislative committee on a continuing basis. This oversight should include the following:

a. Evaluation of initial purpose;
b. Evaluation of exemption's effectiveness;
c. Evaluation of whether initial purpose is still necessary;
d. Annual cost estimate for the exemption to be determined by the Department of Revenue or other appropriate agencies *and* cost estimate for alternate policies aimed at similar objectives;
e. Recommendation to General Assembly. *(S.R. 266; Not Passed)*

2. Interest Charges on Delinquent Tax Payments

A uniform interst rate of 1% per month, or 12% on an annual basis, should be established for all delinquent taxes, and the General Assembly should review this rate each year. *(H.B. 1312; Passed/Approved)*

3. Penalty Charges on Delinquent Tax Filing or Tax Payment

A detailed evaluation of the penalty charges by the Tax Reform Commission or an appropriate legislative committee should be conducted. Such a review should contain an estimate of the appropriate punishment and administrative cost for each of the taxes.

4. Military Base Tax Exemptions

The General Assembly should consider reduction of the current five-case tax-free limit on beer. The General Assembly should also urge Congress to amend the Buck Act (4 U.S.C. 104), the federal legislation which provides for military base exemptions from state-local taxation. This Act should be amended by Congress to allow state-local taxation of military base sales.

B. *Sales Tax Recommendations*

1. Sales Tax Rate

Recommendations relating to changes in the sales tax rate can be found under *Educational Finance* (Section IV (D) (2) of Chapter 2).

2. Extension of Sales Tax Remittance Deadline

All permanent extensions should be abolished, but the Commissioner should be allowed, in his discretion, to grant extensions upon written application. To be valid, the extensions should be granted in writing, and should be valid for a period, as appropriate, of not more than 12 consecutive months or 4 consecutive calendar quarters. *(H.B. 1071; Passed/Approved)*

Taxpayers granted such an extension should remit to the Commissioner, on or before the date the tax would otherwise become due without the extension, an amount which equals 100 percent for the corresponding period of the last fiscal year. In the case of a business granted an extension during its first year of operation, the payment should equal the previous month's tax remittance.

After the first 10 days of the extension, interest should be charged on the balance due for the remainder of the extension period.

3. Sales Tax Brackets

The General Assembly should mandate the present 3% bracket system and the following 4% bracket structure:

\$.01 - \$ .10	No Tax
\$.11 - \$ .25	1¢
\$.26 - \$ .50	2¢
\$.51 - \$ .75	3¢
\$.76 - \$1.00	4¢

(H.B. 1309; Not Passed)

4. Exemption of Prescription Drugs for Sales Tax

Prescription drugs should be exempt from the sales tax. *(H.B. 1578; Passed/Vetoed)*

5. Distribution of Local Option Tax Collections

It is recognized that the Georgia Department of Revenue collects both the State and local option sales taxes and is charged with remitting the local option portion to the respective jurisdictions. It is understood that the vast majority of these collections are appropriately distributed. However, a small portion of excess tax collected is retained by the State due to complications. Vendors with multiple stores in different jurisdictions report taxable sales in each jurisdiction. Based on this information, the State returns to each locality 1% of the taxable sales for these chain stores' operations. The sales tax collected, however, is somewhat greater than this amount. This excess over 1% for these chain store operations should also be remitted to the local jurisdictions, and, therefore, action should be taken to properly distribute all tax collections to the appropriate jurisdictions.

6. Sales Tax — Casual Sales

The casual sales of automobiles (including

trucks, vans, and motorcycles), boats, and airplanes should statutorily be subjected to state sales tax and, where applicable, MARTA and local option sales tax. This tax should be administered through title registration. *(H.B. 1232; Not Passed)*

C. *Income Tax Recommendations*

1. Personal Income Tax Brackets
   The personal income tax brackets should be gradually expanded, maintaining the 6% maximum rate, over a 3-year period. The General Assembly should reconsider the income tax brackets every 5 years due to the inflationary impact on income levels. The specific brackets recommended are found in the detailed discussion of this recommendation. *(H.B. 1282; Not Passed)*
2. Indexation of Personal Income Tax Structure
   Because the incorporation of indexation in state tax policies is a relatively new practice, the General Assembly should monitor the experiences of the states utilizing this policy over the next several years.
3. Income Tax — Filing Status of Married Couples
   The Commission recognizes that there is discrimination in the taxation of families under the current system. A more appropriate policy would differentiate between the taxation of two-earner households and one-earner households with equal incomes. The specific design of a policy which alters either the bracket structure, personal exemptions, or tax credits is dependent upon further research.
4. Income Tax — Adoption of the Federal Zero Bracket
   The General Assembly should consider the inequity created by the conformity requirement regarding Georgia itemized deductions by: (1) adopting the Federal zero bracket amount in lieu of the Georgia standard deduction, or (2) allowing itemized deductions for Georgia income taxes when not elected for Federal tax purposes
5. Personal Income Tax — Interest Exclusion
   Interest and/or dividends up to a maximum of $200 for separate and single filers, and up to $400 for married joint filers, should be excluded from adjusted gross income for Georgia income tax purposes. *(H.B. 1196; Not Passed)*
6. Retirement Income
   Due to the significant impact of changing the income tax treatment of retirement income, the Commission should conduct a more exhaustive study of various public and private retirement programs and develop tax burden information on such retirees. The Commission should make a report of its findings to the 1981 General Assembly.

VI. OTHER RECOMMENDATIONS

A. *Computerized Property Tax Records*
The Department of Revenue should be required to maintain on computer file the county property tax digests so that a systematic and on-going analysis of property tax assessment records and tax burdens, by type of property, may be maintained.

B. *Tax Relief Programs*
In recognition of the Constitutional restrictions imposed on the General Assembly which limits its ability to target tax relief to burdened taxpayers, the Constitution should be amended to give the General Assembly greater flexibility in providing tax relief. *(S.R. 266; Not Passed)*

C. *Commission Continuation*
The Tax Reform Commission has developed a significant appreciation for the establishment and maintenance of a properly balanced system of taxation to finance our State and our local governments. Although significant and far-reaching tax reform as well as tax relief recommendations have been made by the Commission, the Commission believes that its overall responsibility has not yet been completed. Some current revenue sources and several alternative revenue sources as well as alternative administration standards, particularly in the property tax area, need fuller examination and analysis. The development and implementation of the computer analysis program should be carried to its proper completion — a task which has been delayed because of the necessity for legislative authority to access certain State tax records. The Commission therefore recommends that it continue in its present efforts to a total completion of its assigned responsibility. *(S.R. 271; Passed/Approved)*

Chapter 3

GEORGIA STATE AND LOCAL TAXATION AN OVERVIEW

INTRODUCTION

Prior to examination of individual State and local revenue sources, the Commission made an effort to analyze Georgia's total revenue structure from both a historical and comparative perspective. Since the last comprehensive tax study was completed in the late 1960's, the Commission examined historical data from 1967 to 1977, with particular attention on the years 1970 to 1977. Comparisons of Georgia were made with selected southeastern states and United States averages. Those southeastern states selected for comparison were:

1. Alabama
2. Arkansas
3. Florida
4. Georgia
5. Kentucky
6. Mississippi
7. North Carolina
8. South Carolina
9. Tennessee
10. Virginia

Revenue structures of state and local governments are comprised of three major elements: (1) tax revenue, (2) intergovernmental aid, and (3) charges, fees and miscellaneous minor sources which are neither tax nor intergovernmental aid.

Georgia state tax sources include:

1. Income Taxes (Individual and Corporate)
2. General Sales Taxes
3. Motor Fuel Taxes
4. Selective Sales Taxes (Alcohol and Tobacco)
5. Insurance Premium Taxes
6. License Taxes
7. Estate Taxes
8. Property Taxes

Tax sources generally available to local governments are:

1. Property Taxes
2. Local Option Sales Taxes
3. Local Option Income Taxes
4. Hotel-Motel Taxes

6. Alcoholic Beverage Taxes (Liquor, Beer and Wine)
7. Insurance Premium Taxes
8. Public Utility Franchise Fees* (Municipalities only)
9. Business and Occupation Taxes (Gross Receipts)

Intergovernmental revenues are funds given to one level of government by another level of government. For example, Federal revenue sharing is considered "federal intergovernmental aid" while state education funds given to local school systems are considered "state intergovernmental aid". Because of reporting problems, figures relating to intergovernmental aid will be slightly distorted in two places. First, federal intergovernmental aid to state governments will be inflated because some of this federal aid is given to the states but then directly passed through to local governments. These "pass through" funds should properly be considered federal intergovernmental aid to local governments. Second, state intergovernmental aid to local governments also is inflated because some of this state aid is actually federal "pass through" funds. Therefore, federal "pass through" funds are actually counted twice.

Charges and miscellaneous revenue is a "catch-all" category relating to funds received from the performance of specific services by local and state governments. The most common charges for state and local governments are higher education fees (tuition), hospital charges, hunting and fishing fees, park fees, school lunch sales and water and sewerage charges. In addition, this category contains interest earned on state and local government investments.

The following brief statements highlight these comparative trends and analyses statistically displayed within this Chapter.

1. Of the three major revenue components, charges and miscellaneous revenues increased in Georgia more than taxes or intergovernmental aid at both the state and local level.
2. Of all major Georgia state and local taxes, the two taxes experiencing the greatest actual growth between 1967 and 1977 were individual income taxes and school property taxes.
3. During the 1967 to 1977 period, on the average, one-half of actual growth in all taxes was due to keeping up with inflation.
4. During the 1974-75 recessionary period, Georgia state revenues experienced a loss in real dollars while Georgia local taxes showed a slight real increase. This slight real increase in local revenues probably is due to the greater ability of property taxes to withstand economic fluctuations and the ability of local governments to adjust property tax rates on an annual basis.
5.* While during the 1967-1974 period, the difference between State-level tax growth and personal income growth caused an increase in the amount of personal income taken by taxes, this trend began to reverse in 1975. Despite the overall increase, Georgia taxpayers still spend less personal income on taxes than the national average and slightly less than the southeastern average.
6. The substantial growth in income taxes caused Georgia dependence on the income tax to increase from 15% of total state taxes in 1967 to 26% by 1977. The largest decreases in dependence occurred in motor fuel, alcohol and tobacco taxes.
7. In 1977, at the local level, Georgia relied much more heavily on charges and miscellaneous revenue and much less on state intergovernmental aid than the southeastern or U.S. average.
8. When compared to the total U.S., Georgia's local governments rely much less on taxes. For example, many northern states finance local services from taxes, while Georgia and other southeastern states charge fees for many governmental services.
9. Since 1967, the reliance on state intergovernmental aid by Georgia's local governments has substantially decreased while at the same time increasing regionally and nationally.

* Considered a tax for federal revenue sharing purposes.

GROWTH OF STATE AND LOCAL REVENUE SOURCES

Georgia, along with other states, experienced a significant increase in revenues between 1967 and 1977. State revenues increased 192% while local government revenues increased 234%. The three major revenue components, however, did not increase at the same rate. As shown in Table 1, the greatest increase occurred in charges and miscellaneous revenues at both the state and local level. This illustrates the growing preference by government to charge citizens for specific services performed rather than require payment in the form of taxes by all taxpayers. At the state level, the large increase in charges contrasted with the smaller increase in taxes. At the local level, increases in tax revenues were only slightly smaller than the increases in charges. Finally, growth in intergovernmental aid was sporadic from 1970 to 1977. Since intergovernmental aid is such a significant source of revenue for local governments, this unstable growth pattern could place them in an uncertain, and perhaps unhealthy, fiscal environment.

TABLE 1

GROWTH IN GEORGIA STATE AND LOCAL REVENUES

AMOUNT AND ANNUAL PERCENTAGE CHANGES 1967-1977

State General Revenue

	1967	1970	1971	1972	1973	1974	1975	1976	1977	Percentage Change 1967 - 1977
Taxes	$667.8	$941.3	$991.1	$1198.0	$1361.5	$1514.9	$1547.8	$1676.0	1906.5	
Annual Percentage Change			5.3%	20.9%	13.6%	11.3%	2.2%	8.3%	13.8%	185.4%
Intergovernmental Revenue	334.6	419.2	548.6	646.1	761.5	771.7	898.8	976.5	987.8	
Annual Percentage			30.9%	17.8%	17.9%	1.3%	16.5%	8.6%	1.2%	195.2%
Charges and Miscellaneous Revenue	89.6	142.3	162.3	178.9	194.4	234.4	259.8	270.6	286.3	
Annual Percentage Change			14.1%	10.2%	8.7%	20.6%	10.8%	4.2%	5.8%	219.5%

Local General Revenue

	1967	1970	1971	1972	1973	1974	1975	1976	1977	Percentage Change 1967 - 1977
Taxes	345.8	489.7	557.6	635.3	712.0	811.9	954.2	1050.8	1188.2	
Annual Percentage Change			13.9%	13.9%	12.1%	14.0%	17.5%	10.1%	13.1%	243.6%
Intergovernmental Revenue	404.3	493.2	547.1	636.3	712.2	987.0	923.9	1021.4	1258.2	
Annual Percentage Change			10.9%	16.3%	11.9%	38.6%	(6.4%)	10.6%	23.2%	211.2%
Charges and Miscellaneous Revenue	236.0	368.5	415.0	493.3	533.3	619.0	713.3	789.4	842.4	
Annual Percentage Change			12.6%	18.9%	8.1%	16.1%	15.2%	10.7%	6.7%	256.9%

SOURCE: *Governmental Finances*, U.S. Bureau of the Census, annual issues 1967-1977.
Tax Reform Commission staff computations

At the state level, growth in taxes occurred without deliberate policy changes by the legislature; between 1967 and 1977, no major changes were made in the four major State tax sources with the exception of the motor fuel tax. Therefore, growth was a direct result of the response of our state tax structure to the economic conditions within the period. The local tax structure, however, was significantly modified three times. First, in 1971 the General Assembly authorized the imposition of a local sales tax for public transit purposes. In 1974, the General Assembly imposed a mandatory, uniform tax on beer which had the effects of increasing taxes in some jurisdictions and decreasing them in others, and in 1975, the local option sales tax was authorized. Of course, local governments also adjusted property tax rates during this period.

Examination of individual tax sources indicated the two greatest growth areas were income taxes and property taxes. Income taxes increased 304% while property taxes increased 201%. Within income taxes, individual income tax grew more rapidly than corporate income tax. For property taxes, as shown in Table 2, the greatest growth was in school property taxes. 242%, while general purpose property taxes increased by 169%.

While there is little doubt that state and local governments have received substantially more revenue during the 1967-1977 period, growth in absolute dollars is misleading unless evaluated in

TABLE 2

GROWTH IN LOCAL PROPERTY TAX REVENUES

GEORGIA, SELECTED SOUTHEASTERN STATES, AND U.S. AVERAGE

1967-1977
(thousand $'s)

	1967	1972	1977	% Change 1967-1977
Alabama				
School Property Taxes	$ 43,631	$ 61,431	$ 81,548	86.9%
Other Property Taxes[1]	56,456	78.017	110,093	95.0
Arkansas				
School Property Taxes	71.786	106,915	164,554	129.2
Other Property Taxes[1]	30,053	41,819	66,198	120.3
Florida				
School Property Taxes	300,967	466,727	761,477	153.0
Other Property Taxes[1]	329,554	509,194	963,910	192.5
Georgia				
School Property Taxes	139,458	248,058	477,711	242.5
Other Property Taxes[1]	179,890	305,524	483,484	168.8
Kentucky				
School Property Taxes	99,323	130,983	206,403	107.8
Other Property Taxes[1]	60,122	84,938	140,268	133.3
Mississippi				
School Property Taxes	62,427	74,360	121,652	94.9
Other Property Taxes[1]	61,750	97,450	157,135	154.5
South Carolina				
School Property Taxes	57,017	122,811	209,770	267.9
Other Property Taxes[1]	49,963	93,856	154,167	208.6
Southeastern States				
School Property Taxes	774,609	1,211,285	2,023,115	161.2
Other Property Taxes[1]	767,788	1,210,798	2,075,255	170.3
United States				
School Property Taxes	10,633,900	18,572,000	26,434,600	148.6
Other Property Taxes[1]	14,552,100	23,048,000	33,832,400	132.5

SOURCE: *Census of Governments: Finances of School Districts, 1967, 1972, 1977,* U.S. Bureau of the Census.
Tax Reform Commission staff computations

[1] Other property taxes are property taxes levied by counties, municipalities and special districts.

conjunction with two factors which justify the growth in a government's financial resources. First, the cost of providing a given level of government services increases in response to the general inflation in the economy. Second, the personal income of Georgia residents, that is, their ability to pay taxes and support government operations, is guided by economic conditions.

While Georgia state and local tax revenues have grown by 205% since 1967, half of this growth has been devoted to keeping up with inflation and providing the same real level of revenues as in 1967. Inflation in government services as used in these comparisons is estimated from the price deflator of state and local expenditures derived from the Gross National Product, as produced by the Bureau of Economic Analysis at the Department of Commerce. The inflation in government expenditures differs from the inflation in consumers' prices, the CPI, because of the goods purchased. Salaries and construction costs account for approximately 70% of government expenditures. Generally, the timing of the increase in these costs tends to lag behind the inflation in the overall economy, depending on the extent to which inflation is anticipated. Because construction-related products are especially sensitive to inflation, the magnitude of the price increases on government expenditures is larger than that for consumers' goods.

In Table 3, the annual percentage changes of state and local tax revenues between 1970 and 1977 are compared with government inflation for Georgia, the southeastern states, and the U.S. average. For example, between 1976 and 1977, Georgia state tax revenues increased from 13.8%, but 7.0% of this increase covered inflation. Therefore, between 1976 and 1977, Georgia state tax revenues show a real increase in the range of 6.8%.

While actual growth has been significant in Georgia as well as the other geographic areas, real dollar growth has been only moderate as a result of governmental inflation. In most years, particularly for local tax revenues, growth has provided for real increases in government services.

In general during the 1970 and 1977 period, revenue growth in Georgia compares most favorably with the southeast and U.S. average with regard to local tax revenues. With the exception of 1975 to 1976, actual growth as well as real growth in Georgia exceeded that of the other geographic areas.

The 1974 to 1975 period of recession stands out as a financially restrictive period for state tax collections in Georgia as well as all other states. During this period, the rate of inflation exceeded the actual growth in state tax revenues. Georgia's state tax structure appeared more vulnerable to economic events than the other geographic areas during this period, because actual growth was curtailed to 2.2% and real dollar revenues declined by 7.7%. As compared to Georgia's 7.7% reduction in real revenues, the reduction in the average southeastern state was 4% and the reduction in the average U.S. state was only 1.9%.

Growth in local tax revenues, however, were not as responsive to the 1974 to 1975 economic decline.

TABLE 3

GROWTH IN STATE AND LOCAL TAX REVENUES

COMPARISON OF ANNUAL PERCENTAGE CHANGES IN STATE AND LOCAL TAXES WITH INFLATION

GEORGIA, SOUTHEASTERN STATES AND U.S. AVERAGE 1970-1977

	Annual Percent Changes						
	1970-1971	1971-1972	1972-1973	1973-1974	1974-1975	1975-1976	1976-1977
Total State Tax Revenues							
Georgia	5.3%	20.9%	13.6%	11.3%	2.2%	8.3%	13.8%
Government inflation[1]	7.4	6.4	6.6	8.9	9.9	7.9	7.0
Net real change[2]	-2.1	14.5	7.0	2.4	-7.7	.4	6.8
S.E. Average	8.6%	17.6%	17.1%	10.2%	5.9%	8.7%	13.4%
Government inflation[1]	7.4	6.4	6.6	8.9	9.9	7.9	7.0
Net real change[2]	1.2	11.2	10.5	1.3	-4.0	.8	6.4
U.S. Average	7.5%	16.2%	13.7%	9.0%	8.0%	11.4%	13.3%
Government inflation[1]	7.4	6.4	6.6	8.9	9.9	7.9	7.0
Net real change[2]	.1	9.8	7.1	.1	-1.9	3.5	6.3
Total Local Tax Revenues							
Georgia	13.9%	13.9%	12.1%	14.0%	17.5%	10.1%	11.2%
Government inflation[1]	7.4	6.4	6.6	8.9	9.9	7.9	7.0
Net real change[2]	6.5	7.5	5.5	5.1	7.6	2.2	4.2
S.E. Average	11.8%	13.3%	11.2%	11.4%	11.7%	12.4%	10.9%
Government inflation[1]	7.4	6.4	6.6	8.9	9.9	7.9	7.0
Net real change[2]	4.4	6.9	4.6	2.5	1.8	4.5	3.9
U.S. Average	11.8%	12.7%	8.4%	6.6%	8.5%	10.2%	10.7%
Government inflation[1]	7.4	6.4	6.6	8.9	9.9	7.9	7.0
Net real change[2]	4.4	6.3	1.8	-2.3	-1.4	2.3	3.7

SOURCES: Based upon data from United States Department of Commerce, Bureau of the Census, *Governmental Finances*, 1966-1977 issues and based upon price indices from Table B-3, *Economic Report of the President*, January, 1979.

Tax Reform Commission staff computations

[1] State government inflation is the implicit price deflator of state and local government purchases of goods and services.

[2] Net real change is the rate of change in taxes minus the rate of change in inflation.

Note: The estimates presented here of the real rate of change are close approximations utilized for clarity in presentation. These estimates tend to slightly overestimate real growth. A more precise measurement is the following:

$$\text{Rate of Real Growth} = 1 - \frac{1 + \text{Rate of Growth in Taxes}}{1 + \text{Rate of Growth in Inflation}}$$

Unlike the State revenue circumstances, Georgia's local tax revenues maintained healthy growth both in actual and real terms during this period. Local revenues in the southeastern states as well as the average U.S. state were more effected by the recession than were Georgia's local governments.

By the 1976-1977 period, the economic recovery inspired substantial actual and real levels of growth in state revenue collections. State taxes resumed growth at a real rate of 6.8%, approximately one-half percent above the southeastern and U.S. average. Local tax revenues also showed an increase over the previous year but still lagged behind state-level real growth.

Table 4 is similar in nature to Table 3 but focuses on the actual and real growth of specific state and local tax sources in Georgia. Of all tax sources, the largest year-to-year increases are within the individual income tax. This is a built-in feature due to the progressive structure of the tax; as the economy

TABLE 4

GROWTH IN STATE AND LOCAL TAX REVENUES

COMPARISON OF ANNUAL PERCENTAGE CHANGES IN STATE AND LOCAL TAXES WITH INFLATION, BY TAX SOURCE

1970-1977

	Annual Percent Changes						
	1970-1971	1971-1972	1972-1973	1973-1974	1974-1975	1975-1976	1976-1977
Total State Taxes	5.3%	20.9%	13.6%	11.3%	2.2%	8.3%	13.8%
Government inflation[1]	7.4	6.4	6.6	8.9	9.9	7.9	7.0
Net real change[2]	-2.1	14.5	7.0	2.4	-7.7	.4	6.8
General Sales Tax	7.6	17.8	12.2	12.6	4.9	9.9	11.0
Government inflation[1]	7.4	6.4	6.6	8.9	9.9	7.9	7.0
Net rreal change[2]	.2	11.4	5.6	3.7	-5.0	2.0	4.0
Individual Income Tax	-1.0	30.8	18.8	19.4	10.0	10.5	20.0
Government inflation[1]	7.4	6.4	6.6	8.9	9.9	7.9	7.0
Net real change[2]	-8.4	24.4	12.2	10.5	.1	.6	13.0
Corporate Net Income Tax	-3.6	8.9	28.3	16.2	-19.0	11.2	28.7
Government inflation[1]	7.4	6.4	6.6	8.9	9.9	7.9	7.0
Net real change[2]	-11.0	2.5	21.7	7.3	-19.9	3.3	21.7
Motor Fuel Tax	7.1	26.6	8.3	1.8	-1.3	2.6	4.7
Government inflation[1]	7.4	6.4	6.6	8.9	9.9	7.9	7.0
Net real change[2]	-.3	20.2	1.7	-7.1	-11.2	-5.3	-2.3
Alcohol Tax	8.6	5.0	12.7	8.8	-7.1	.5	1.0
Government inflation[1]	7.4	6.4	6.6	8.9	9.9	7.9	7.0
Net real change[2]	1.2	-1.4	6.1	-.1	-17.0	-7.4	-6.0
Tobacco Tax	21.8	30.8	3.8	4.0	1.0	3.2	1.8
Government inflation[1]	7.4	6.4	6.6	8.9	9.9	7.9	7.0
Net real change[2]	14.4	24.4	-2.8	-3.9	-8.9	-4.7	-5.2
License Tax	3.6	7.2	6.7	8.0	-4.8	10.0	9.4
Government inflation[1]	7.4	6.4	6.6	8.9	9.9	7.9	7.0
Net real change[2]	-3.8	.8	.1	-.9	-14.7	2.1	2.4
Insurance Premium Tax	11.8	40.4	16.1	-7.9	5.2	8.2	22.8
Government inflation[1]	7.4	6.4	6.6	8.9	9.9	7.9	7.0
Net real change[2]	4.4	34.0	9.5	$-16.8	4.7	.3	15.8
Total Local Taxes	13.9%	13.9%	12.1%	14.0%	17.5%	10.1%	11.2%
Government inflation[1]	7.4	6.4	6.6	8.9	9.9	7.9	7.0
Net real change[2]	6.5	7.5	5.5	5.1	7.6	2.2	4.2
Property Tax	14.1	13.4	6.8	10.5	19.9	10.6	7.9
Government inflation[1]	7.4	6.4	6.6	8.9	9.9	7.9	7.0
Net real change[2]	6.7	7.0	.2	1.6	10.0	2.7	.9

SOURCES: Based upon data from United States Department of Commerce, Bureau of the Census, *State Government Finances* and *Governmental Finances*, 1970-1977 issues; and based upon price indices from Table B-3, *Economic Report of the President*, January, 1979. Tax Reform Commission staff computations

[1] Government inflation is the implicit price deflator for state and local government purchases of goods and services.

[2] Net real change is the rate of change in taxes minus the rate of change in inflation.

Note: The estimates presented here of the real rate of change are close approximations utilized for clarity in presentation. These estimates tend to slightly overestimate real growth. A more precise measurement is the following:

$$\text{Rate of Real Growth} = 1 - \frac{1 + \text{Rate of Growth in Taxes}}{1 + \text{Rate of Growth in Inflation}}$$

expands, individuals move into higher tax brackets. The brief reduction in individual income taxation between 1970 and 1971 was due to a change in the administrative procedure.

While the individual income tax is the most responsible to the economy, the repercussions from changes in economic activity are felt throughout the Georgia tax structure. The general sales tax, which responds positively to inflation and expansion of the economy, maintained a reasonable level of real growth in all years except the recessionary 1974-1975 period. The pronounced swings between real increases of more than 20% and real decreases of 11% and 19% in corporate net income tax revenues reflect the changes in profit levels during business cycles.

Although license tax revenues grew moderately at rates close to the inflation rate in most years, growth was choked during the 1974-1975 recession. Revenues declined by 4.8% implying a real reduction in the range of 14.7%. One-third of the reduction was from corporate licensing, due to reductions in corporate net worth. The remainder was primarily from motor vehicle licensing as a result of reduced new car sales.

The motor fuel tax, alcohol tax, and tobacco tax are all ad rem taxes, or taxes levied on the quantity purchased. Since 1973, as marked within the dotted areas in Table 4, these taxes have all been declining in real terms. Since the tax rates for these taxes have not been raised during these years, revenues increased only to the extent that the quantity consumed increased. Normal growth in the quantity consumed, however, has been reduced by the high rates of inflation. Energy shortages and conservation have been additional factors reducing the quantity of motor fuel consumed. Thus, during inflationary periods, these taxes have been unable to support a continued real level of government services. The data presented in Table 4 does not reflect the change in motor fuel taxation adopted during the 1979 Session. The additional 3% tax on motor fuel is expected to provide significant growth for this source.

Total local tax revenues maintained a fairly steady rate of actual and real growth throughout the 1970 to 1977 period. During the 1972 to 1974 period and during the 1976 to 1977 period, growth in property tax revenues barely kept pace with inflation. During these years, real growth in property taxes was minimal. Since 1975, both actual and real growth in local tax revenues has not quite maintained the pace of the earlier 1970-1975 period.

As previously indicated, Georgia state and local tax revenues have grown by 205 percent since 1967. Personal income, the ability to pay these taxes, has grown by somewhat less, 166%. Tax growth viewed in this manner determines whether Georgia taxpayers have become more encumbered by taxes. When taxes and personal income grow at the same rate, tax pressures, at least for the average taxpayer, are unchanged.

Table 5 displays state and local tax revenues as a percentage of personal income in Georgia, the southeastern states, and the U.S. In general, state taxes absorb a greater portion of personal income than local taxes. Of course, a portion of state taxes goes to assist local governments in the form of intergovernmental aid.

TABLE 5

GROWTH IN STATE AND LOCAL TAX REVENUES

STATE AND LOCAL TAX REVENUES AS A PERCENTAGE OF PERSONAL INCOME IN GEORGIA, SOUTHEASTERN STATES, AND U.S. AVERAGE SELECTED FISCAL YEARS

	1967	1970	1971	1972	1973	1974	1975	1976	1977
State Tax Revenues									
Georgia	6.1%	6.4%	6.2%	6.8%	6.8%	6.8%	6.5%	6.4%	6.6%
S.E. Average	6.1	6.6	6.6	7.0	7.2	7.0	6.8	6.7	6.9
U.S. Average	5.3	6.3	6.3	6.7	6.9	6.8	6.7	6.8	7.0
Local Tax Revenues									
Georgia	3.2%	3.3%	3.5%	3.6%	3.6%	3.7%	4.0%	4.0%	4.0%
S.E. Average	3.3	3.2	3.3	3.3	3.2	3.2	3.3	3.3	3.3
U.S. Average	4.9	5.1	5.3	5.5	5.4	5.2	5.1	5.2	5.2

SOURCES: *State Government Finances* and *Governmental Finances*, U.S. Bureau of the Census, annual issues 1967-1977 and Bureau of Economic Analysis, Regional Economics Division, Regional Data Base.

Tax Reform Commission staff computations

The difference between state tax growth and personal income growth in Georgia caused a moderate increase in the amount of personal income taken by taxes. Between 1967 and 1977, state taxes as a percentage of personal income increased from 6.1% to 6.6% implying that an additional five dollars ($5.00) of tax was collected for every $1,000 of personal income. This increase is slight when compared to the southeastern and United States average. This is especially true for the average U.S. state where state taxes rose by $17 per thousand dollars of personal income.

During the most recent years, the growth in personal income has been catching up with state tax revenue growth in Georgia and in the southeast. In 1976 and 1977, state taxes comprised a lower percentage of personal income than during the 1972-1974 period. Continued strong growth in personal income combined with moderate revenue increases could further reduce taxes as a percentage of personal income.

As regards state tax revenues since 1970, Georgia taxes the personal income of its residents somewhat less than the average southeastern state and the average U.S. state. During these years, Georgia taxpayers paid $2 to $4 less per thousand dollars than in the average southeastern state. Since 1975, Georgia taxpayers have paid less than in the average U.S. state by a similar margin.

While Georgia local taxes absorb a greater portion of personal income than in the average southeastern state, the degree of taxation in Georgia has continually been well below the U.S. average. For the Southeast as a whole, local taxes have grown at approximately the same rate as personal income.

In comparing the 1967 to 1977 change in these rates, local taxes in Georgia have grown more rapidly in relation to personal income than in the other geographic areas shown. Over the period, local taxes increased by $8 per thousand dollars of personal income in Georgia.

COMPOSITION OF STATE AND LOCAL TAX STRUCTURES

As part of our governmental system, each level of government utilizes those revenue sources it finds

TABLE 6

COMPOSITION OF STATE REVENUE SYSTEMS

GEORGIA, SOUTHEASTERN STATES AND U.S. AVERAGE

1967-1977

	1967	1970	1971	1972	1973	1974	1975	1976	1977
Georgia									
Taxes	61.2%	62.6%	58.2%	59.2%	58.8%	60.1%	57.2%	57.3%	59.9%
Intergovernmental Revenue[1]	30.6	27.9	32.2	31.9	32.9	30.6	33.2	33.4	31.1
Charges and Miscellaneous Revenue	8.2	9.5	9.6	8.9	8.3	9.3	9.6	9.3	9.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Southeastern States									
Taxes	60.9%	62.7%	59.5%	60.9%	61.0%	61.7%	58.4%	58.4%	59.2%
Intergovernmental Revenue[1]	29.5	26.6	29.6	28.7	28.7	26.8	29.5	29.9	29.6
Charges and Miscellaneous Revenue	9.6	10.8	10.9	10.4	10.3	11.5	12.1	11.7	11.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
United States									
Taxes	61.3%	61.7%	60.8%	60.7%	60.2%	60.7%	59.5%	58.7%	59.5%
Intergovernmental Revenue[1]	27.4	26.0	28.0	28.4	28.9	27.1	28.1	29.4	28.7
Charges and Miscellaneous Revenue	11.3	12.3	11.2	10.9	10.9	12.2	12.4	11.9	11.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

SOURCE: *Governmental Finances*, U.S. Bureau of the Census, annual issues 1967-1977.
Tax Reform Commission staff computations.

[1] Intergovernmental revenue received by states include funds received from the federal government and from local governments. Generally, intergovernmental revenue received from local governments is only a minor part of the total intergovernmental funds received.

TABLE 7

COMPOSITION OF LOCAL REVENUE SYSTEMS

GEORGIA, SOUTHEASTERN STATES AND U.S. AVERAGE

1967-1977

	1967	1970	1971	1972	1973	1974	1975	1976	1977
Georgia									
Taxes	35.0%	36.2%	36.7%	36.0%	36.4%	33.6%	36.8%	36.7%	35.8%
Intergovernmental Revenue									
Federal	3.2	3.5	3.6	5.1	6.6	9.5	9.8	9.8	12.0
State	37.8	33.0	32.4	30.9	29.8	31.3	25.9	25.9	26.4
Charges and Miscellaneous Revenue	24.0	27.3	27.3	28.0	27.2	25.6	27.5	27.6	25.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Southeastern States									
Taxes	38.1%	36.0%	35.7%	36.3%	35.2%	32.8%	32.4%	32.5%	32.6%
Intergovernmental Revenue									
Federal	3.6	4.1	4.5	5.1	7.4	9.7	9.1	9.6	11.1
State	37.0	38.1	37.8	36.5	35.9	36.5	36.9	36.0	35.5
Charges and Miscellaneous Revenue	21.2	21.8	22.0	22.1	21.5	21.0	21.6	21.9	20.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
United States									
Taxes	49.9%	48.0%	47.2%	47.3%	44.8%	43.0%	41.9%	41.5%	41.8%
Intergovernmental Revenue									
Federal	3.2	3.2	3.7	4.3	6.7	7.7	7.4	8.3	9.3
State	31.5	33.3	33.8	33.4	33.8	33.9	34.9	34.5	33.7
Charges and Miscellaneous Revenue	15.4	15.5	15.3	15.0	14.7	15.4	15.8	15.7	15.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

SOURCE: *Governmental Finances*, U.S. Bureau of Census, annual issues 1967-1977.
Tax Reform Commission staff computations.

desirable to impose on its citizens. State governments generally have a great amount of discretionary authority to impose any type of tax or fee. For example, most states have chosen to impose both a general sales tax and an income tax while some states utilize one or the other; at least one state has chosen not to impose either. Local governments are generally given their authority to impose taxes and fees by their respective state legislatures. Consequently, the ability of local governments to impose certain taxes and fees varies significantly from state to state.

As shown in Tables 6 and 7, state governments generally rely more on taxes than local governments, while local governments utilize charges and intergovernmental aid to a greater degree than state governments. Approximately 60% of state revenues are from taxes while local governments receive only from one-third (⅓) to one-half (½) of their revenues from this same source. Charges and miscellaneous revenue account for 15% to 25% of local revenue systems while generally accounting for no more than 12% of state revenues. Table 8 indicates that the composition of Georgia's state revenue system, when compared to other states, is relatively similar. Local tax structures in Georgia, however, are slightly different from the southeastern average and significantly different from the U.S. average. When compared to the Southeast, Georgia's local governments relied more on charges and miscellaneous revenue and less on state intergovernmental aid. On A NATIONAL BASIS, Georgia's local governments used less taxes and state intergovernmental aid and substantially more charges and miscellaneous revenue.

When individual tax sources are examined, Georgia's state tax structure shows some differences from other states. First, Georgia and other southeastern states utilize sales taxes more than the U.S. average. Second, Georgia relies more on income taxes than most southeastern states. Third, Georgia does not use some sources such as severance taxes and gambling taxes which are prominent in several southeastern states.

TABLE 8

COMPOSITION OF STATE TAX REVENUE AND LOCAL GENERAL REVENUE

GEORGIA, SOUTHEASTERN STATES AND U.S. AVERAGE

1977

State Tax Revenue

	General Sales	Individual Income	Corporate Net Income	Motor Fuels	Alcohol	Tobacco	Licenses	Other	Total
Georgia	36.1%	26.0%	9.0%	12.9%	4.0%	3.9%	3.9%	4.2%	100.0%
Alabama	32.4	18.7	5.4	11.8	5.1	3.5	7.1	16.0	100.0
Arkansas	34.2	20.4	8.4	14.8	2.3	5.7	7.8	6.4	100.0
Florida	42.7	--	5.9	11.7	5.7	5.7	11.6	16.6	100.0
Kentucky	29.7	21.7	8.4	11.8	1.0	1.4	4.8	21.2	100.0
Mississippi	49.1	13.6	4.7	14.3	2.9	3.2	5.9	6.3	100.0
No. Carolina	21.4	32.8	8.6	12.1	3.6	.9	8.2	12.4	100.0
So. Carolina	35.0	24.5	9.0	11.8	6.2	2.0	4.8	6.8	100.0
Tennessee	48.0	1.5	10.2	12.6	2.8	4.4	10.2	10.4	100.0
Virginia	20.8	34.8	7.8	12.9	3.1	.9	6.3	13.5	100.0
U.S. Average	30.6	25.2	9.1	9.0	2.1	3.5	7.1	13.5	100.0

Local General Revenue

	Intergovernmental Aid						
	Federal	State	Property	Taxes Sales	Other	Charges and Miscellaneous Revenue	Total General Revenue
Georgia	12.0%	26.4%	29.0%	2.6%	4.1%	25.8%	100%
Alabama	11.3	36.7	10.1	7.6	7.8	26.5	100
Arkansas	11.9	40.0	23.0	--	2.3	22.7	100
Florida	10.2	33.7	26.8	--	5.0	24.3	100
Kentucky	13.0	35.9	21.8	--	10.9	18.4	100
Mississippi	9.3	44.7	20.8	--	1.3	23.9	100
North Carolina	10.6	48.1	22.7	4.3	.6	13.7	100
So. Carolina	10.5	39.0	27.5	--	2.0	20.9	100
Tennessee	11.8	29.4	25.4	8.2	3.8	21.3	100
Virginia	11.6	31.9	30.6	4.5	9.2	12.1	100
U.S. Average	9.3	33.7	33.7	3.0	5.1	15.2	100

SOURCE: *Governmental Finances,* U.S. Bureau of the Census, 1976-1977 issues.
Tax Reform Commission staff computations.

Table 9 shows that within Georgia, the state and local revenue systems have changed between 1967 and 1977. At the state level, those tax sources which grew substantially during the period maintained or increased their share of total tax revenues. Individual income taxes showed the greatest shift, from 15% to 26% in the ten year period. Generally sales taxes and corporate income taxes maintained their shares at 36% and 9%, respectively.

Three State taxes which are levied on the quantity sold (motor fuel, alcohol and tobacco) decreased in their contribution to total state taxes. Motor fuel registered the greatest decrease from 18.4% to 12.9%. Alcohol tax revenue dropped from 6.1% to 4.0% and tobacco taxes from 5.6% to 3.9%.

At the local level, the percentage contribution of property taxes declined slightly, despite the large dollar growth. The greatest increase occurred in federal intergovernmental aid, largely due to the implementation of general revenue sharing in the early 1970's and the proliferation of federal grant programs. One of the most interesting findings was the decrease in state intergovernmental aid as a percentage of local general revenues. Georgia, over this period, tended to share less of its revenues with its local units of government.

TABLE 9

COMPOSITION OF GEORGIA STATE TAX REVENUES AND LOCAL GENERAL REVENUES, BY SOURCE

1967-1977

State Tax Revenue

	General Sales	Individual Income	Corporation Income	Motor Fuels	Alcoholic Beverages	Tobacco Products	Insurance	License Taxes	Other[1]	Total Taxes
1967	36.5%	15.1%	9.7%	18.4%	6.1%	5.6%	2.4%	5.7%	.8%	100.0%
1970	35.7%	19.6%	9.0%	16.4%	6.1%	4.3%	2.3%	5.4%	1.2%	100.0%
1971	36.4%	18.5%	8.2%	16.7%	6.3%	5.0%	2.5%	5.4%	1.0%	100.0%
1972	35.5%	20.0%	7.4%	17.5%	5.5%	5.4%	2.9%	4.8%	1.0%	100.0%
1973	35.1%	20.9%	8.4%	16.7%	5.5%	4.9%	2.9%	4.5%	1.1%	100.0%
1974	35.4%	22.4%	8.8%	15.2%	5.3%	4.6%	2.4%	4.3%	1.6%	100.0%
1975	36.4%	24.2%	7.7%	14.7%	4.9%	4.6%	2.5%	4.0%	1.0%	100.0%
1976	37.0%	24.7%	7.9%	13.9%	4.5%	4.4%	2.5%	4.1%	1.0%	100.0%
1977	36.1%	26.0%	9.0%	12.9%	4.0%	3.9%	2.7%	3.9%	1.5%	100.0%

Local General Revenue

	Federal Intergovernmental Aid	State Intergovernmental Aid	Property Taxes	Other Taxes	Charges and Miscellaneous Revenue	Total General Revenue
1967	3.2%	37.8%	31.2%	3.8%	24.0%	100.0%
1970	3.5%	33.0%	32.1%	4.1%	27.3%	100.0%
1971	3.6%	32.4%	32.6%	4.1%	27.3%	100.0%
1972	5.1%	30.9%	31.8%	4.2%	28.0%	100.0%
1973	6.6%	29.8%	30.6%	5.8%	27.2%	100.0%
1974	9.5%	31.3%	27.4%	6.2%	25.6%	100.0%
1975	9.8%	25.9%	30.6%	6.2%	27.5%	100.0%
1976	9.8%	25.9%	30.7%	6.0%	27.6%	100.0%
1977	12.0%	26.4%	29.0%	6.8%	25.8%	100.0%

SOURCE: *State Government Finances*, U.S. Bureau of the Census, annual issues 1967-1977
Governmental Finances, U.S. Bureau of the Census, annual issues 1967-1977
Tax Reform Commission staff computations

[1] Includes primarily estate and property taxes.

Chapter 4

TAX INCIDENCE AND IMPACT

INTRODUCTION

When tax policy questions are considered, one of the major concerns of the policymaker, as well as the taxpayers, relates to the concept of *equity.* Measurements of tax equity are normally made by first classifying the taxpaying population into income categories. A tax has *horizontal equity* if taxpayers within the same income categories are similarly taxed. For example, horizontal equity would be achieved if all taxpayers earning $15,000 paid $500 in taxes. A second equity consideration is *vertical equity:* taxpayers within different income categories are taxed differently. For example, a taxpayer earning $20,000 would pay $750 in taxes while a taxpayer in the $15,000 income category would pay $500 in taxes.

With respect to vertical equity all taxes can be categorized into three types of taxation. A tax is either progressive, proportional or regressive. Examples of each type are present in Georgia's tax system.

A *progressive tax* is a tax where the percent of income paid in taxes increases as income increases. The Georgia individual income tax is a progressive tax: very low income taxpayers pay one percent of their taxable income to income taxes while the higher income taxpayers can pay up to six percent of their income in taxes.

A *proportional tax* is a tax that remains a constant percentage of income, no matter how high or low the income may be. The Georgia corporate income tax is an example of a proportional tax: the tax is a constant six percent of Georgia taxable income, no matter how high or low the income may be.

A *regressive tax* is a tax that decreases in its percentage of income as income increases. The Georgia sales tax is generally considered a regressive tax. For example, fuel consumption to travel from home to work may be the same for both a high income and a low income person. However, the low income taxpayer will have a greater percentage of his income subject to the sales tax on motor fuel than the higher income person. The low income individual is therefore paying a greater percentage of his income to the sales tax.

Whenever analysis of taxation is undertaken, it is important that the total tax system be understood. Where one tax may constitute a higher burden to a

specific taxpaying population, other taxes may be advantageous towards that population.

Because of the structure of taxation and the manner in which taxes can be collected with administrative ease, it is impossible for each tax to impact all taxpayers in the same manner. In addition, for various reasons sound tax policy does not dictate that each tax should be progressive or even proportional. Indeed, there is justification for many regressive taxes, particularly where there is a strong correlation between the benefit received and the tax paid. Therefore, the degree of vertical equity should be examined as it relates to the total tax structure.

It is well recognized that the *impact* of a particular tax is often different from the *incidence* of the tax. The impact of a tax is the tax burden or direct liability that the taxpayer incurs and which is directly paid. The incidence of a tax, on the other hand, relates to the final resting place of the tax liability which includes estimates of taxes paid indirectly by taxpayers as a result of the ability of some taxpayers (businesses for example) to shift their direct tax liabilities. An example of this type of shifting relates to the apartment owner who shifts part or all of his property tax liability to his lessees through his rent structure.

It is important to understand the concepts of impact and incidence. Since analysis under either measurement normally compares the actual or estimated tax burden with the income of the taxpayer, it is equally important to understand the measurement of income utilized. Most such studies include, in various degrees, components of income other than taxable income such as transfer payments (unemployment, welfare, etc.) and possible imputed rent or other forms of non-monetary income.

Measurements reflected in this chapter relate to the impact of particular Georgia taxes as the first step toward a complete tax incidence analysis. As indicated, income measurements which are used relate either to adjusted gross income for Georgia tax purposes or total income which includes estimates for non-taxable income and transfer payments. A detailed explanation of the measurements and the statistical methodology utilized in this endeavor may be found in Volume III of this report.

The responsibility of the Tax Incidence and Impact Task Force was to give direction to the Commission's staff in determining which information on specific Georgia taxes would be most useful to the Commission. The task force decided that the three major taxes in Georgia should be analyzed: the Georgia individual income tax, the individual property tax and the general sales tax. When possible, impact and incidence analysis on the elderly, farmers and small business taxpayers were also to be attempted.

The following is a summary of the outcome of the analysis of these taxes as of this date.

THE GEORGIA INDIVIDUAL INCOME TAX

The Georgia individual income tax is a tax paid on an amount of income determined by taking an individual's Federal adjusted gross income and applying additions and deductions allowed by Georgia law. In 1977, the tax year being analyzed, there were 1,725,354 Georgia individual income tax returns filed with the Georgia Department of Revenue. Because policy is most concerned with the tax burdens borne by entire households, the Georgia individual income tax returns were aggregated into Georgia household income tax returns. Through a process of matching the individual income tax filers, it was determined that there were 1,500,264 household income tax filers in Georgia in 1977.

Of these 1.5 million Georgia household income tax filers, 70,502 were elderly (65 years of age and older) income tax filing households. They represented approximately one-third of the elderly households in Georgia in 1977. This low percentage of elderly households who file an individual income tax return is caused by the large amount of nontaxable income received by many of these households: Social Security income, income from State retirement, teachers' retirement and earnings from interest on Georgia municipal bonds are a few of the sources of income that are not subject to the Georgia individual income tax and are not included for tax purposes in Georgia adjusted gross income.

The population of income tax filing households was divided into twelve categories of Georgia adjusted gross income. Estimates of the average Georgia individual income tax liability were calculated for each of the twelve categories of Georgia adjusted gross income. Table 10 shows the percentage of a household's Georgia adjusted gross income that was paid in Georgia individual income taxes.

The analysis of the Georgia individual income tax showed that half of the income tax filing population had a Georgia adjusted gross income of less than $10,900 for calendar year 1977. In addition the analysis verified that the individual income tax is a progressive tax. Table 10 shows that as a household's Georgia adjusted gross income increases, so does the percent of income paid to the individual income tax. A household with a Georgia adjusted gross income of less than $3,000 had no income tax liability while a household whose Georgia adjusted gross income exceeded $100,000 paid an average of 4.7% of their Georgia adjusted gross income in income tax.

The elderly income tax filing households showed a lower income tax liability in the lower categories

TABLE 10

GEORGIA INDIVIDUAL INCOME TAX LIABILITY
TOTAL HOUSEHOLD POPULATION

Georgia Adjusted Gross Income	A Average Household Income	B Rate of Income Taxation	C Percent of Household Population
$ 0 - $ 2,999	$ 1,078	.0%	11.0%
3,000 - 5,999	4,521	.4	15.0
6,000 - 8,999	7,488	.9	15.9
9,000 - 11,999	10,455	1.4	12.8
12,000 - 14,999	13,505	1.7	10.4
15,000 - 17,999	16,492	2.1	9.0
18,000 - 20,999	19,409	2.5	7.3
21,000 - 24,999	22,675	2.8	6.8
25,000 - 49,999	32,269	3.4	10.2
50,000 - 74,999	59,615	4.2	1.0
75,000 - 99,999	85,220	4.3	.3
100,000+	156,171	4.7	.3

Source: Georgia Tax Reform Commission staff calculations.
Georgia Department of Revenue data.

A — Average household Georgia adjusted gross income for respective income category.
B — Percent of average Georgia adjusted gross income paid in Georgia individual income taxes for households in respective income category.
C — Percent of Georgia individual income tax filing households in respective income category.

of Georgia adjusted gross income but experienced higher rates of income taxation in the upper income categories. The rates of taxation for elderly households are depicted in Table 11. Because the elderly receive an additional personal exemption of $700 per household member over the age of 65, the rate of taxation in the lower income categories is lower than that of the total population. However, this situation is no longer true for the elderly where Georgia adjusted gross income exceeds $14,999. The average household size of the total population at these higher income levels is greater than the additional one or two personal exemptions provided to the elderly income tax filer. Thus, the average household in the total population receives more personal exemptions. (It should be noted that this analysis only pertains to that income which is taxable under the 1977 income tax laws and does *not* include any income from nontaxable sources. It is estimated that over 87% of the elderly households in Georgia receive some amount of nontaxable income.)

Table 12 compares the rate of income taxation between the average household within categories of Georgia adjusted gross income and categories of total income. (Total income is income taxable under Georgia law, estimates of Social Security benefits, tax exempt pension benefits and AFDC benefits.) Because a low percentage of the total income tax filing households receive nontaxable income (that income described above), the impact of including this income was minimal. However, since over 87% of the elderly income tax filing households received nontaxable income, the impact of the additional income reduces the percent of total income paid in taxes for all elderly income tax filers.

TABLE 11

GEORGIA INDIVIDUAL INCOME TAX LIABILITY ELDERLY HOUSEHOLD POPULATION

Georgia Adjusted Gross Income	A Average Household Income	B Rate of Income Taxation	C Percent of Household Population
$ 0 - $ 2,999	$ 2,075	.0%	4.4%
3,000 - 5,999	4,650	.2	21.2
6,000 - 8,999	7,471	.6	23.6
9,000 - 11,999	10,287	1.1	14.9
12,000 - 14,999	13,427	1.7	9.5
15,000 - 17,999	16,329	2.2	6.3
18,000 - 29,999	19,574	2.5	4.6
21,000 - 24,999	22,854	3.0	3.9
25,000 - 49,999	33,121	3.7	8.1
50,000 - 74,999	61,100	4.4	1.8
75,000 - 99,999	84,347	4.5	.7
100,000+	179,659	4.9	1.0

Source: Georgia Tax Reform Commission staff calculations.
Georgia Department of Revenue data.

A — Average household Georgia adjusted gross income for respective income category.
B — Percent of average Georgia adjusted gross income paid in Georgia individual income taxes for households in respective income category.
C — Percent of Georgia individual income tax filing households in respective income category (elderly filers only).

TABLE 12

EFFECTIVE RATES OF GEORGIA INCOME TAXATION

	Income taxes as a Percent of Georgia Adjusted Gross Income		Income taxes as a Percent of Total Income[1]	
	Total Population	Elderly Population	Total Population	Elderly Population
$ 0 - $ 2,999	.0%	.0%	.0%	.0%
3,000 - 5,999	.4	.2	.3	.0
6,000 - 8,999	.9	.6	.9	.2
9,000 - 11,999	1.4	1.1	1.3	.7
12,000 - 14,999	1.7	1.7	1.7	1.0
15,000 - 17,999	2.1	2.2	2.0	1.5
18,000 - 20,999	2.5	2.5	2.4	1.9
21,000 - 24,999	2.8	3.0	2.8	2.2
25,000 - 49,999	3.4	3.7	3.3	3.2
50,000 - 74,999	4.2	4.4	4.2	4.1
75,000 - 99,999	4.3	4.5	4.3	4.4
100,000+	4.7	4.9	4.7	4.8

Source: Georgia Tax Reform Commission staff calculations.
Data from Georgia Department of Revenue, State Retirement System, Georgia Dept. of Human Resources.

[1] Total income — Georgia Taxable Income plus estimated Social Security income, AFDC benefits and State retirement benefits.

INDIVIDUAL PROPERTY TAX

Because the listing of the individual income tax filing households accounted for approximately 93% of the non-elderly 1977 Georgia households, this listing was used to represent the total non-elderly Georgia households. The remaining 7% of the non-elderly households were AFDC households which are least likely to own property. However, since only one-third of the elderly households were represented in the income tax filing households, an additional source of household information was needed. This listing was the elderly households who received a special elderly homestead exemption. This listing accounted for approximately 110,000 additional elderly households.

After obtaining a representative sample, the property tax liability was calculated for both homestead property and total property. Because this analysis included households who had no taxable income in some cases (the elderly homestead exemption households), estimates of the nontaxable income were made and applied appropriately. Table 13 depicts the percent of total income paid in property taxes for homestead property and Table 14 depicts the percent of total income paid in property taxes for all property.

Table 13 indicates that the property tax on homestead property is regressive. A regressive tax is a tax where the percent of income paid in taxes decreases as income increases. The first category of total income indicates a property tax liability of 38.7% of total income. This dramatically higher percentage is due primarily to the large percentage of households which had no Georgia taxable income, yet had a property tax liability, and households which received nontaxable income other than that which was determined or estimated for this analysis. Because of these factors, the results obtained in this category are less accurate than those within other income categories.

TABLE 13

GEORGIA PROPERTY TAX LIABILITY
HOMESTEAD PROPERTY

A Total Income	B Average Total Income	C Average Property Tax	D Rate of Property Taxation
$ 0 - $ 2,999	$ 772	$ 299	38.7%
3,000 - 5,999	4,479	204	4.6
6,000 - 8,999	7,479	219	2.9
9,000 - 11,999	10,635	208	2.0
12,000 - 14,999	13,554	253	1.9
15,000 - 17,999	16,468	298	1.8
18,000 - 20,999	19,474	347	1.8
21,000 - 24,999	22,658	307	1.4
25,000 - 49,999	32,284	579	1.8
50,000 - 74,999	60,233	805	1.3
75,000 - 99,999	86,339	973	1.1
100,000+	157,472	1,383	.9

Source: Georgia Tax Reform Commission staff calculations.
Georgia Department of Revenue data.
Georgia State retirement data.
Georgia AFDC data.

A — Total income consists of Georgia taxable income, Social Security income, State retirement income and AFDC benefits.
B — Average total income of property tax paying households.
C — Average property tax liability of households in respective total income category.
D — Percent of total income paid to property taxes.

Table 14 indicates the percent of total income paid in property taxes for all owned tangible property (not including motor vehicles). As in the previous chart, the results indicate the regressivity of the tax. The first category of total income reflects the same circumstances existing in the lowest income category of the previous chart.

TABLE 14

GEORGIA PROPERTY TAX LIABILITY
TOTAL PROPERTY

Total Income	A C D Average Total Income	Average Property Tax	Rate of Property Taxation
$ 0 - $ 2,999	$ 767	$ 306	39.9%
3,000 - 5,999	4,509	201	4.5
6,000 - 8,999	7,523	194	2.6
9,000 - 11,999	10,614	197	1.9
12,000 - 14,999	13,575	245	1.8
15,000 - 17,999	16,517	284	1.7
18,000 - 20,999	19,464	325	1.7
21,000 - 24,999	22,732	323	1.4
25,000 - 49,999	32,400	551	1.7
50,000 - 74,999	60,661	918	1.5
75,000 - 99,999	85,498	936	1.1
100,000+	157,406	1,290	.8

Source: Georgia Tax Reform Commission staff calculations.
Georgia Department of Revenue data.
Georgia State retirement data.
Georgia AFDC data.

A — Total income consists of Georgia taxable income, Social Security benefits, State retirement benefits and AFDC benefits.
B — Average total income of property tax paying households.
C — Average property tax liability of households in respective total income category.
D — Percent of total income paid to property taxes.

GENERAL SALES TAX

Although the general sales tax burden analysis was not completed at this time, the data necessary to calculate the burden had been gathered, and work in this area was proceeding. Because the total Georgia household population is subject to the general sales tax, additional information was needed in excess of that used in the Georgia individual income tax and property tax burden analysis.

There are two key factors which determine each household's sales tax burden. They are the household size and the total income of the household. For the majority of the households, total income calculations will be made using Georgia income subject to income taxation, estimates of unemployment benefits and food stamp benefits, income from AFDC benefits, tax exempt pension benefits and estimates of Social Security benefits. For a segment of the elderly household population, actual income data from all sources of income will be extracted from homestead exemption files. Household sales tax liabilities are derived from Georgia household size and income data in conjunction with household consumption patterns determined by the U.S. bureau of Labor Statistics.

Through proper computer manipulation of this data, the general sales tax burden will be determined.

In addition to the sales tax analysis, work also is in process to make further subclassifications of the taxpaying population so that more meaningful data can be generated regarding tax burdens being borne by segments of Georgia's taxpayers.

Chapter 5

PROPERTY TAX ASSESSMENT ADMINISTRATION

INTRODUCTION

Without question, the foundation of the property tax is the assessment process. Examination of the property tax would not be complete without a thorough study of state and local assessment procedures. For this reason, the Tax Reform Commission established a subcommittee whose sole responsibility was to examine all aspects of property tax assessment.

Previous study commissions also recognized the importance of proper assessment procedures. The 1950 Tax Revision Committee made 21 recommendations to improve assessment practices; however, few were enacted by the General Assembly during the following decade. By 1960, many recommendations by the 1950 Tax Revision Committee were receiving more attention, and between 1960 and 1968 several improvements were implemented. The 1968 Georgia Tax Revision Commission made six additional recommendations. Between 1968 and 1978, several improvements were made relating to local appraisal staffs, taxpayer assessment appeals and mass appraisal technology.

The Property Tax Assessment Administration Subcommittee of the Tax Reform Commission focused its work in four broad areas:

- The Revenue Commissioner's Authority to Equalize County Tax Digests
- The Sales Ratio Study
- Personal Property Assessment Procedures
- Assessment Appeal Procedures

A fifth area, utility assessment procedures, was begun but was not completed.

THE REVENUE COMMISSIONER'S AUTHORITY TO REVIEW COUNTY TAX DIGESTS

At the present time, the Revenue Commissioner is required by law to equalize assessment levels between counties at 40% of fair market value. This equalization process has come to be known as "factoring."

The Commission found that the current equalization process does not adequately ensure assessment uniformity. Factoring does nothing to reduce the inequality of taxpayers within a county. In some

cases, factoring will also serve to place assessments on property higher than the 40% level assessment rate. Finally, the process of factoring is apparently being used by counties in lieu of bona fide revaluations, a process which, in the long run, will reduce the quality of assessments in our State.

While the factoring process was found to be undesirable, the Commission did not favor eliminating or even reducing State oversight of local assessments. The Commission's 1979 *Preliminary Report* recommended that the review process be changed. The Commission reaffirmed this recommendation by supporting the procedure outlined in House Bill 561. This legislation would eliminate factoring and require the Commissioner to identify specific problems in county digests. Counties would be responsible for correcting the problems. The Commission believes that the legislation will ultimately improve the quality of assessments at the local level.

THE SALES RATIO STUDY

In 1964, the General Assembly required a study to be made in each county to determine local assessment levels. This study, the sales ratio study, was to be used as a new method to equalize school aid payments to local governments. The first study was conducted in 1965 and is currently done on an annual basis by the State Auditor.

While the original purpose of the study was for school aid distribution, the Revenue Commissioner, since 1967, has also used it for the review and approval of county tax digests. The study is a primary tool in the Commissioner's review process; it serves as his beginning point. Several adjustments are made to the study prior to a final decision on approval or factoring of a county tax digest.

Examination of the sales ratio study revealed several problem areas. First, the composition of property used in the study often does not reflect the composition of property in the county. Generally, the study oversampled residential property and undersampled industrial, farm and timber property. Since the study is used to examine assessments of all types of property, the study should be made more representative of the property in each jurisdiction.

Second, the study, at this time, is unable to portray the assessment ratios for all types of property in the jurisdiction. If the assessment review process is changed as outlined in House Bill 561, the sales ratio study must be revised so that accurate and reliable statistics can be made for all types of property. Third, the data collection process used by the Auditor allows counties to manipulate the study to maximize the chances of digest approval by the Revenue Commissioner. Currently, the sales ratio study is developed based on sales information in one year and assessment information in the following year. Counties can use the sales information to change assessments only on the properties which have sold while leaving all other property unchanged. By changing only assessments on the sold property, the sales ratio study will show an average assessment ratio significantly higher than the true assessment ratio in the county. This procedure penalizes those counties which make a bona fide effort to maintain the legal assessment level on *all* properties.

Since the study's establishment in 1965 its use has changed from exclusively school aid distribution to include the review of local property tax assessments. Consequently, two State agencies utilize the study in different ways. The Revenue Department has been working with local assessment personnel since revaluation programs began in the 1960's. They are now in continuous communication with these personnel and provide them with technical assistance when requested. The Commission, therefore, recommends that the sales ratio study be transferred from the State Auditor to the Department of Revenue. At the time of transfer, the study should be revised so that it may be more effectively utilized for property tax assessment review in the future.

PERSONAL PROPERTY ASSESSMENT PROCEDURES

While the last two decades in Georgia have given rise to significant changes in local assessment practices, the focus of change has been on real property. Yet in 1977, tangible personal property comprised 22% of total assessed property values in Georgia.

In 1978, a *Special Report on Personal Property* by the Department of Revenue was submitted to the House Ways and Means Committee. Information on personal property assessment procedures such as maintenance of accounts, staffing, audit verification, itemized equipment listing, standard reporting forms, depreciation schedules and periodic personal property revaluations was gathered based on a survey of 24 counties. The report revealed that inefficient and ineffective methods were being used to assess personal property, reminiscent of the status of real property assessment twenty years ago.

There can be little doubt that personal property is not being adequately assessed in Georgia. The real question is what should be done to resolve the problem. The Commission believes that personal property is a valid and viable part of our tax structure and that elimination of the personal property tax is not the proper solution to the problem of personal property assessment.

The Commission makes a series of recommendations which are designed to be the beginning of improvement in the assessment process. Two new

"tools" recommended for tax assessors are standardized reporting forms and a procedural manual. In order for assessors to effectively use these new tools, the Commission also recommends that all counties have personnel trained and certified in the appraisal of personal property. Training programs can be conducted by the Revenue Department similar to the training now conducted for real property appraisers. Finally, when state funds are available, counties should be required to have minimum staff levels of personal property appraisers. These recommendations should be able to be implemented with little or not cost to local governments.

PROPERTY TAX ASSESSMENT APPEALS PROCEDURES

Once the assessment is made by the assessor, the appeals system serves to allow the taxpayer to air his grievances regarding the assessment and gives the taxpayer the opportunity to ensure that he is being treated fairly vis-a-vis other taxpayers in his area. In 1972, Georgia established a new appeals process with boards of equalization as the focal point in the appeals system.

The Commission's examination of the appeals system was to determine if this new system: (1) provides easy, informal, and inexpensive access by taxpayers; (2) is generally staffed by competent and knowledgeable people and; (3) provides that taxpayers will receive the same treatment without regard to county boundaries or type of property.

The Commission finds that the basic system established in 1972 is desirable and sound. The recommendations, therefore, are designed to strengthen the basic system and to reduce the "weak" spots in the system which have appeared over the past several years.

Generally, taxpayer accessibility appears to be easy, quick and relatively inexpensive, with the exception of appeals of homestead exemption denials. These appeals are currently under the jurisdiction of the superior court and the Commission finds no reason why these appeals should be treated differently from other appeals and recommends that they be under the jurisdiction of the Board of Equalization.

All issues of appeal: taxability, uniformity and valuation, appear to be valid issues of appeal. The Commission believes, however, that appeals affecting more than one taxpayer's property should be different from individual appeals; it should be more difficult to win a jurisdiction-wide appeal than an individual appeal.

With regard to expertise, the current appeals system is not in step with the total assessment process in that appraisers and assessors are required to have a minimum degree of training while board of equalization members, having the authority to totally change assessments, have little or no qualification or training requirements. In addition, it was found that the "jury duty exemption" eliminated a number of potentially qualified people, thus reducing the pool of potential board members. The Commission's recommendations are designed to bring a greater level of expertise to the appeals process.

The recommendations relating to standing of complaining parties primarily focused on the appeal rights of boards of tax assessors and utility property appeals by counties. First, the Commission wanted to reduce the potential for harassment by boards of tax assessors while continuing to foster a proper system of checks and balances on board of equalization decisions. Second, the current inability of counties to appeal utility assessments was found to be a weakness in the overall appeals system in that it did not provide an adequate check and balance on the Revenue Department assessments of utility property.

The results of the sales ratio study can often be the single, most valuable piece of evidence in an appeal, yet there are no statutory provisions regarding its use in an appeal. The Commission believes that there should be statutory language recognizing its value and requiring a minimum degree of recognition by boards of equalization.

While the 1972 legislation established the foundation of the new appeals system, some of the substance was not included: the Commission believes that procedural uniformity between counties can be fostered by requiring that local procedures be established in writing to help ensure that taxpayers within a county get the same treatment and to allow taxpayers in different counties to more readily compare appeal procedures.

Finally, there was some concern that boards of tax assessors have too much influence over boards of equalization. In particular, the dependence of the board of equalization on the board of tax assessors for facilities and staff support was thought to contribute to a reduction of the board of equalization's independence. The Commission, therefore, sought to reduce the structural relationship between the two boards by eliminating part of the board of equalization's dependence on the board of tax assessors.

Chapter 6

INTERGOVERNMENTAL RELATIONS

INTRODUCTION

An analysis of any state's tax structure must recognize the fact that government services are frequently provided in a "shared" manner, with federal, state and local governments taxing as partners in the delivery of services. Thus, revenues provided by all of these partners to finance governmental services must be viewed together; to view only those revenue sources available to each separate level of government would provide a picture which fails to show the inter-relationships among the system's partners.

An historical analysis of Georgia federal-state-local fiscal relationships revealed that our state and local governments, like all others nationwide, have increasingly relied on federal aid since the early 1960's. Likewise, Georgia state intergovernmental financial support to its local governments diminished as a percent of total local revenues during this period, especially in the case of school system's support. These trends have far-reaching ramifications in an era of fiscal austerity.

In viewing the fiscal relationships existing between Georgia and its local governments, it became apparent that while most Georgia state intergovernmental financial aid is directed to school systems, the overall level of support provided by the state has decreased as a percentage of total educational costs. This has had the twofold effect of (1) forcing upon local school systems a higher reliance on local property taxes to pay for elementary and secondary public education, and (2) "disequalizing" among the school systems as regards the provision of educational services. It was likewise revealed that Georgia's large number of school systems could be reduced to help lower overhead costs and allow for a broader array of educational course offerings, but that existing Georgia constitutional provisions make difficult any voluntary merging of systems or contracting among systems.

Many states have found that good financial management practices by their local governments can have the effect of reducing the need for tax increases, by putting into place the management techniques which enable local officials to efficiently and more effectively manage the resources available to them. Likewise, most states have found that for state governments to deal effectively with the financial prob-

lems of their local governments, they must have adequate information about the financial affairs of local communities. In this regard, Georgia is one of only a few states which does not require certain minimum standards for budgeting, auditing, accounting and financial reporting for general purpose units of local government.

Frequently, states assist their local governments in areas requiring a high level of technical expertise such as purchasing, bonding and investing of funds. Such assistance allows local units to draw upon the technical resources of the state, where full-time staff personnel perform these functions on a daily basis. Especially in those states having a large number of small local governments (as is the case in Georgia), voluntary programs in these areas have met with considerable success. Through the provisions of such services, administrative costs are reduced, thus lessening the need for increased local taxes. In this regard, Georgia currently allows local governments to utilize the state's Purchasing and Supplies Division to obtain lower-priced goods through the use of state contract prices; in the areas of local debt management and investment of idle funds, however, little is being done on a formalized basis to assist local units.

STATE TECHNICAL ASSISTANCE: GEORGIA LOCAL GOVERNMENT INVESTMENT POOL

Taxpayer unrest over the level of taxes makes it imperative that prudent management of resources be conducted by all levels of government. One financial management tool available to governments to ensure that maximum benefit is obtained from revenues is the use of investment of temporarily idle funds: wise investing of revenues can have the effect of reducing the need for tax increases.

Most states, including Georgia, have sophisticated investment portfolios managed by state (or outside) experts in the investment field. Typically, the states benefit significantly from such practices. The use of the state's talent in this area, as well as the use of the state's investment pool itself, would provide local governments with an investment opportunity currently unavailable to them. Benefits from such an endeavor would accrue especially to small local units of government which lack the sophisticated knowledge of investment or which are shut out of a number of investment possibilities due to the small amount of idle funds available for investment.

To assist local governments, a number of states have established local government investment pools which have met with considerable success. In those states establishing a local investment pool, participation is on a voluntary basis, with emphasis placed on quick deposit and withdrawal procedures. The concept behind the local investment pool is simple: the pooling of temporarily idle surplus funds of a number of local government allows for the maximizing of interest earnings, as well as the professional management of the invested funds by the state's investing agency.

Georgia, given its number of local units of government and the volume of funds held or invested by local governments, would appear to be a prime candidate for a local government investment pool. This is especially the case due to the types of investments available for Georgia local units of government (see Section 23-3001, Ga. Code Ann.).

In recent months, interest rates have increased dramatically, thus allowing for higher investment yields by governmental units, as well as individuals. However, since many types of investments available to small local governments require minimum investments, these governments may be precluded from a maximum interest yield. A state investment pool, with a small minimum (or none at all), could provide yet another opportunity to obtain higher yields for local investments.

The state agency responsible for the investing of State revenues is the Fiscal Division of the Department of Administrative Services. According to the Fiscal Division, at any given point in time the state has in excess of 99 percent of its funds invested in interest-bearing investments. As may be expected, the recent interest yield experience has been quite good: an average of 10.5 percent interest has been earned on Georgia's long- and short-term investment portfolio, and interest on short-term certificates of deposit approaches 12 percent. The Division has a professional investment staff of five persons, and investment information is computerized so that the Division can monitor investment performance.

The Commission, therefore, recommended that the State of Georgia should establish a voluntary local government investment pool to allow local units of government to draw on the state's investment expertise, as well as to afford local governments the opportunity to maximize interest earnings through the placing of temporarily idle funds in a larger revenue pool.

STATE TECHNICAL ASSISTANCE: LOCAL GOVERNMENT DEBT MANAGEMENT

The need to provide capital facilities to serve its citizens has caused governments at all levels to utilize bond financing to provide the monies needed to construct these facilities. The interest rates which governments must pay on these bonds depend on (1) *money supply and demand* and (2) *the credit*

rating of the government. Local governments can do little to control the supply and demand factor, but can take steps to ensure a higher credit rating: sound governmental financial practices is a crucial factor to bond advisors and underwriters. Such practices can help to lower the interest costs to government (and, thus, taxpayers) in issuing governmental bonds.

Interest costs, too, are affected by the *type of bond* issued. Typically, a government will pay higher interest costs for non-guaranteed (frequently termed "revenue") bonds, as these issues are not backed by the full taxing powers of the governmental issuer, but by the pledge of a specific source of revenue (such as a single tax or series of taxes, or from revenues generated through use of the facility constructed, such as toll roads).

Georgia state and local governments have traditionally relied on non-guaranteed ("revenue") bonds to a greater extend than most other states (see Commission report, *Georgia State-Local Fiscal Issues,* Part III). This fact is due in part to stringent provisions regarding the use of general obligation debt by the state and its local governments in the Georgia Constitution.

Prior to 1972, debt could not be incurred by the state for any reason. Thus, in order to allow construction of needed facilities, the state created a number of independent Authorities, which had the power to issue bonds, construct facilities, and lease them to the state. Bonds issued by these Authorities were considered to be revenue bonds, given their lack of full-faith-and-credit backing of the state. In part to allow itself lower interest costs through issuance of general obligation bonds, as opposed to the Authorities' revenue bonds, a Constitutional Amendment was placed before the Georgia electorate in 1972 to allow debt financing (including general obligation debt) of capital facilities construction. The proposal was ratified, and the Georgia State Financing and Investments Commission was created in the next year by the General Assembly to administer the issuance of bonds and construction of facilities financed through bond sales. Even with passage of the 1972 amendment, however, limitations on the use of debt by the State were imposed in the Constitution. Article VII, Section 3, Paragraph 1, for instance, prohibits total annual debt service requirements in excess of 15 percent of total state revenue receipts.

Local government debt in Georgia, like state debt, is strictly regulated in the Georgia Constitution, which requires voter approval of all local government general obligation debt. Revenue bond debt does not require such approval.

Thus, given the past restrictions on incurrence of debt by the state, and the existing restrictions on local units' use of general obligation debt, it is not difficult to see why Georgia ranks high among the states in its reliance on revenue bond debt. As noted above, however, revenue bonds can result in higher interest costs to issuing governments (and their taxpayers), given their lack of full-faith-and-credit backing by the governmental unit.

To assist their local governments when they go to the bond market, a number of states have taken steps ranging from North Carolina's complete state control of local debt issuance to Maine, Vermont, and Alaska's "bond bank", to Georgia's technical assistance to local units (upon request). Given Georgia's growth, which necessitates the construction of public facilities, its large number of small local governments, which may lack the technical expertise to market and manage their debt obligations, and the possibility small size of small government issues, the state might consider a more active role in assisting its local governments in the area of debt management and issuance.

The Commission recommends, therefore, that the Georgia Financing and Investments Commission should study the use of debt by Georgia local units of government and report to the Governor and the General Assembly on ways in which the state might assist local governments in debt management.

LOCAL GOVERNMENT FINANCIAL MANAGEMENT: BUDGETING, AUDITING, FINANCIAL REPORTING

It is commonly accepted that it is in the best interest of the states to assure strong and well managed local governments. Local governments receive financial assistance and perform various services mandated by the states; likewise, their individual bond credit ratings affect other local government credit ratings within the state as well as the credit rating of the state itself. It is therefore incumbent on the states to ensure that sound financial management practices are in existence at the local level: the states and their local governments are partners in the governmental system; what occurs at one level can, and does, affect the other partners in the system. Further, especially in times of fiscal austerity, local officials and taxpayers should be assured that local resources are prudently managed.

The fact that local financial management practices directly impact upon the state is borne out in a recent study of the fiscal condition of the southeastern states conducted by a national underwriting firm. While reviewing all of the states of the region, Georgia, Florida, Alabama and Louisiana were se-

lected for in-depth analysis. The study noted that in Georgia "improvements in financial and general management and local government supervision . . . would reinforce the state's favorable credit position."

Components of local financial management systems include budgeting and accounting systems, auditing, and financial reporting. Budgeting and accounting systems and auditing are necessary management tools which allow for rational planning of expenditures and the assurance that proper expenditures are made. Likewise, periodic reporting on the financial condition of local governments can also be beneficial to a number of entities.

The General Assembly, for instance, is called upon each year to modify the revenue-raising abilities of local governments by allowing exemptions to existing tax sources, or to expand the revenue bases of local governments. The Assembly is hampered in its decision-making role by a lack of local fiscal information. Many state agencies also have a need for such information: ranging from agencies providing technical assistance to agencies administering programs in cooperations with local governments.

Investors in Georgia local government bonds, as well as the general financial community, also have need for accurate, timely financial information on local governments. Naturally, too, local taxpayers and government officials need to know that their governments are well managed and fiscally healthy.

As noted by the National Conference of State Legislatures and Municipal Finance Officers Association, "good financial management requires that the facts concerning the nature and costs of municipal activities be readily available to local officials. By the same token, without adequate information about the financial affairs of local communities, it is difficult for state governments to know, much less deal effectively with the financial problems of their political subdivisions."[1]

Georgia is one of only a few states which do not require certain minimum standards of local governments for budgeting, accounting, auditing and financial reporting (school systems are an exception to this rule, due to the substantial state involvement in local school system finance). By providing for minimum required financial management standards for its local governments, the state would be taking a needed step in ensuring that good financial management practices are in place. This action would do much to ensure that local revenues are most efficiently expended, since good financial management translates into lower operating costs (a principle which is also true in the business sector).

[1] National Conference of State Legislatures and Municipal Finance Officers Association, *Watching and Counting: A Survey of State Assistance To and Supervision of Local Government Debt and Financial Information,* October, 1977, p. 22.

This means, simply, that there would be a lessened need for increased taxes at the local level.

Therefore, Georgia local governments should be required to adopt a fiscal year and a budget (adopted by official action) for that year, and an audit of the government's financial records, a copy of which should be forwarded to the state. An appropriate state agency should then prepare an annual report based on these audits for submission to the Governor and General Assembly and to each local government.

FEDERAL AND STATE AID

As noted in Chapter 3, federal aid to Georgia state and local governments has grown markedly since the late 1960's. In fact, Georgia local governments have come to rely upon federal aid to a greater extent than local governments in the average state, as well as those local units in the southeastern states. Table 15 points out this fact, as well as indicates that Georgia local units tend to receive less state fiscal support than the average state.

The increasing reliance on Federal aid at the state and local levels during this period is due to a combination of factors: inflationary pressures on state and local budgets, increased service demands by Georgia's citizens, federal mandated programs, a general increase in the number of federal aid programs, and, at the local level, antagonism toward the property tax as a revenue source and a diminishing of state aid as a revenue source for Georgia local units of government.

In future years, however, Georgia state and local governments will be forced to look to their own resources to fund their operations, as Congress seeks to balance the federal budget. Increases in federal grants to all state and local governments are estimated to be five percent in fiscal 1979 and one percent in 1980, down from average annual increases of about 14 percent during the 1960-1977 period.

While there is little question that the federal budget needs to be balanced to check the high inflation of recent years, a number of points should be kept in mind by Congress as it deliberates on ways to achieve this goal. First, federal categorical grant programs (those directed at specific problem areas) tend to carry with them a variety of federal rules and regulations which remove any discretion on the part of state-local decision makers. The elected officials closest to the people frequently have the least to say as regards how the moneys received may best be spent; in short, categorical grants act as a centralizing force in the federal system, moving power away from state and local governments and toward the federal government. Second, federal

TABLE 15

PERCENTAGE OF TOTAL LOCAL GENERAL REVENUES FROM INTERGOVERNMENTAL TRANSFERS,

SELECTED SOUTHEASTERN STATES 1976 and 1977

	1975-1976	1976-1977
United States Average		
Federal Transfers:	8.3%	9.3%
State Transfers:	34.5	33.7
Georgia		
Federal Transfers:	9.8	12.0
State Transfers:	25.9	26.4
Florida		
Federal Transfers:	8.2	10.2
State Transfers:	33.7	33.7
Alabama		
Federal Transfers:	10.0	11.3
State Transfers:	38.3	36.7
Mississippi		
Federal Transfers:	9.6	9.3
State Transfers:	44.3	44.7
North Carolina		
Federal Transfers:	9.5	10.6
State Transfers:	48.1	48.2
South Carolina		
Federal Transfers:	9.3	10.5
State Transfers:	40.1	39.0
Tennessee		
Federal Transfers:	11.1	11.8
State Transfers:	30.6	29.5
Virginia		
Federal Transfers:	10.0	11.6
State Transfers:	33.8	31.9

SOURCE: *Governmental Finances,* U.S. Bureau of the Census, 1976 and 1977 issues. Tax Reform Commission staff computations.

aid has helped compensate, somewhat, for federally-mandated programs which impose added costs upon state and local governments. Any cutbacks in fiscal assistance should also address the mandating issue. Third, it should be remembered that much federal aid is "passed through" state and local governments in the form of payment for services to vendors or as transfer payments to individuals. Thus, although federal aid outlays to these governments are large in magnitude, much of this money is not utilized for general government support. Fourth, in recent years there have been efforts made to "target" federal aid to "places most in need". While this concept is noble in theory, what has occurred in some federal aid programs has been a redirecting of aid to "declining" areas of the U.S. (the Northeast and Midwest) at the expense of "growing" areas (the Southeast and Southwest) through the use of formula criteria which are of doubtful value as regards defining of "need". With the pressures brought on by the overall cutbacks in federal aid, there probably will be increasing efforts

by certain areas of the nation to funnel what federal dollars are available to their regions. Fifth, the federal aid program which provides state and local decision makers with the most flexibility regarding the expenditure of funds, the Federal Revenue Sharing Program, is perhaps the most vulnerable of all aid programs to state-local governments. This program, which in 1979 will provide $50.7 million to the State of Georgia and some $101.4 million to Georgia counties and cities, expires in September 1980. Political support for the program's renewal has been lacking, both within the Administration and in Congress.

In light of the above, the Commission recommends that the General Assembly encourage Congress to re-enact the Federal Revenue Sharing Program. If efforts to balance the budget are directed to state-local aid, those efforts should focus on federal categorical programs which mandate how and where such money shall be spent. The Georgia Municipal Association, the Association County Commissioners of Georgia, and the State of Georgia should actively work with the Georgia Congressional delegation to assure re-enactment of the Revenue Sharing Program.

As regards recent efforts to "target" federal aid, the Commission recommends that the Georgia Congressional delegation work to assure that federal aid formula factor proposals assure that aid is "targeted" to people in need, not places in need.

With respect to state aid to Georgia local governments, the Commission recommends that the State, in recognition of its broader tax base and overall reduction in federal assistance, should review its programs of assistance to local governments and give consideration to a wider and more equitable sharing of revenue with its local governments.

EDUCATION FINANCE

Since 1967 there has occurred in Georgia a decline in state financial support for total public school system costs and a move toward a higher reliance on local tax revenues. This, simply stated, means a heavier reliance on local property taxes, as this revenue source is the major source of local revenues for school districts in Georgia. These facts are reflected in Table 16, which shows Georgia school system financing over time, as well as the percentage growth in property tax reliance. Moreover, this table, depicting school system revenue sources, tends to overstate somewhat the state's role in education finance due to the fact that a number of federal aid programs for local school purposes flow through the state and are reflected as "state" intergovernmental revenues to school systems. Thus, the percentage of total education costs truly paid by the state is somewhat smaller: probably by about seven to ten percent.

TABLE 16

COMPOSITION OF GEORGIA SCHOOL FINANCES, SELECTED YEARS
AMOUNT AND PERCENTAGE OF TOTAL REVENUES

1967-1977
(millions of dollars).

	1967		1972		1977		
	Amount	% of Total Revenues	Amount	% of Total Revenues	Amount	% of Total Revenues	% Change 1967-1977
Local Taxes	$139.4	26.0%	$248.3	30.2%	$477.7	34.3%	242.5%
Local Charges and Miscellaneous Revenue	54.2	10.1%	70.6	8.6%	104.5	7.5%	92.9%
State Intergovernmental Revenue	315.1	58.7%	479.0	58.2%	769.5	55.2%	144.2%
Federal Intergovernmental Revenue	27.9	5.2%	24.3	3.0%	42.4	3.0%	51.9%
Total Revenue	$536.6	100.0%	$822.2	100.0%	$1394.1	100.0%	159.8%

SOURCE: *Census of Governments: Finances of School Districts, 1967, 1972, 1977,* U.S. Bureau of the Census.

Tax Reform Commission staff computations.

The increasing reliance on the local property tax has meant a shifting from the broader-based state tax sources (income and sales taxes) to a more narrow local tax source. Moreover, the shift away from state support has moved financing from elastic (i.e., inflation-responsive) to inelastic (non-inflation-responsive) sources.

Two general types of education costs are raised locally through the property tax. The base amount (required local effort) is the particular system's share of the total amount of funds necessary to meet the requirements of the Adequate Program for Education in Georgia. The amount of funds generated in excess of this required local effort is also accomplished at the local level through the property tax ("enrichment" or "supplemental" funds).

In 1971, the General Assembly, acting to decrease reliance on local property taxes for school purposes, froze the maximum amount of total Required Local Effort at $78.6 million. This, however, has not resulted in a stabilization of property taxes levied for school purposes; in fact, property taxes for school purposes have increased significantly since that time.

The Commission, recognizing that public education is a basic and inherent state responsibility and believing that more of the costs of education should be borne by the broader-based state taxes, recommended that the Constitution be amended to increase, by one cent on the dollar, the state sales tax with the proceeds of the increase used as replacement revenues for property taxes levied for school purposes. A formula for equitable distribution of the proceeds of such tax should be included as a part of the amendment levying the tax.

It is the feeling of the Commission, however, that there should be no unjust enrichment of certain taxpayers as a result of this policy. Therefore, it is further recommended that if the state sales tax is thus increased, the General Assembly should closely examine the need to adjust the corporate income tax so as to minimize any property tax windfalls to corporations.

In addition to the financing of the public schools of Georgia, it is noted that a number of constitutional restrictions exist which impede the ability of local school systems to improve their organization. A number of past studies in Georgia have called for larger systems to allow for greater economy and efficiency to offer a maximum of educational opportunities to Georgia's students. In this regard, Article VIII, Section 5, Paragraph 1 of the Constitution of Georgia, requires that for a consolidation of systems to occur, a referendum must be held in which fifty-one percent of the registered voters of each system concerned must vote, and that a majority of those voting in each affected system must vote affirmatively. To circumvent these rigid requirements, most systems which have merged have done so through a local constitutional amendment which requires only a favorable referendum vote of those voting in the election. Clearly, a change in the Constitution to allow those systems interested in merging to do so by majority vote would provide an easier legal method to accomplish such mergers.

The use of the ability of school systems to contract for the "care, education and transportation and for such other activities as they may be authorized by law to perform" (Article VIII, Section 5, Paragraph 4, Constitution of Georgia) is hampered by past court rulings which have ruled that joint ownership and operation of the schools in question is not permissible: actual ownership and operation, the courts have held, must vest in the system in which the facility is located. A provision in the Constitution allowing for such joint ownership and operation could provide more incentive for the use of the contracting powers. Given the large number of small systems in Georgia, such expanded use of this authorization would allow for more economical delivery of school services, as well as enable contracting systems to provide a broader education program to their students.

The Commission, in light of the above, recommends that the General Assembly should review the problems in this existing constitutional language with a goal of such review being the streamlining of the applicable sections.

Chapter 7

BUSINESS TAXATION ISSUES

INTRODUCTION

In addition to those recommendations presented in this report which would impact in varying degrees the entire taxpaying population, the Commission, through its Business Taxation Subcommittee, reviewed several tax policy issues relating to the impact of Georgia's tax policy on the business taxpayer in particular. This analysis was undertaken in recognition of the importance of a positive environment for the conduct of business and the obvious need for business to equitably share the overall burden of taxation.

THE BUSINESS TAX CLIMATE IN GEORGIA

A number of taxation issues can either positively or negatively affect the business climate within a state. These include: tax rates, administration of the taxes involved, record keeping and reporting requirements, auditing, variance among locally imposed taxes, and the overall equitability of the enforcement of the tax. In general, taxes which are simple, straightforward, easy to comply with and uniformly and equitably enforced as best received by business. Conversely, taxes which require extensive record keeping and those which are not evenly applied can create a burden on the business climate.

Throughout the United States, state and local governments have effected a wide variety of tax policies intended to attract new business to their state and expand existing business. These policies take many forms, but since many of them are designed as local government tax incentives, they often involve the general property tax. One of the most common of these tax policies is the freeport property tax exemption on inventory stored in the taxing jurisdiction on tax date which is intended for ultimate shipment outside the state.

A few local governments in Georgia have, by local constitutional amendment, provided for the traditional freeport property tax exemption for inventories. In addition, a number of local governments have implemented Georgia's general authorization to provide for such exemptions. This authorization, which has been in place since 1976, provides flexibility for the local government to select, through the referen-

TABLE 17

COUNTY LEVEL FREEPORT STATUS

1979

County	Local Constitutional Amendment	State Freeport Act Ratification	Effective Date	Class of Inventory	Exemption Percentage
Appling		11/ 7/78	Not Implemented	1,2	
Atkinson[1]					
Bacon		11/ 7/78	1/1/79	1	20%
Baldwin		9/21/77	1/1/79	1,2,3	20%
Banks		8/ 8/78	1/1/79	1,2,3	100%
Bibb		1/30/79	1/1/80	1,2,3	20%
Carroll		4/ 4/78	1/1/79	1,2,3	20%
Charlton		11/ 7/78		1,3	
Cherokee		11/ 7/78	Not Implemented	1,2,3	
Clarke		5/ 2/78	Not Implemented	1,2,3	20%
Clinch		11/ 7/78	1/1/79	1,2,3	20%
Cobb		11/ 7/78	1/1/79	1,2,3	20%
Columbia		4/12/78	1/1/78	1,2,3	100%
Coweta	11/2/76		1/1/77	3	
Dekalb		11/ 8/77	1/1/78	1,2,3	20% (class 3 only)
Dodge	11/2/76		1/1/78	3	
Dooly		11/ 7/78	1/1/79	1,2,3	100%
Douglas		2/22/77	1/1/78	1,2,3	100%
Elbert		8/ 8/78	1/1/79	1,2,3	20%
Fayette[1]					
Forsyth		4/ 5/78	1/1/78	1,2,3	100%
Franklin		11/ 7/78	1/1/79	3	100%
Franklin		11/ 7/78	1/1/80	1,2,3	?
Fulton		11/ 7/78	1/1/79	1,2,3	20%
Glynn	11/2/76		1/1/79	3	100%
Gwinnett		8/ 8/78	1/1/79	1,2,3	20%
Henry	11/2/76			3	
Houston		11/ 7/78	1/1/79	1,2,3	20%
Lincoln		5/17/77	1/1/78	1,2,3	100%
Muscogee		11/ 7/78	1/1/79	1,2,3	20%
Newton		11/ 7/78	Not Implemented	1,2,3	
Oconee		11/ 7/78	Not Implemented	1,2,3	
Paulding		9/13/77	1/1/78	1,2,3	100%
Pierce[1]					
Polk		11/ 7/78	1/1/79	1,2,3	100%
Richmond		7/19/77	1/1/78	1,2,3	20%
Sumter		5/31/77	1/1/78	1,2,3	100%
Talbot		11/ 7/78	1/1/79	1,2,3	20%
Telfair		6/ 6/78	1/1/79	1,2,3	100%
Treutlen		11/ 7/78	1/1/79	1,2,3	100%
Troup		11/ 7/78	1/1/79	1,2,3	20%
Walton		11/ 7/78	Not Implemented	1,2,3	20%
Ware		11/ 7/78	1/1/79	1,2,3	20%

[1] These three counties contain municipalities which have enacted freeport but have not been done so at the county level.

[2] Class 1 — raw materials or goods in process used in the manufacturing process; *Class 2* — finished goods manufactured in Georgia; *Class 3* — finished goods (regardless of place of manufacture) stored for shipment outside the state.

SOURCE: Tax Reform Commission staff compilation from various sources.

dum process, the type of inventory to be exempt and the level of valuation which will be exempt. Table 17 reflects a listing of Georgia local governments which have implemented freeport property tax exemptions.

Information received by the Commission indicated the popularity and apparent effectiveness of the freeport exemption as well as other tax policies in place affecting Georgia's overall competitive tax climate. Testimony did indicate, however, that statistically significant analysis which could indicate the total effort of most of these policies on the governments involved or the business itself are not available. Information from the United States Advisory Commission on Intergovernmental Relations does conclude, however, that Georgia is a state in a growth region and that Georgia's taxes generally are in line with taxes in competing states; and, therefore, the Tax Reform Commission finds that there is no apparent reason to alter business tax policy significantly at this time. As a result of all information received, the Commission finds that Georgia's tax policies allow proper competition in encouraging industrial and business development,

and the Commission recommends that Georgia should maintain this competitive "business climate" with our competing states.

CHARTER RAILROAD EXEMPTIONS

Two railroads currently receive exemptions from ad valorem taxation. The exemptions were provided to these companies as a part of the charters granted by the state in the 1839's and 1840's. The original intent of the exemptions was to insure the development of railroads within the state. A special tax of one-half of one percent on income was imposed in lieu of the property tax thus exempted.

The State of Georgia has tried several times to eliminate these exemptions without success. A complicated web of litigation occurred during the 1940's, but apparently there has been no recent comprehensive evaluation of possible methods by which the exemptions may be eliminated. The Commission found these special exemptions to be inequitable, and recommends that the General Assembly should take whatever lawful action necessary to remove these special exemptions.

PUBLIC UTILITY TAXATION ISSUES

The Commission examined a number of issues relating to the taxation of public utilities. Items reviewed included the sales tax on fuels used to generate electricity, the use of accelerated depreciation for tax purposes and straight-line depreciation for rate making purposes, municipal franchise taxes, and property tax appraisal and assessment standards. While some of the issues thus studies were simple and straightforward, others were intertwined because of the regulated nature of the business. To provide for balanced consideration and comprehensive recommendations in this area, the Commission recommends that it defer these issues until all public utility taxation issues can be considered collectively.

INSURANCE PREMIUM TAXATION

The area of insurance taxation was closely studied by the Commission. Issues reviewed included the rates of taxation; the construction and administration of the State and locally imposed insurance premium taxes; and the enforcement mechanism currently in place, particularly as it relates to local taxation.

Currently, Georgia levies a tax on most lines of insurance, measured by the gross direct premiums written within the state. The base rate of the state tax is 2¼% with lower rates for companies which invest significant portions of their assets in Georgia. Municipalities are authorized to impose a tax of 1% on life and health insurance premiums written within the city limits. These companies may then deduct taxes and fees paid to municipalities from their state premium tax liability. Thus, the local tax becomes a credit against the state tax. On the other hand, counties are prohibited from imposing taxes on life and health lines.

Many municipalities also have charter provisions authorizing levies on other lines of insurance, and these rates vary from less than one percent to nearly four percent. Eight counties are authorized by local constitutional amendment to impose insurance premium taxes in the unincorporated areas on lines other than life and health.

The Commission found the current system of local taxation of insurance premiums to be sufficiently deficient to warrant significant revision. In an effort to reduce the administrative burden on companies attempting to comply with local rates and for standardization goals, the Commission recommends that the rates for locally imposed insurance taxes be standardized. Also, in order to provide some equalization of authority for local taxation in this area, and in recognition of the practices of the insurance companies for allocating the payment of local taxes in the rate structure, the Commission recommends that the General Assembly should adopt appropriate legislation and/or constitutional amendment to permit counties to levy an insurance premium tax in the unincorporated areas of the county.

TAXATION OF FINANCIAL INSTITUTIONS

The taxation of financial institutions was a topic of serious concern to the Commission. Currently, financial institutions are taxed on a "bank shares" basis, and as a result of this exclusive method of taxation, adopted by Georgia when federal statutes restricted the method by which states could tax such institutions, these institutions are not subject to many other State and local government taxes which are paid by other businesses. Table 18 outlines generally the types of Georgia taxes for which financial institutions are now subject to tax and those for which exemption from taxation is provided.

Under Georgia's current system of taxation, the "bank shares" tax is an ad valorem tax. A 1973 Act (Ga. L. 1973, p. 924) would have repealed this method of taxation and substituted other forms of taxation, but the 1973 Act was never implemented, and it was subsequently repealed. The base for the tax is a forty percent assessment of the full market value of the outstanding shares of the stockholders of the bank. Rates applied include the regular prop-

TABLE 18

GENERAL TAX POSTURE, FINANCIAL INSTITUTIONS

Type of Tax	Before 1973	Under 1973 Act	After Repeal of 1973 Act
Tangible Property Tax			
(a) Real estate	Taxable	Taxable	Taxable
(b) Personal property	Exempt	Taxable	Exempt
Bank Shares Tax	Taxable	Exempt	Taxable
Intangible Taxes			
(a) Regular intangibles	Exempt	Taxable	Exempt
(b) Long term notes	Exempt	Taxable	Taxable
(c) Real estate transfer tax	Taxable	Taxable	Taxable
State Income Tax	Exempt	Taxable	Exempt
(a) Corporation franchise tax	Exempt	Taxable	Exempt
Sales Taxes	Taxable	Taxable	Taxable
Local License Fees	Exempt	Taxable	Exempt

SOURCE: Georgia Tax Reform Commission staff compilations.

erty tax rates levied by the affected county, municipality, and school district and a special five mill rate for state tax purposes.

The Commission received information regarding problems with the administration of the current system of taxation partly evidenced by a series of Georgia appellate court decisions over the past few years. In addition, information was received regarding litigation in other states which, if applied to the Georgia bank share tax, would result in a serious loss of revenue by local governments from financial institutions.

The Commission therefore recommends that the General Assembly examine the desirability of placing the taxation of financial institutions, their property and their obligations, on a similar basis to that now applicable to other corporations and businesses. Any such legislation should provide funding for replacing current revenues which might be lost by local governments as well as reasonably expected future revenues.

In addition to the general area of taxation regarding financial institutions, the Commission also considered the application of Georgia's current Disposition of Unclaimed Property Act, (Ga. L. 1972, p. 762). This Act provides for the reporting, advertising and remitting of funds held by various entities which have become abandoned under the terms of the Act. Financial institutions, however, are not now required to remit such funds as abandoned property. The Commission recommends therefore that financial institutions should conform to the Act as do other business entities and that unclaimed deposits and property held by financial institutions should be remitted to the State to be used for public purposes.

Chapter 8

LOCAL GOVERNMENT REVENUE SOURCES

INTRODUCTION

An area of major interest to the Commission was the revenue structure of Georgia's local governments. As indicated in Chapter III, the revenues collected by counties, municipalities, school districts and special districts nearly equalled the revenues generated by the state. The Local Revenue Sources Task Force was responsible for examining all sources of revenue for local governments. The first priority was to examine the current sources of revenue and to recommend changes designed to improve the efficiency of existing tax sources and to promote their better utilization. The second priority was to explore potential revenue sources with the goal of using new sources as a supplement to, or as a replacement for, current revenue sources.

At the beginning of the task force's work, it became immediately apparent that little financial information on local governments was available on a statewide basis. Consequently, the task force had to utilize data collected from various sources which reduced the quality of the information.

The current revenue sources which were examined included:

- Real Property Taxes
- Intangible Property Taxes
- Local Option Sales Taxes
- Hotel-Motel Taxes
- Mixed Drink Taxes
- Local Alcoholic Beverage Taxes

In addition to examining individual revenue sources, two issues surfaced which involved two or more revenue sources. First was the method of distribution of tax revenue between municipalities and counties. With a few exceptions, counties and municipalities are authorized to levy the same taxes. Problems exist, however, when a county and municipality within the same county levy the same tax.

Several alternatives were presented to the Commission to correct these distribution problems. One alternative is to prohibit counties and municipalities from levying the same tax. Each type of local government would be authorized to levy different taxes. For example, municipalities could levy insurance premium taxes and the sales tax while counties could impose an income tax and alcoholic beverage taxes. Another method would be to create special

tax districts authorizing unincorporated county areas to levy a tax and restrict the use of the tax proceeds to the unincorporated area. A third approach would be to allow counties and municipalities to independently levy taxes and the tax would be "stacked" in municipalities.

The Commission did not recommend any of the three approaches but suggested that whatever approach is favored, it should apply to all local taxes (except the property tax). A "piecemeal" approach relating to one or two tax sources will not adequately address the problem.

The second issue relating to more than one revenue source is state and local tax collection procedures. Currently, the insurance premium tax and alcoholic beverage taxes are collected by both the state and local governments. For example, for every life insurance policy sold, the insurance company pays up to 1% of the premium value as a tax to the municipality and up to 2¼% of the premium value as a tax to the state. This "two-tiered" collection system requires two administrative bodies to collect a tax on the same commodity. The Commission believes this procedure should be carefully examined by the General Assembly to determine if the continuation of such a collection process is desirable.

REAL PROPERTY TAXES

The most significant local revenue source is the property tax. As shown in Table 19, it provides 84% of the tax revenues for counties and 50% for municipalities. While Georgia's overall property tax rate is below the national average, its growth rate over the past decade has been one of the highest in the U.S. This Dramatic growth has fostered a perception of unreasonably high property tax levels and it is this perception which was considered by the Commission.

Problems with the property tax can be examined from two different perspectives: whether the level of property taxes adversely affects all property taxpayers or only certain groups or types of taxpayers; and whether the complaints regarding the property tax relate to both school and general purpose property taxes, to only one or the other. Possible solutions are dependent on proper identification of the specific problems.

Analysis by the Commission of various groups of taxpayers such as the elderly and farmers has not been completed; therefore, we are, at this time, unable to determine if specific groups of taxpayers have greater property tax burdens vis-a-vis other

TABLE 19

COMPOSITION OF GEORGIA LOCAL REVENUE SOURCES BY TYPE OF GOVERNMENT ALL COUNTIES AND MUNICIPALITIES[1] 1978

	Counties		Municipalities	
	Dollars	% of Total Revenue	Dollars	% of Total Revenue
Property Taxes	$333,644,382	84.6	$153,157,936	49.8
Local Option Sales Tax	22,212,516	5.6	33,401,398	10.9
Alcohol Beverage Taxes[2]	14,166,852	3.6	34,365,464	11.2
Public Utility Franchise Taxes	539,199	0.1	34,070,455	11.1
Hotel - Motel Tax	1,486,832	0.4	4,042,885	1.3
Insurance Premiums Tax	4,210	0.0	13,810,288	4.5
Business Licenses/Occupational Taxes	5,165,175	1.3	25,387,217	8.2
Alcoholic Beverage Licenses	4,660,803	1.2	5,106,799	1.7
Tax Collection Fees	7,629,320	1.9	65,708	0.0
Building and Equipment Permits	3,538,755	0.9	2,581,024	0.8
Miscellaneous Taxes, Licenses and Permits	1,433,817	0.4	1,607,237	0.5
Total Local Revenue	394,481,861	100.0	307,596,411	100.0

SOURCE: *1978 General Revenue Sharing Survey, Report of Revenues*, Georgia Department of Community Affairs
Tax Reform Commission staff computations

[1] Does not include intergovernmental revenue, user fees, utility system revenue, fines and forfeitures or investment income.
[2] Includes local option mixed drink tax.

taxpayers. Examination of all taxpayers, however, indicates that, on the average, property taxes account for approximately 2% of a taxpayer's adjusted gross income.

Of the total property taxes levied at the local level, approximately 55% are for local school systems. The Commission found that complaints regarding local property taxes were usually directed toward school property taxes. These complaints are reinforced by the significant increase in school property taxes during the late 1960's and 1970's. During the period 1967-1977, all property taxes increased 186%. If that growth is divided between school and general purpose property taxes, school taxes increased by 242% while general purpose taxes increased by 169%. As a result of this significant growth in school property taxes, and a belief by the Commission that education should be more of a state function, the Commission recommends proposals designed to reduce local school property taxes. A detailed explanation of these recommendations can be found in Chapter VI, *Intergovernmental Relations.*

In addition to recommending relief for all property taxpayers, the Commission also focused on the special property tax problems of the elderly. Since the information needed to analyze the elderly has not been completed, the Commission recommended a new program to assist the elderly with their "cash-flow" problems. Often, the elderly are "income-poor and property-rich" which makes it difficult for them to pay property taxes out of current income. A program which is in operation in ten states allows taxpayers to defer some or all of their property taxes on their homesteads until such time as the owner dies or sells the property. Property tax deferral programs allow the taxpayer to pay the property taxes out of the proceeds of the sale of the homestead or, in the case of inheritance, the taxes are paid by the heirs. Elderly taxpayers are no longer forced to pay property taxes on an annual basis, giving them additional discretionary income. This program does not forgive taxes, it simply gives the taxpayer the opportunity to pay them when they can best afford it.

Since the last tax study commissions in the late 1960's one method of tax relief which has been expanded for the elderly are increased general homestead exemptions and special local homestead exemptions. Since 1968, 38 municipalities and 11 counties have adopted local homestead exemptions, most of which have been specifically for the elderly. These exemptions have been generally adopted by the General Assembly through the "local courtesy rule" and ratified by the citizens of the affected jurisdiction. While the ability of localities to enact programs independent of state policies has been a long-standing tradition, the failure of any central oversight by the General Assembly has allowed passage of local exemptions with significantly different provisions. This lack of uniformity from one jurisdiction to the next leads to confusion and frustration on the part of the taxpayer. In some cases, counties and the municipalities within those counties have established totally different eligibility requirements for elderly taxpayers. Because it appears that local homestead exemptions will continue to be popular with the General Assembly, every effort should be made to direct this legislation to one committee in order to encourage some degree of uniformity in these exemptions.

INTANGIBLE PROPERTY TAXATION

One taxation issue which has received little attention from previous tax study commissions is the taxation of intangibles. In Georgia there are three separate and distinct taxes included within the broad classification of intangible property taxes. The traditional intangible tax is that which is commonly referred to as the tax on "regular" intangible property consisting normally of the annual tax on intangible holdings including cash, receivables, and stocks and bonds. The second type of intangible tax is the intangible "recording" tax on long-term notes secured by real estate which is a one-time tax paid at the time of recording the instrument which secures the note. The third type of tax discussed is the real estate transfer tax which is a documentary tax based upon the sales price of real property; it, too, is a one-time tax paid at the time of recording the instrument conveying title to the real property being transferred.

Examination of the intangible tax by the Commission was based on the concept that the time has come to either eliminate intangible taxes or develop them into a strong and viable part of the overall system of state and local taxation.

Throughout the history of our nation there has been a continual shift in the relationship between the value of tangible property and the value of intangible property. Since the period of industrialization and the development of corporations, the value of intangible property has increased dramatically until we are now to the point at which the value of intangible property is estimated to be three to five times greater than the value of taxable tangible property. Yet, the taxation of intangibles has been declining throughout the United States.

The Commission believes that the taxation of intangibles should be considered a sound and proper part of Georgia's tax structure. The taxation of wealth should not be limited to those taxpayers who own tangible property; all property owners should

contribute to the cost of government. Since intangible taxes are levied by local governments, the establishment of an adequate tax policy on intangibles will serve to broaden their tax bases at a time when they are under tremendous pressure to "hold the line" on taxes paid by owners of tangible property. The General Assembly should reverse the trend of slowly eliminating the intangible tax and begin to ensure that *all* property taxpayers are properly contributing.

LOCAL OPTION SALES TAXES

In 1975 the General Assembly passed legislation authorizing counties and municipalities to impose a one percent sales and use tax on transactions within their jurisdictions. One of the basic purposes of the local option sales tax was to provide a significant source of revenue for local governments apart from the property tax, thereby allowing the counties and municipalities to finance a portion of the cost of general maintenance and operation of local government from a broader revenue base.

Despite its recent enactment, the tax has been subject to extensive judicial review. Two Georgia Supreme Court decisions in 1978, *Martin v. Ellis* (242 Ga. 340) and *City Council of Augusta v. Mangelly, et al* (243 Ga. 358), had a combined effect of declaring the 1975 Act to be unconstitutional. During 1979, another local option sales tax was passed by the General Assembly. By the end of 1979, a superior court decision from Taylor County declared the 1979 legislation to be unconstitutional also. During the beginning of 1980, the Georgia Supreme Court will again address constitutional issues relating to the local option sales tax.

By the end of 1979, the tax had been enacted by 81 counties and 279 municipalities, representing approximately 40% of the State's population. During 1979 these jurisdictions received $120 million from the proceeds of the sales tax.

The reaction among local government officials in those jurisdictions receiving sales tax proceeds has generally been quite favorable. They obviously have been pleased that in most areas the initial revenues derived from the tax have been greater than anticipated. In addition, the rate of growth in the tax since implementation has been strong in most areas of the state. This growth rate, as well as the benefits derived from an improved cash flow posture, contributes to the pleasure expressed by local government officials. General acceptance of the tax by local government officials is also demonstrated by the fact that these officials have usually supported the levy of the tax through the referendum process within the county or municipality.

The Commission agrees that the local option sales tax should continue to be made available to local governments and that the necessary legislation or constitutional amendments should be adopted to ensure the availability of this source in the future.

LOCAL ALCOHOLIC BEVERAGE TAXES

Local governments impose three different taxes on alcoholic beverages sold for off-premises consumption. Distilled spirits can be taxed up to $0.80 per "wine gallon" of spirits. For beer, local governments are required to impose a uniform tax rate of $.05 per 12 fluid ounces. With regard to wine, no general legislation exists authorizing local governments to impose a tax. Therefore, authorization for taxing wine by municipalities would be in municipal charters, while county authority would be by local legislation or local constitutional amendment.

Of the three types of local alcoholic beverage taxes, the Commission concentrated its examination on local taxation of wine. The absence of general statutory authority for local wine taxes raised serious questions regarding a local government's (particularly the county's) ability to levy such a tax. Research indicates that few counties imposing the wine tax have specific authority to do so. The absence of general statutory authority also allows local governments to impose any tax rate they may desire. According to a study conducted by the City of Athens during the mid 1970's Georgia's wine tax rates ranged from $0.10 per case (2.4 gallons) to $4.80 per case.

The Commission believes that the taxation of wine should be clearly established by general law. Clear legislative language would eliminate the possibility of costly and time-consuming litigation and protect local governments from the possible loss of a significant revenue source. Any general authorization should establish a maximum tax rate which could be levied by a local government and bring local taxation of wine under some degree of uniformity within our State.

HOTEL-MOTEL TAX/MIXED DRINK TAX

During the past decade, the General Assembly has authorized local governments to impose taxes on two commodities which are extensively utilized by nonresidents. First, in 1975, the hotel-motel tax was authorized at a maximum 3% tax rate on the retail price of lodging. This authorization also contained a provision limiting the combination of general sales taxes, local sales taxes and the hotel-

motel tax to a maximum of 7% within any jurisdiction. In 1977, the mixed-drink tax was authorized at a maximum rate of 3% on the retail price of distilled spirits sold by the drink.

According to the intent language in the 1975 hotel-motel tax legislation, revenue from this source was to be used to encourage the development of tourism and convention business within the state as well as provide funds for the construction of necessary public facilities that would stimulate tourism and conventions. The mixed drink tax legislation, on the other hand, did not contain any similar intent language.

At this time, the hotel-motel tax appears to be more popular than the mixed drink tax. By 1978, eight counties and twenty-three municipalities were receiving revenues from the hotel-motel tax while only two counties and two municipalities had imposed the mixed drink tax.

Examination of these two taxes by the Commission revealed no major problems with the mixed drink tax and only one concern relating to the hotel-motel tax. Because the current hotel-motel tax contains the maximum 7% rate, some local governments could be penalized by state action increasing the general sales tax rate above 3%. The Commission believes the maximum hotel-motel tax rate should not apply to state sales taxes so that local government revenue would be protected if the state increases the rate above 3%. The Commission recommends, therefore, that a new maximum hotel-motel tax rate be established which would apply only to local sales taxes and the hotel-motel tax, and that this maximum rate should be 4%.

Chapter 9

GEORGIA SALES AND USE TAXATION

INTRODUCTION

In evaluating the sales and use tax, the Commission concentrated on several major qualities of the sales tax — administrative uniformity, administrative equity, and taxpayer equity. Within these broader categories, several issues worthy of tax reform were identified. These issues are addressed individually below. See also staff reports entitled *Sales and Use Taxation in Georgia* and *The Taxation of Services* for a detailed discussion of many aspects of this tax source.

EXTENSION FOR SALES TAX REMITTANCE

Sales tax vendors currently are not permitted deadline extensions for filing returns in a uniform manner. While the majority of vendors are granted extensions on a one-period basis due to either "good cause" or "providential cause," in 1979 373 vendors, or less than one percent of all vendors, were permanently allowed five-to thirty-day extensions. These extensions have been in existence for a number of years on an informal basis.

Because the state does not receive these tax collections at the proper time, the state's investment income is sacrificed. In addition, a select group of vendors have the opportunity to use the state's financial resources for a limited duration each month.

Based on information provided by the Sales and Use Tax Division of the Department of Revenue, the following table displays these dealers both by size of monthly tax collections and by length of extension.

Many of the dealers with permanent extensions are small or middle-sized accounts; yet the majority, 200 dealers, collect more than $1000 of tax per month. The vast majority of the extensions, regardless of vendor-size, provide for a ten day duration. There are, however, twenty-six vendors allowed thirty days.

The Commission recommends the creation of a system, in lieu of permanent extensions, in which all vendors can apply in writing to the Revenue Commissioner for extensions for 5 to 30 days on remittances during a 12 month period. When granted, such vendors should be required to remit by the

TABLE 20

DISTRIBUTION OF VENDORS WITH PERMANENT EXTENSIONS BY SIZE AND LENGTH OF EXTENSION, 1979

Monthly Tax Payments	5 Day	10 Day	15 Day	20 Day	30 Day	Total
Less than $100		37		1	7	45
$100 to $500		75			15	90
$500 to $1,000	1	36			1	38
$1,000 to $5,000		100	1		1	102
$5,000 to $10,000		31			1	32
$10,000 to $50,000		43	1		1	45
$50,000 to $100,000		6				6
Over $100,000	1	14				15
Total	2	342	2	1	26	373

NOTE: Of the 26 extensions of 30 Days, there are 13 issued to Georgia's Governmental Agencies. Further, there is one in the range of $10,000 to $50,000, which represents subscriptions of an out-of-state magazine publisher. Their average payment is $12,500 per month. Also, there is one in the $5,000 to $10,000 range which is a communications company with an average payment of $6,200 and 90 to 95% of this tax is use tax.

Source: Georgia Department of Revenue, Sales and Use Tax Division.

initial deadline 100 percent of the tax liability for the same month of the preceeding year. Interest is to be charged on the balance due following the first ten days of the extension.

Such a policy would insure that extensions are available without penalty to those vendors with special difficulties in meeting the official deadline due to out-of-state mailing addresses or other problems. In addition to treating all vendors in a uniform fashion, the state would receive the vast majority of the tax collections by the normal deadline, and, therefore, would generate additional investment income. From an administrative standpoint, this system is the most simple of the options considered. The increase in state revenues from this policy is estimated to be $1 million, allowing for the advance payment of 50% of collections by the larger vendors.

SALES TAX BRACKETS

In order to collect the sales tax in a fair and efficient manner, tax brackets are necessary; however, it is impossible to design one set of brackets which will collect exactly the legal rate for all retail sales. While exactly 3% (or 4% in local option jurisdictions) is collected on each full dollar of sale in a transaction, this same rate of collection cannot be as precisely achieved on the fraction-of-a-dollar portion of each sale under any bracket structure. For example, the state sales tax on a sale of $30.45 is $.92. This tax is slightly above 3% — 3 cents on each of the 30 dollars (or $.90) and an additional 2 cents on the $.45 portion of the sale. The brackets attempt to collect the legal tax rate when all fraction-of-a-dollar sales are totalled together, balancing out the sales tax collections over and under the legal rate.

It is important that the structure be designed to collect the legal rate for all types of retail operations, since each retailer is required to remit at least the authorized percentage of taxable sales. A store selling a large portion of ten-cent items, which are tax exempt, will be more likely to collect less than the authorized rate than a retail operation selling expensive items, such as a car dealer. The most adequate bracket structure minimizes collections above the legal rate while insuring that all retailers collect at least this authorized rate.

The 3 percent and 4 percent brackets presently used are as follows:

3% tax	bracket structure	4% tax
No tax	$.01 - $ .10	No tax
1¢	.11 - .35	1¢
2¢	.36 - .66	3¢
3¢	.67 - 1.10	4¢

Because the sales tax is legally authorized at 3% and 4 percent, there is concern about the collections in excess of these percentages caused by fraction-of-a-dollar sales. During the 1979 fiscal year, collections from both the 3% and 4% taxes exceeded the authorized rate by $7.3 million. While this amount is substantial in dollar magnitude, it is not large in relation to total collections, amounting to less than one percent of sales tax revenues. For this reason, the effective sales tax rate, the rate at which taxes are actually collected, is only slightly above the authorized rate. Based on estimates derived from Department of Revenue data, the effective rate for the state sales tax is approximately 3.0199% rather than 3%, and that for the local option and MARTA areas is approximately 4.027% rather than 4%. Thus, based on actual collections, these structures seem to minimize the degree of excess collections.

In addition to collecting as close to the legal tax rate as possible, the tax brackets should devide the dollar in a manner representing the authorized rate. While the divisions of the 3% brackets more adequately demonstrate a 3% tax rate, the 4% structure is a derivative of the 3% structure, and, therefore, is somewhat inappropriate, especially because there is no 2-cent tax bracket.

The Commission recommends that the General Assembly mandate the present 3% bracket system and the following 4% bracket structure:

Alternative bracket structure	4% tax
$.01 - $ .10	No tax
.11 - .25	1¢
.26 - .50	2¢
.51 - .75	3¢
.76 - 1.10	4¢

Under this arrangement, the dollar is more equally divided into four segments. Based on staff estimates, this change would reduce the amount of tax collected in excess of the 4 percent rate by 28 percent. The present 4% bracket structure collects approximately $5.2 million above 4% of taxable sales. The alternative structure would reduce this amount by $1.5 million — a $400,000 reduction to MARTA and local option jurisdictions and a $1.1 million reduction to the state.

EXEMPTION OF PRESCRIPTION DRUGS FROM THE SALES TAX

Because the sales tax is based on the ability-to-pay concept, questions are raised as to the fairness of including the consumption of necessity goods in the tax base. Since the consumption of a certain level of these goods is essential for the survival of every household, these purchases do not increase in direct proportion to increases in families' incomes, and, therefore, tend to be highly regressive.

While all tax exemptions reduce tax revenues as well as the growth potential of the tax, the exemptions can also have powerful redistributional consequences. A rational system of exemptions can redistribute a portion of the sales tax burden away from the lower-income households, and, thus, achieve a more proportional tax structure. With this in mind, consideration was given to several categories of necessities — food consumed in the home, prescription drugs, and residential utility usage. For a full discussion and analysis of each of these categories, see the staff report entitled *Sales and Use Taxation in Georgia.*

The category of prescription drugs was most evident as a candidate worthy of this preferential treatment for a number of reasons. Georgia is one of five states which imposes a sales tax on prescription drugs. The vast majority of states consider drugs a special category of necessities purchased as a result of hardship, and, therefore, do not consider it an appropriate component of the tax base. The exemption of this necessity is the least costly of all necessities under consideration, and the least complicated to administer.

The Commission therefore recommends that prescription drugs be exempt from the sales tax. Based on an estimate provided by Dr. Henry Thomassen, Economic Advisor to the Governor, this policy would reduce sales tax revenues by $6 to $8 million in fiscal year 1980. Exemption of this necessity is more affordable than the others, since this cost is approximately 5 percent of the cost of food exemption and 18 percent of the cost of a residential utilities exemption.

In addition, this policy is the easiest to administer. Prescription drugs are sold by retail stores which tend to specialize in this business and maintain separate departments and record-keeping for this practice.

DISTRIBUTION OF LOCAL OPTION TAX COLLECTIONS

The Georgia Department of Revenue collects both the state and local option sales tax and is charged with remitting the local option portion to the respective jurisdictions. The vast majority of these collections is appropriately distributed; however, a small portion of the revenues is retained by the State.

Vendors with multiple stores in different jurisdictions are required to report only a portion of the information necessary for distribution of the revenues. The monthly reports do not include a breakdown by county of the collections in excess of 4% of taxable sales. For these chain store operations, the state keeps the entire excess tax collections. Approximately $530,000 of tax collections in fiscal year 1979 was not properly distributed among the MARTA and local option counties.

The Commission recommends that action be taken to properly distribute all tax collections to the appropriate jurisdictions. While the magnitude of these revenues is not large, the funds should be returned to the local areas in order to fulfill the statutory requirements. This redistribution would involve the development and operation of a computer routine which would manipulate the monthly sales tax reports. Allowing for both the start-up cost and the operational costs, such a policy would prove cost effective.

SALES TAXATION OF CASUAL SALES

For the sales tax to be fully equitable, it should treat all taxpayers in the same manner. This quality is distorted when alternatives to a particular taxable form of consumption are tax-exempt. Selective tax exemptions tend to provide economic incentives, and, in this way, the tax discriminates against certain business sectors.

Based on a regulation promulgated by the Georgia Department of Revenue (Ga. Sales and Use Tax Regulation 560-12-1-.07), casual sales transactions are exempt from sales taxation. This category of sales of tangible personal property on an infrequent basis has been considered difficult to administer and enforce by the Department, and, in addition, to be not cost effective.

One segment of such transactions, the casual sales of automobiles, boats, and airplanes, is enforceable. Both vehicles and boats are registered with the state government. Proof of sales tax payments can be required before the automobile title or the boat registration is approved. Airplanes are registered with the Federal Aviation Administration. For enforcement of the tax, this agency can provide the State with a monthly registry of new airplane ownership.

Taxation of this category of casual sales would improve upon an inequity in the current sales tax structure. Dealers selling used cars, boats, and airplanes are required to charge the tax on their sales, and, therefore, their businesses are at a competitive disadvantage in relation to the casual sale transaction.

The Commission therefore recommends the sales tax be imposed on the casual sales of automobiles (including trucks, vans, and motorcycles), boats, and airplanes. This tax should be administered through title registration. This policy is intended to neutralize the taxation of used cars. In addition, it would insure in certain instances that the tax is properly collected based on existing law. Currently there are some individuals acting as dealers who are not licensed, and, therefore, do not remit the sales tax to the State. Such a policy would increase State revenues by more than $13 million each year.

Chapter 10

GEORGIA PERSONAL INCOME TAXATION

INTRODUCTION

Many aspects of the Georgia income tax structure have not been changed since its inception in 1937. Most changes that were adopted relate primarily to auditing improvements and conformity to federal income tax procedures. Few were intended to respond to economic changes, yet both the income distribution of the taxpayers and the role of the income tax as a revenue source have substantially changed. The Commission concentrated on many aspects of the structure considered obsolete as a result of economic trends. These issues are addressed below. For a detailed study of many aspects of this tax source, see the staff report entitled *Personal Income Taxation in Georgia.*

PERSONAL INCOME TAX BRACKETS

The Georgia income tax bracket structure, with minor modification, dates back to 1937. Since this date, the significance of the specified divisions in the tax brackets have been altered as a result of the large shifts in the income distribution of the population. This shift is especially pronounced in the highest tax bracket. In 1968, 5.5% of all taxpayers were in the 6 percent tax bracket. This category has grown to include approximately 40% of the taxpayers in 1977. Thus, as a result of increases in incomes, today middle-income taxpayers and the wealthiest of taxpayers face the same marginal tax rate.

Because of the marginal nature of the tax structure, there is progressivity even within the highest tax bracket. That is, when comparing two taxpayers in the 6 percent bracket, the taxpayer with the higher taxable income will pay tax at a higher effective rate. While this is true, there would be significantly more progressivity with more variation in tax rates among income levels. Therefore, continuation of the current bracket arrangement will tend to continually reduce the progressive quality of the tax.

The boundaries of the tax brackets currently utilized are the following:

Married Filing Joint and Households	Married Filing Separate	Single Filers	Tax Rate
Taxable Income Brackets			
$ .01 - $ 1,000	$ .01 - $ 500	$ .01 - $ 750	1%
1,001 - 3,000	501 - 1,500	751 - 2,250	2%
3,001 - 5,000	1,501 - 2,500	2,251 - 3,750	3%
5,001 - 7,000	2,501 - 3,500	3,751 - 5,250	4%
7,001 - 10,000	3,501 - 5,000	5,251 - 7,000	5%
over 10,000	over 5,000	over 7,000	6%

As shown in this table, married taxpayers are taxed at the highest marginal rate when taxable income exceeds $10,000. Until 1954, taxable income over $20,000 was taxed at the rate of 7 percent.

When the boundaries for the brackets were designed, inflation was not a major consideration. In addition, the majority of the taxpayers qualified in the lowest brackets. The brackets considered appropriate in 1937 are extremely narrow in light of the current situation. As a result of inflation, with no real increase in income, taxpayers are moved very rapidly into higher tax rates. In this way, tax liabilities tend to increase more rapidly than the taxpayers' income. If each tax bracket was broadened to cover a larger range of income, it would reduce this tendency.

In considering this topic, the State Revenue Sources Task Force studied a variety of policy alternatives. One alternative was to broaden the brackets and maintain the maximum rate of 6 percent. This change would benefit virtually all income taxpayers, and, therefore, would be the most expensive. Personal income tax revenues in 1977 would have decreased by $125 million, or 24.5 percent. A second alternative is identical to the first, but would minimize the annual revenue loss by gradually widening the brackets over a three-year period. The remaining alternatives were to widen the brackets as well as raise the maximum rate to either 7 or 8 percent. When raised to 8 percent, there would be no revenue loss from the policy change, yet the tax liabilities of the vast majority of taxpayers would decrease.

The Commission recommends gradually expanding the brackets over a three-year period, while maintaining the 6 percent maximum rate. This structure should be reviewed by the General Assembly every 5 years. Following the 3-year process, the brackets would be as follows:

Married Filing Joint and Households	Married Filing Separate	Single Filers	Tax Rate
Taxable Income Brackets			
$ .01 - $ 3,000	$ .01 - $1,500	$ .01 - $ 2,250	1%
3,001 / 6,000	6,001 / 9,000	9,001 / 12,500	2%
6,001 - 9,000	3,001 - 4,500	4,501 - 6,750	3%
9,001 - 12,500	4,501 - 6,250	6,751 - 10,000	4%
12,501 - 18,000	6,251 - 9,000	10,001 - 13,500	5%
over 18,000	over 9,000	over 13,500	6%

Had this policy been adopted in 1977, its impact during the first year would have been approximately $53 million. Allowing for changes in the income distribution of taxpayers as well as growth in the number of taxpayers, if implemented in 1981 this first-year impact could curb revenue growth by as much as $83 million. Based on similar reasoning, for the second year of the policy, the reduction in growth is likely to be between $41 million and $67 million, and for the third year between $37 million and $65 million. Because of economic uncertainties, it is impossible to specify exactly the costs of this policy. The costs are likely to increase over the 1977 value somewhat less than the growth in overall personal income tax revenues. In any case, if economic conditions maintain a normal pace, these costs are never likely to exceed half of the normal growth.

Following the entire widening process, this policy would reduce tax liabilities of the average lower-income and middle-income families by about 35 percent. All married taxpayers who are in the 6 percent bracket under the new system will receive a $225 reduction, and, therefore, the percentage reduction will decrease as income increases. Table 21 displays the tax benefits to hypothetical families. All of these families are assumed to be four-person families using the standard deduction.

TABLE 21

IMPACT OF COMPLETE BRACKET WIDENING (for families of four receiving standard deduction)

Adjusted Gross Income	Tax Reduction $ Amount	Tax Reduction % Reduction
$ 8,000	$ 13	36%
10,000	31	37
15,000	102	38
17,500	142	35
20,000	181	33
25,000	225	26
50,000	225	10
75,000	225	6

SOURCE: Tax Reform Commission staff computations.

INDEXATION OF PERSONAL INCOME TAX STRUCTURE

Most major provisions of the personal income tax structure are specified in dollar amounts — tax bracket boundaries, exemptions, the standard deduction minimums and maximums, and the low-income credit. The real value of these fixed dollar amounts is diminished by inflation causing two types of impacts. First, because the exemptions and standard deduction maximum are held constant, taxable income grows more rapidly than adjusted gross income. Second, the increase in taxable in-

come is subject to higher marginal tax rates due to the progressive structure. The effective tax rate increases even for those taxpayers already in the highest tax bracket, since a larger portion of total taxable income is taxed at this maximum rate. For these reasons, income tax liabilities increase more rapidly than the growth in total income regardless of whether real income has risen.

In a system where all personal income tax features are indexed, a taxpayer's liability will increase in direct proportion to inflation only if adjusted gross income increases at the same rate as inflation. If total income rises by more than the rate of inflation, tax growth will exceed the inflation rate; and if real income declines, taxes will decrease in an equivalent manner.

While full indexation is the most powerful type of policy, there are also partial forms. Rather than indexing all fixed dollar values, the policy would include exclusively the tax brackets or, on the other hand, the personal exemptions and/or standard deduction.

Although indexation could provide some worthwhile changes to the tax structure, the Commission considered it advisable to first monitor the other states with such a policy. In this way, the General Assembly can insure that indexation does not cause an outgrowth of other problems.

For several reasons, states may be vulnerable to side-effects from an indexation policy. Automatically, the policy would alter the tax features by a minimal amount each year. As these changes compound over time, drastic revisions in the tax structure could result.

Another area of concern is because government expenses, primarily salaries and construction costs, are especially sensitive to inflation. For this reason, the inflation in government expenditures has been significantly outpacing that of the Consumers Price Index since 1970. The government, therefore, relies on a revenue source with a high growth potential during inflationary times. Due to its high growth rate, the personal income tax has a unique role in compensating for the much slower growth of other tax sources to enable the state to continue a real level of services. In addition, with indexation, states may be more vulnerable to economic fluctuations, since the government is restricted from deficit financing.

The Commission believes, therefore, that Georgia should monitor the expenditures of other states which have provided for indexation of the personal income tax before any action in that regard is taken in Georgia.

THE FILING STATUS OF MARRIED COUPLES

The Georgia filing status procedure begun in 1971 effectively requires that two-earner households file a joint return. Georgia adopted the federal procedure in 1971 to enable the state to utilize the Internal Revenue Service master file for auditing purposes. This filing status procedure was designed by the federal government for a purpose which has no relevance to state income tax collection, and, in fact, has become a significant source of income tax inequities for Georgia two-earner families.

Under this system, the combined income of the two-earner family is taxed similar to a family with one wage earner having an equal amount of income. The second earner pays tax based upon the tax rate established by the first earner's income, rather than his or her own income.

This consolidation of income is an incomplete indicator of the capacity of a family unit to pay taxes, because it does not give consideration to the additional costs incurred by two-earner families. With the exception of a partial allowance for the costs of child care, Georgia's structure does not allow for other costs, especially those due to the loss of self-performed household services.

Based on 1975 statistics from the *Survey of Income and Education* performed by the U.S. Bureau of the Census, 50 percent of Georgia husband-wife families have a wage-earning wife. These statistics reflect that a majority of married households, particularly middle-income families, are afforded unfavorable tax treatment under Georgia's current system.

There are a variety of policy alternatives which would reduce these inequities while still grouping entire households to preserve the goal of conforming with the IRS master file for auditing. Due to this growing trend of working wives, 20 states provide for advantages through separate filing, and several states have more specialized features through personal exemptions and tax credits.

Due to data limitations, the Commission's recommendation in this area recognizes that the current system discriminates against two-earner households and recommends that a more appropriate policy, based upon additional analysis, should provide for some form of differential taxation.

ADOPTION OF THE FEDERAL ZERO BRACKET AMOUNT

Some Georgia income taxpayers receive unfair treatment because they can only itemize deductions for state income tax if they also itemize deductions

for federal purposes. The situation occurs because the federal zero bracket amount, $3400 for the 1979 year, is much greater than Georgia's maximum standard deduction, $2000. For the federal tax, they benefit from the zero bracket amount, yet the Georgia maximum standard deduction is less than their potential itemized deductions. For this reason, they are unable to receive all of the deductions from their Georgia income that their economic situation affords them. At a maximum, they could be disallowed $1400 in deductions.

Because 73% of Georgia's tax filers receive the standard deduction, adoption of the Federal zero bracket amount is estimated by the Department of Revenue to cost some $40 million. If adopted, it would tend to benefit many more filers than those disadvantaged by this inequity.

From the opposite perspective, Georgia filers could be allowed to itemize deductions even if they do not elect this method for federal purposes. Such a policy would complicate both tax filing and auditing, since it would upset the conformity with the IRS master file.

The Commission believes that the General Assembly should review the various options available in this area.

INTEREST EXCLUSION

Under the current income tax procedure, dividends up to $100 for separate and single filers and up to $200 for married joint filers are excluded from adjusted gross income for both Georgia and federal income tax purposes. Such a policy affords some preferential tax treatment to investment in corporate stocks as opposed to investment in interest earning accounts, notes, or bonds.

Since 1974, many types of bond yields and interest rates have not kept pace ahead of inflation as well as in prior years. In fact, when inflation is discounted, in many cases there are minimal or no real interest earnings from these investments. Total interest earnings are taxed at the taxpayer's marginal tax rate without any allowance for the impact of inflation, further reducing net real interest earnings.

The Commission therefore recommends that the current exclusion of dividend income be both broadened in concept and expanded in size. Interest and/or dividends up to a maximum of $200 for separate and single filers, and up to $400 for married joint filers should be excluded from Georgia adjusted gross income. It is the Commission's understanding that Congress is now giving consideration to a similar policy.

A policy of this nature is expected to impact approximately forty percent of Georgia's taxpayers. At a maximum, this policy is likely to reduce income tax revenues by $12 million, allowing for the current dividend exclusion. In actuality, the cost will no doubt be less than this maximum amount.

RETIREMENT INCOME

The Commission gave consideration to several aspects of the income tax treatment of retirement income. One area of concern was the non-uniform treatment resulting from exempt pension benefits of retired state government employees and teachers. Approximately 4 to 5 percent of the elderly households receive this preferential treatment.

A second area of concern relates to all income tax filers aged 65 and over. This encompasses approximately 25 percent of all elderly households. For many of these taxpayers, pension benefits comprise a large portion of their adjusted gross income. Based on data from the U.S. Department of Treasury, pensions tend to account for more than 50 percent of adjusted gross income for tax filers with incomes up to $8000. Since a large segment of the elderly income tax filers depend heavily upon retirement income, many states provide more comprehensive benefits to elderly income taxpayers.

Georgia currently provides an additional personal exemption of $700 for a tax filer and/or spouse aged 65 and over. Twenty states have more generous personal exemptions, and thirteen states fully or partially exempt retirement income. In addition, there are ten states granting tax credits specifically to this group of taxpayers.

The Commission deliberated on a task force recommendation to make taxable all retirement income, except for Social Security benefits and Railroad Retirement benefits. An additional $2000 retirement income exemption would have been granted for all taxpayers aged 65 and over.

The Commission considered the difficulty of evaluating the equity of this suggested policy without a more detailed analysis of its overall impact. This in-depth report should compare the beneficiaries of public and private pensions in terms of pension size, previous contributory requirements, and tax liabilities. Based on these findings, the 1981 General Assembly should determine an appropriate policy regarding retirement income.

Chapter 11

GENERAL RECOMMENDATIONS

INTRODUCTION

In addition to the recommendations made by the Commission relating to specific issues or policies within a particular tax area, several recommendations were made which would have general, overall effect.

TAX EXEMPTIONS

Over the years, the number of tax exemptions has grown rapidly. This is particularly the case for the sales and use tax, where the list of exempt items currently includes approximately 60 categories of goods. Most of these exemptions are intended to support general public policy goals, provide economic incentives, prevent harm to the economy, reduce hardship to designated taxpayers, or avoid administrative impracticalities.

Such exceptions from the tax base represent an indirect subsidy from the state or local governments to groups of taxpayers. These exemptions, in a sense, are one way in which tax revenues are expended, but, unlike other expenditures, these costs are not included within the annual budget, and, therefore, receive little periodic authorization or oversight. Since they are not appropriated, there is no formal requirement for a periodic estimation of the costs to the state afforded by these privileges.

In the past, there has not been any concentrated effort to insure that an exemption is effective, or that its purpose has continued to be worthwhile. Since there is no formal effort to evaluate and repeal obsolete exemptions, they accumulate over time and erode the tax base. This reduction in the tax base combined with growth in expenditures will inevitably raise tax rates and intensify the tax burdens of those not benefitting from exemptions.

For these reasons, the Commission recommends a policy which would provide the General Assembly with greater control of these exemptions. The policy requires that a termination date accompany each exemption in existence and those created in the future. In addition, on a periodic basis, an appropriate legislative committee should evaluate the purpose and cost of each exemption and its alternatives.

INTEREST AND PENALTY CHARGES ON DELINQUENT TAXES

While the interest and penalty charges are both intended to discourage delinquencies, the two charges are very different in nature. Each charge compensates the government for different expenses incurred as a result of the delinquency.

The interest charge repays the government for not having possession of these funds at the proper time. Had the government received the funds on time, interest income would have been generated for the general treasury. This loss of investment income is the same for all state revenues, regardless of source, and, therefore, the interest charge should be uniform for all state taxes.

The penalty charge is imposed both as a punishment and as compensation to the state for the administrative costs incurred due to the delinquency. The penalty charge should reflect the appropriate cost for a delinquency of each particular tax source. As a result of different record keeping costs of the delinquencies and collection practices, the administrative costs differ by tax source.

As provided by Georgia statutes, delinquent tax payments are subject to the following annualized rates of interest and penalties:

Tax	Interest Rate	Penalty Charge
Ad Valorem Tax		
Tangible	Highest legal interest rate	10%
Intangible	Highest legal interest rate	25% & bar to collection of note
Intangible Recording Tax	9%	50%
Sales and Use Tax	9%	5% per mo. — $5 minimum 25% maximum — $25 maximum
Income Tax	9%	*Delinquent filing:* 5% per month 25% maximum *Delinquent payment:* 0.5% per month 25% maximum *Negligence* (incorrect payment): 5% of underpayment
Motor Fuel Tax	12%	*Delinquent filing:* $50 *Delinquent payment:* 10%
Estate Tax	9%	10%
Corporate Net Worth Tax	9%	10%
Insurance Premium Tax	12%	10%
Malt Beverage Tax	12%	*Delinquent filing* 25% *Delinquent payment* 200%
Wine Tax	9%	10%

The interest charge for most taxes is at an annual rate of 9%, while the rate for the Motor Fuel Tax, Insurance Premium Tax and Malt Beverage Tax is 1% per month, or 12% per year. The rate for the Ad Valorem Tax is designed to be responsive to the market interest rate, since it fluctuates with the highest legal interest rate.

In addition to the lack of uniformity of the rates, most are substantially less than the rate currently charged to most private borrowers. In effect, the state is providing a reduced-interest loan to delinquent taxpayers.

The Commission recommends, therefore, that the interest charge be uniform for all tax sources at the rate of 12% on an annual basis. The Commission also recognized the need for updating the rate regularly and suggests an annual review by the General Assembly.

The penalty charges currently in effect also vary to a large extent. The Commission believes that further research is necessary to evaluate the adequacy of these penalty charges, and recommends that such a study be performed.

GEORGIA MILITARY BASE TAX EXEMPTIONS

Georgia ranks high among the states in its number of active duty and retired military personnel. These persons, representing about 4.2 percent of the state's total population, are eligible to shop at military stores in the state and avoid payment of state and local sales and excise taxes, due to federally-mandated exemptions. A majority of these persons reside off base, thus utilizing state-local government services.

Military compensation and military retirees' pensions have reached a level which is at parity with the civilian population.

Tax dollar losses to Georgia and its local governments amounted to some $5.5 million in state sales tax collections, a potential $1.8 million in local option sales tax collections, and $4.4 million in cigarette tax collections in 1977. An estimated $5.6 million in state-local beer tax revenues were lost in 1978.

The effect of these exemptions is that the federal government has mandated an economic subsidy the cost of which is borne by state and local governments.

The recommendation of the Commission with respect to this situation is that the General Assembly consider a reduction in the current five-case tax-free limit on beer. This would help to eliminate the purchase of beer on military bases for off-post consumption. In addition, congress should be encouraged to amend legislation providing for these tax exemptions to allow state-local taxation of military base sales.

CONSTITUTIONAL RESTRICTIONS ON TAX RELIEF FUNDS

On several occasions during recent years, the General Assembly has been confronted with existing constitutional restrictions which limit the manner in which tax relief funds available at the state level may be rebated. The Commission discussed this problem in its preliminary report to the 1979 Session of the General Assembly in connection with the $75 million in tax relief funds appropriated during that Session.

Obviously, the effectiveness of such sums now or in the future as tax relief or tax reform can be greatly enhanced if these funds can be targeted in a meaningful and proper manner. This can best be accomplished by constitutional change which affords greater flexibility to the General Assembly in this regard, and the Commission therefore recommends such a change. One facet has already been discussed in the recommendation for broader constitutional authority to allow greater flexibility by the state in sharing its revenues with its local governments. In addition, however, the current Constitution is quite restrictive in the ability of the state to provide rebates of taxes to taxpayers, and greater flexibility is also needed in this regard.

COMPUTERIZED PROPERTY TAX RECORDS

One of the significant features of any periodic or on-going analysis of tax issues is the ability to effectively evaluate and document the effects of current tax policy upon the taxpaying public. This ability becomes even more crucial when alternatives to current policy are deliberated. With the ever-increasing and more effective utilization of computer processing, significant volumes of information regarding most of the major sources of revenue can be retrieved for such analysis. Often, however, depending upon the particular policy involved, sufficient information is not readily available for the largest single tax in Georgia — the property tax.

During the past few years the vast majority of Georgia's counties have instituted programs whereby the annual tax digests are prepared by computer. They are, however, submitted to the State in hard copy and/or microfiche form. A program whereby these county tax digest files are maintained by the State on computer would allow for quicker, more accurate evaluation and analysis of this volatile and significant source of revenue for Georgia local governments. It is the Commission's recommendation that such a program be implemented. Since most of these records are now prepared by computer and can be submitted in machine readable form as a part of the tax digest submission, the relatively small cost involved would be borne by the state.

COMMISSION CONTINUATION

The Commission has approached its responsibility in a deliberative manner, and the recommendations it has made are significant to achieve both short- and long-range reform of Georgia's tax structure. Wherever possible, the Commission has performed its analysis from an overview perspective to insure that the proper issues were addressed.

For various reasons, the Commission believes that its task has not been fully completed. The task of comprehensive tax reform requires very detailed and complete analysis. As is evidenced by this report, work thus far has been concentrated in several major areas. Obviously, some current revenue sources as well as alternative revenue sources for the State and its local governments need fuller examination and analysis. In addition, the development and implementation of the computer analysis program for tax comparison and tax burden analysis should be properly completed. This task was delayed because of the necessity for legislation by the 1979 Session to allow access to certain state tax records.

The Commission therefore recommends that it continue in its present efforts to a total completion of its assigned responsibility.

Part 2

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PREFACE

The report contained herein is the third report of the Georgia Tax Reform Commission since its inception and organization in late 1978. A brief preliminary report was submitted to the 1979 Georgia General Assembly and a comprehensive report, *Report of Recommendations to the Georgia General Assembly, January 1980,* was prepared and presented last year.

As the Commission made its findings and recommendations to be included in the comprehensive report last year, it became apparent that more detailed analysis was needed in some areas of tax policy considerations. Therefore, one recommendation was for a continuation of Commission activities. This recommendation was favorably received and Senate Resolution No. 271 (Ga. Laws 1980, p. 1684) was approved.

During 1980 the Commission has concentrated its efforts in several areas including:

(1) Equity issues involving Georgia's personal income tax including
   (a) Continuing analysis and evaluation of the income tax bracket structure.
   (b) The adequacy of fixed-dollar amounts excluded from the income tax base.
   (c) Problems relating to the taxation of multi-earner households caused by the existing income tax structure.

(2) Local government revenue matters including:
   (a) Local license fees and occupational taxes.
   (b) The taxation of mineral properties and mineral resources.
   (c) The taxation of financial institutions.
   (d) Bond debt and pension system financial issues.

(3) Motor fuel taxation issues.

(4) Several issues relating to property taxation including:
   (a) General property tax relief measures as well as those directed to specific classes of property taxpayers.
   (b) Several areas of property tax assessment administration reform.
   (c) The delinquent property tax collection process.

(5) Equity and adequacy issues relating to penalties imposed for delinquent filing and payment of all state taxes.

(6) An analysis of the burden of Georgia's major tax sources as reflected by the computer tax model developed by the Commission for its work efforts.

These work efforts have culminated in the series of recommendations which are presented in this report. In some instances the Commission has reaffirmed recommendations contained in its earlier reports, and these are duly noted. Most of these involve issues where additional work has been done since the initial recommendations were made or issues where questions were raised subsequent to the Commission's earlier recommendations.

Since the work of the Commission during 1980 was supplemental to earlier work efforts, this report and its recommendations should be considered in conjunction with the more comprehensive report issued last year. To assist in this regard, a summary of all recommendations made by the Commission as a result of its work during the past year is detailed in this final report. (see pages i-iv).

A complete listing of all technical reports prepared by the staff for Commission use is also included.

Chapter 1

SUMMARY OF RECOMMENDATIONS

Property Tax Related

1. Any increase in the homestead exemption constitutes an erosion of the local government tax base, and such increase should be left to the local government.

2. The General Assembly should perfect a circuit breaker approach to property tax relief to provide tax relief for overburdened Georgia property taxpayers.

3. The General Assembly should continue the $75 million in tax relief funds on a permanent basis. In addition, the State should utilize its broader tax base to provide significantly more funding for public education thereby assuming its rightful share of the total costs of public education and further easing the school property tax burden.

4. A system of preferential assessment of individual and family farm properties should be instituted with provisions requiring the owner to commit the property to future agricultural use and appropriate penalties if the use changes before the end of the dedication period required. *(Article VIII, Section I, Paragraph III of Proposed Constitution)*

5. The Commission's earlier recommendation that the "factoring" of county tax digests be repealed and that a system of digest "rejection" be implemented was reaffirmed.

6. In addition, the Commission recommended that the General Assembly or the Select Committee on Constitutional Revision re-submit the recently defeated proposed amendment to the Constitution relating to the "factoring" of digests by property classes. *(S.R. 49; Not Passed)*

7. A system of full disclosure should be instituted whereby local governments would be required to fully inform the public before significant property tax increases from one year to the next could be levied. *(S.B. 228; Not Passed)*

8. The Commission reaffirmed its earlier recommendation for an upgrading of the property tax assessment process and the property tax assessment appeal process. The recommended improvements include: (1) standard and uniform procedures for the assessment of tangible personal property, (2) increased qualifications and

training for members of local boards of equalization, (3) clearer appeal procedures, and (4) authorization for county governments to appeal assessments placed on public utility properties by the State Revenue Commissioner. *(H.B. 87; Passed/Approved)*

9. Improvements in the delinquent property tax collection process should be made. These include: (1) the implementation of a process whereby the tax lien to the property is sold at auction for unpaid taxes rather than the property itself, (2) a specific penalty of 10% for the failure to pay property tax timely if recommendations on the tax lien sale process are not instituted, (3) specific statutory language regarding the tax execution process to be applied to motor vehicles and mobile homes, and (4) clarification to insure that interest and penalty provisions for delinquent public utility tax payments conform to those for other taxpayers. *(H.B. 3; Passed/Approved)*

Income Tax Related

1. The Commission reaffirmed its earlier recommendation that the income tax bracket structure be widened. The General Assembly should also give attention to the effects of inflation on income exclusions within the structure and adjust them on a one-by-one basis as is appropriate. *(H.B. 154; Not Passed)*

2. The Commission recommended that the income tax standard deduction structure be adjusted so that married filers and heads of household with dependents are allowed larger standard deductions than single filers. In addition, the tax treatment for two-earner married families should be adjusted by: (1) allowing for taxation of each income earner on an individual basis; (2) allowing for larger personal exemptions for married filers with two income earners, or (3) providing for a graduated tax credit for two-earner households based on taxable income. *(H.B. 3; Passed/ Approved)*

3. The Commission encourages the General Assembly to periodically review the entire personal income tax structure for necessary and appropriate updating.

Motor Fuel Tax Related

1. The Commission recommended that the General Assembly consider exempting state and local governments from the second (3%) motor fuel tax.

2. Means other than tax exemption should be considered if it is in the public interest to encourage gasohol production.

Local Government Related

1. The Commission made the following recommendations with respect to Local Business Fees and Occupational Taxes: (1) the General Assembly should clearly delineate the difference between a local business license fee for regulatory purposes and a local occupational tax for revenue raising purposes; (2) the statutory exemptions and limitations regarding local business fees and taxes should be re-examined; (3) the Constitution should be amended to allow counties to license and tax businesses from a license tax standpoint.

2. The Commission recommended that the problems relating to the assessment of mineral property should be corrected by legislation providing for training of assessment officials as to the proper methods of mine and mineral valuation.

3. The Commission reaffirmed its earlier recommendation to authorize counties to collect the insurance premium tax on life insurance premiums collected in the unincorporated area of the counties. *(H.B. 42; Passed/Approved)*

4. The Commission recommended that the General Assembly bring together a special committee to include city and county officials, administrators and finance officers to make specific recommendations in the area of local bond debt, local pension system management, and the possibility of providing state assistance to local governments with respect to bond financing.

Other Recommendations

1. The Commission reaffirmed its earlier recommendation that the basic method of taxation of financial institutions be changed to a tax measured by net income; that the bank share tax be repealed, and that the state and local governments be authorized to levy other taxes on such institutions as may be levied on other corporations. In addition, the General Assembly should make every effort to replace local government revenues lost as a result of these changes. *(H.B. 1126; Not Passed)*

2. The following recommendations were made with respect to penalties imposed for delinquent taxpayers: (1) a specific acceleration and increase in the penalties imposed for delinquent sales tax payments was recommended; (2) a specific increase and acceleration of the penalties imposed for delinquent payments of withheld income tax

by employers was recommended; (3) an increase in the penalty imposed for delinquent payment of annual income tax was recommended; (4) a change from a fixed dollar penalty to a percentage penalty with a minimum charge was recommended for failure to file motor carrier tax reports; (5) a change to a larger dollar per day penalty or a percentage penalty with a dollar minimum was recommended for failure to file relating to cigar and cigarette tax; and (6) the fraudulent penalty should be uniform for all taxes.

Chapter 2

TAX INCIDENCE

INTRODUCTION

In general, the Tax Reform Commission has conducted its work with the overall goal being the identification and correction of imperfections in the Georgia tax structure. These imperfections are of several types:

- administrative inefficiencies and inadequacies,
- tax structure obsolesence, and
- tax burden inequities.

This section of the report presents many of the staff findings and observations regarding tax burden inequities, pointing out those instances in which relative imbalances in the structure cause a proportionately higher degree of taxation of certain taxpayers.

A Georgia tax model has been a continuing effort of the staff to allow measurement of the current tax status of households as well as measurement of the tax impact of a variety of policy alternatives. This model is comprised of a representative sample of 4043 Georgia households which were randomly selected by income category from the 1977 income tax filers. Of the 4043 households, 1711 or 42.3% were found to be property owners. Identification of property owners was based on an examination of the 1977 property tax digest for the county in which each of the selected households resided. Of the 1711 property owner households, 1443 or 84.3% were owners of homestead property.

The degree of taxation is measured by comparing each household's tax liability to household income. The most adequate measurement of income for these purposes includes all sources of income so as to fully represent the financial resources available to every household for tax payments, consumption, savings, etc. The Georgia tax model includes actual household data for taxpayers' (1) adjusted gross income, (2) Aid to Families With Dependent Children (AFDC) payments, and (3) tax exempt pensions (State Employees Retirement, Public School Retirement, Teacher's Retirement). Total income also includes estimated data for the following sources of income for which administrative records are not available: (1) Social Security benefits, (2) unemployment compensation, and (3) food stamp income.

The 1980 Georgia Tax Reform Commission report, *Report of Recommendations to the Georgia General Assembly*, describes more fully the concepts of tax incidence and tax impact and describes the development of the tax model. In addition, the 1980 report primarily presents the tax burden for the total

population and the elderly caused by Georgia income taxation, and presents preliminary tax burden estimates of the property tax. This follow-up report focuses on recent staff estimates of the property tax and the sales tax.

A. Overview of Tax Burden Analysis

Analysis of tax incidence has been focused fundamentally on the three major forms of direct taxation of Georgia households. This work includes the income tax, state and local property taxes and the state sales tax. Table 1 presents the patterns of tax burdens for each of these tax sources. These percentages reflect the average tax liability as a percentage of total household income for each income category in 1977.

TABLE 1

Average Tax Burden as a Percent of Total Household Income: Sales, Income and Property Tax, By Income Category, 1977

Income Category	Income Tax	State & Local Property Tax (Total Tax)	State Sales Tax
Under $2,999	0.0 %	61.28%[1]	4.10%
$ 3,000 - $ 5,999	0.30	6.49	2.70
6,000 - 8,999	0.85	4.70	2.30
9,000 - 11,999	1.29	2.29	2.00
12,000 - 14,999	1.64	2.09	1.70
15,000 - 17,999	2.03	2.55	1.60
18,000 - 20,999	2.40	1.72	1.50
21,000 - 24,999	2.74	1.55	1.50
25,000 - 49,999	3.27	1.62	1.10
50,000 - 74,999	4.14	1.79	.90
75,000 - 99,000	4.28	2.01	.80
Over $100,000	4.62%	1.57%	.70%

[1]90 persons (5.3% of the sample) had zero income and are not included in the analysis. Their average tax liability was $567.

NOTE: Income tax burden based on total state income tax filers. Property tax burden based on all property owners. Sales tax burden based on total population.

SOURCE: Tax Reform Commission staff computations.

For the most part, all of the average tax burdens for each of the three taxes are distributed within a fairly narrow range, with a minimum of 0% (or no tax liability) and a maximum of 4.7% of household income. Property taxes paid by households with incomes below $6,000 exceed the 4.7% maximum and will be discussed more fully on pages 4 through 7. Therefore, with the exception of certain income categories, on average the tax burdens paid by Georgia households lie within a similar range.

The patterns across income categories differ dramatically by type of tax, however. The income tax is a progressive form of taxation with marginal rates of 1 to 6 percent depending on the size of taxable income. While the income tax liability of households with equivalent incomes may differ somewhat because of personal exemptions, deductions, and tax credits, for the most part the size of a household's tax liability will depend upon household income. As shown in Table 1, the income tax burdens increase continually as income increases. Low income households are exempted from the tax and the highest income households tend to pay 4.6% of total income.

Unlike the income tax, both sales and property taxation affect households in a regressive manner. The tax burden is highest for lower income households, and the burden declines at higher income categories. The legal tax rates for both of these sources is uniform for all taxpayers, regardless of income category. Because property ownership and consumption of sales-taxable items do not increase as rapidly as household income, the tax burdens decline as incomes rise. It should be noted that for elderly property taxpayers, there are state and local homestead exemptions provided for lower income households, but for the general population there are no special provisions for lower income property and sales taxpayers.

Unlike the income tax burdens and the sales tax burdens, the pattern of property tax incidence across income categories does not show a consistent pattern. Property ownership is not as closely related to household income as income taxation or as the consumption of sales-taxable items.

B. Property Taxation

The average tax burdens presented in Table 1 are not as meaningful for property tax analysis as for the other two types of taxation. The average burdens indicated adequately represent the income and sales tax incidence for all taxpayers. Since the income tax is levied directly on household income, tax liabilities for households with similar incomes can never differ too dramatically and the maximum tax burden for any taxpayer cannot exceed six percent. The average burdens realistically portray the sales tax picture, since sales tax burdens can only exceed 3% if households consume in excess of their annual income. Because household savings and the availability of credit is limited, sales tax burdens cannot drastically exceed 3%.

Property ownership on the other hand, is not as directly related to annual household income. For this reason, property tax burdens do not have a maximum limit and the average tax burdens of Table 1 do not fully describe property taxpayers' burdens.

Tables 2 through 4 present a more complete portrayal of property tax incidence. These tables reflect the tax liabilities resulting from all property ownership, homestead as well as non-homestead property. The income categories represent total household income. Similar tables showing the distributions of exclusively homestead property are available upon request from the Commission staff. These tables are not displayed in this report, because the overall conclusions are compatible with those implied by Tables 2 through 4.

TABLE 2

Distribution of Property Taxpayers in the Sample:
By Income Category and Property[1] Tax Burden,
1977

Income Category	Property Tax as a Percentage of Income						
	Less than 1.0%	1.01%-2.00%	2.01%-3.00%	3.01%-4.00%	4.01%-5.00%	Over 5.00%	Total %
Under $2,999	3.2%	1.1%	3.2%	0%	2.1%	90.5%	100%
$ 3,000 - 5,999	22.0	14.6	10.6	13.0	4.9	35.0	100
6,000 - 8,999	28.9	17.1	17.1	12.3	9.5	15.2	100
9,000 - 11,999	39.2	24.7	13.2	7.5	5.7	9.7	100
12,000 - 14,999	35.7	25.3	21.4	8.8	2.2	6.6	100
15,000 - 17,999	35.3	32.3	18.8	6.0	1.5	6.0	100
18,000 - 20,999	33.3	42.2	14.4	3.3	5.6	1.1	100
25,000 - 49,999	26.3	49.6	15.3	4.4	2.2	2.2	100
50,000 - 74,999	35.7	46.4	7.1	54	0.0	5.4	100
75,000 - 99,999	31.2	41.7	14.6	6.3	2.1	4.2	100
Over $100,000	52.5	29.2	6.8	4.1	2.0	5.4	100

[1] Includes all property on digest.

SOURCE: Georgia Tax Reform Commission staff estimates from the Georgia Tax Model.

Tables 2 and 3 identify to what extent taxpayers diverge from average degrees of taxation. Table 2 presents the distribution within each income category of property owners by the size of their tax burden (tax liability as a percentage of household income). For every income category above $6,000, the highest concentration of taxpayers pay less than 2 percent of income in property taxes. Overall, the highest concentrations of taxpayers (shown in brackets on the table) tend to shift toward lower tax burdens at higher income levels, exemplifying the regressive impact of the property tax.

As noted previously, the maximum tax burden of the average taxpayers for all tax sources is on the order of 4.5% of income. Table 3 shows that for most income categories, the vast majority of property taxpayers pay taxes of less than 4.0%. At incomes above $12,000, more than 90% of the property owners have burdens below this amount.

Although in every income category there are taxpayers with tax burdens in excess of 4%, these higher burdens are more prevalent at lower income levels. Both Tables 2 and 3 identify an especially large segment of low income property owners, those with incomes below $6,000, with tax burdens above 5% of household income. The causes underlying these high tax burdens at lower income levels have not yet been verified, but these tax burdens proba-

TABLE 3

Distribution of Property Taxpayers in the Sample by Income Category and Degree of Taxation

Income Category	Tax Burdens Below 4% of Household Income	Tax Burdens Above 4% of Household Income
Under $2,999	7.4%	92.6%
$ 3,000 - $ 5,999	60.1	39.9
6,000 - 8,999	75.3	24.7
9,000 - 11,999	84.6	15.4
12,000 - 14,999	91.2	8.8
15,000 - 17,999	92.5	7.5
18,000 - 20,999	95.6	4.4
21,000 - 24,999	93.3	6.7
25,000 - 49,999	95.6	4.4
50,000 - 74,999	94.6	5.4
75,000 - 99,999	93.7	6.3
Over $100,000	92.6%	7.4%
Average Overall	82.8%	17.2%

SOURCE: Georgia Tax Reform Commission staff computations based on the Georgia Tax Model.

bly result from large property ownership and depressed income levels for the following reasons:

- A segment of these taxpayers may be farmers who have large land holdings. Because the income attributed to these farmers, adjusted gross income, excludes all farm expenses, this income may not be an equivalent measure of the income associated with other, non-farmer taxpayers in the tax model.
- The elderly are likely to be another segment of these taxpayers. While their income is primarily Social Security and pension benefits, their property ownership is more closely related to their higher life-time stream of income when employed.
- In any one year, these lower income categories include families with high risk, fluctuating income who only temporarily have low incomes. Their property ownership is actually related to their average multi-year income rather than their 1977 income.
- Many lower income households receive income from sources for which the model does not include actual data, but rather estimated values. The above-average property tax burdens may be partially due to a large degree of error in estimated income for these households.

In concluding this description of property tax incidence, Table 4 presents the preliminary estimates of the number of Georgia property owners with above-average property tax incidence. The vast majority of property owners are taxed to the

TABLE 4

Number and Percentage[1] of Property Owners with Above Average Property Tax Burdens, 1977

(Preliminary Estimates)

Income Category	Number and Percentage[1] of Taxpayers with Tax Burdens of: 4.01 - 5.0%		Over 5.0%	
Under $2,999	1,746	(.1%)	75,091	(6.1%)
$ 3,000 - $ 5,999	7,840	(.6%)	56,185	(4.6%)
6,000 - 8,999	14,933	(1.2%)	23,893	(1.9%)
9,000 - 11,999	7,847	(.6%)	13,279	(1.1%)
12,000 - 14,999	3,261	(.3%)	9,782	(.8%)
15,000 - 17,999	2,121	(.2%)	8,525	(.7%)
18,000 - 20,999	2,362	(.2%)	3,543	(.3%)
21,000 - 24,999	5,759	(.5%)	1,152	(.1%)
25,000 - 49,999	3,210	(.3%)	3,210	(.3%)
50,000 - 74,999	0	(0.0%)	806	(.1%)
Over $75,000	25	(*)	64	(*)
TOTAL	49,114	(4.0%)	195,530	(15.9%)

[1] All percentages are calculated in relation to the estimated total of 1,229,458 property owners.

*Less than 1/100th of 1%.

SOURCE: Georgia Tax Reform Commission staff computations based on data from the Georgia Tax Model.

same degree as for all other major tax sources. However, approximately 49,000 property owners, or 4% of the total, have burdens of 4% to 5% of total income, and approximately 196,000 property owners, or 16% of all property owners, are taxed well above the average rates of tax incidence.

As shown in Table 4, the vast majority of property owners with high tax burdens are in the lowest income categories. More than three quarters of these taxpayers with high burdens have annual income less than $9,000. While these high burdened property owners comprise a significant majority of the total lower income property owners, as shown in Tables 2 and 3, they make up approximately 12.6% of all property owners.

C. Sales Taxation

The sales tax is the most comprehensive of all Georgia tax sources. No households are exempted from this form of taxation, regardless of income or other household characteristics. Sales tax exemptions relate to particular types of purchases that are afforded preferential tax status. While there are approximately 60 specific sales tax exemptions, these exemptions are directed at the purchases made by businesses and non-profit organizations, rather than household types of purchases. These exemptions are intended to support general public policy goals, provide economic incentives, prevent harm to the economy, or avoid administrative impracticalities.

While taxpayers are uniformly taxed at the state rate of 3% of total spending on taxable consumption, the actual impact of the tax, measured by taxes paid as a percent of total income, is not uniform for all households. If all families spent 100% of their income on taxable items, the tax would impact all households by the same degree. The dollar value of tax liabilities would increaswe with income, and the tax would impact all households at the rate of 3% of annual income. But in reality, these tax burdens are not equal because some households are more able to save, invest, or spend on non-taxable services and expenditures outside the state than households. As shown in Table 5, the sales tax liabilities in 1977 affected households in a regressive manner, that is the tax absorbed a substantially greater portion of the income of the lower income families — ranging from 2.1% of the income of the poorest to .7% of the wealthiest. These values are based on the Georgia tax model in combination with an update of the Bureau of Labor Statistics 1972-1973 Consumer Expenditure Survey.

It may seem surprising that these estimates indicate that the lowest income families pay in excess of 3% of income in tax. These families are believed to consume in excess of annual income for three reasons. First, a portion of the consumption of these families is on credit. This credit is continually rolled over until the income of these families reaches higher levels. Second, 17% of these families are of retirement age, and, therefore, spend to a greater extent from savings in addition to income. Finally, in

TABLE 5

Household Characteristics and Sales Tax Liabilities of Average Georgia Households by Income Category, 1977

Total Income[1]	Average Income	Average Family Size	Annual Sales Tax $	Annual Sales Tax As % of Income
less than $ 2,999	$ 1,475	1.66	$ 61	4.1%
$ 3,000 - 5,999	4,486	1.83	122	2.7
6,000 - 8,999	7,461	2.17	171	2.3
9,000 - 11,999	10,409	2.44	203	2.0
12,000 - 14,999	13,497	2.68	231	1.7
15,000 - 17,999	16,454	2.94	259	1.6
18,000 - 20,999	19,360	3.11	292	1.5
21,000 - 24,000	22,732	3.25	336	1.5
25,000 - 49,999	32,424	3.29	363	1.1
50,000 - 74,999	59,983	3.38	535	.9
75,000 - 99,999	85,856	3.70	715	.8
Over $100,000	157,428	3.34	1,120	.7

[1] Total Income includes actual values for taxable sources of income and state pensions and estimated values for Social Security benefits, AFDC benefits, food stamp benefits, and unemployment insurance.

SOURCE: Georgia Tax Reform Commission staff estimates based on Georgia taxpayer sample and the Bureau of Labor Statistics, 1972-1973 Consumer Expenditure Survey.

any one year this income category is partially made up of families with high risk, fluctuating income who are only temporarily in this income category. Their spending, and, therefore, sales tax liability, is actually related to their average multi-year income rather than their 1977 income.

Because necessity-type purchases — food, prescription drugs, and residential utilities — are all taxable under Georgia law, the sales tax payment on necessities strongly reinforces the regressive impact of sales tax incidence. As shown in Table 6, necessities have a much larger role in the overall budget and taxes paid by lower income families. Table 6 displays for average households in different income categories the total sales tax payments as well as the portion paid for the three types of necessities. The last column measures the tax on necessities as a percent of all taxes paid. As incomes rise, taxes paid on necessities are a significantly smaller segment of total tax liabilities. For the lowest income households, necessities comprise more than half of total taxable consumption, while for the wealthiest, necessities are less than 20 percent of the total.

TABLE 6

Georgia Sales Tax Liabilities for Average Households: Total and By Type of Necessity, 1977

	$ Value of Annual Sales Tax Payments					
Total Income[1]	Total Sales Tax Paid	Food[2]	Drugs[3]	Utilities[4]	All Necessities (% of total)	
less than $2,999	$ 61	$ 21	$1.71	$ 8	$ 31	(52%)
$ 3,000 - 5,999	122	37	3.25	13	53	(44%)
6,000 - 8,999	171	45	2.64	14	62	(36%)
9,000 - 11,999	203	51	2.27	15	68	(33%)
12,000 - 14,999	231	51	2.33	17	70	(30%)
15,000 - 17,999	259	52	2.32	18	73	(28%)
18,000 - 20,999	292	56	2.51	20	78	(27%)
21,000 - 24,999	336	60	2.80	22	85	(25%)
25,000 - 49,999	363	66	2.73	24	92	(25%)
50,000 - 74,999	535	81	2.80	33	117	(22%)
75,000 - 99,999	715	99	3.07	42	144	(20%)
over $100,000	1,120	131	2.77	62	195	(17%)

[1] Total Income includes actual values for taxable sources of income and state pensions and estimated values for Social Security benefits, AFDC benefits, food stamp benefits, and unemployment insurance.

[2] Food includes exclusively food at home.

[3] Drugs include prescription drugs and medical equipment not covered by insurance.

[4] Utilities include residential usage of oil, coal, gas, and electricity.

SOURCE: Georgia Tax Reform Commission staff estimates based on Georgia taxpayer sample and the Bureau of Labor Statistics, 1972-1973 Consumer Expenditure Survey.

The tax liabilities of larger-sized families are much greater than that shown for average families in Tables 5 and 6. For example, the average family with income between $3,000 and $5,999 has 1.83 family members and has a tax liability of $122. A family having six or more members in this same income category pays $174 in sales tax. While the tax on necessities comprises 44% of total sales tax liabilities for the average family, the larger-than-average family has considerably more requirements, and necessities are 55% of all sales tax liabilities.

A second category of sales taxpayers who are not properly represented in Tables 5 and 6 are the elderly. Due to special diet requirements, health status, and lifestyle patterns, they tend to spend considerably more on these necessity items per family member than the rest of the population. Table 7 shows the percentage increase per family member of consumption of necessities by the elderly above the overall population. Elderly households tend to spend about 40 percent more on food per family member, about 200 percent more on prescription drugs, and about 50 percent more on utilities. In addition, elderly households tend to spend considerably less on non-necessity goods, since they have already accumulated many of their household and personal goods. For this group of taxpayers, the tax on necessities therefore tends to make up a

more significant portion of the total sales tax liability than for the population as a whole. For example, the tax on necessities is 36% of total sales tax liabilities for the average family with income between $6,000 and $9,000, while for the average elderly family in this same income category the tax on necessities is 42% of total tax payments. Thus, the inequities created by the sales tax on necessity items is more pronounced for the elderly portion of the population.

TABLE 7

Comparison of Per Capita Expenditures on Necessities By Elderly and Total Population in Georgia:

Percentage by Which Elderly Consumption Exceeds Total Population Consumption

Total Income[1]	Food[2]	Prescription Drugs[3]	Utilities[4]
less than $3,000	23%	134%	31%
$ 3,000 - $ 5,999	32	171	45
6,000 - 8,999	48	178	64
9,000 - 11,999	51	253	59
12,000 - 14,999	35	216	52
15,000 - 17,999	41	198	53
18,000 - 20,999	35	189	47
21,000 - 25,000	30	178	26
over 25,000	31	162	64

[1] Total Income includes actual values for taxable sources of income and state pensions and estimated values for Social Security benefits, AFDC benefits, food stamp benefits, and unemployment insurance.

[2] Food includes exclusively food at home.

[3] Drugs include prescription drugs and medical equipment not covered by insurance.

[4] Utilities include residential usage of oil, coal, gas, and electricity.

SOURCE: Georgia Tax Reform Commission staff estimates based on Georgia taxpayer sample and the Bureau of Labor Statistics, 1972-1973 Consumer Expenditure Survey.

Chapter 3

STATE REVENUE ISSUES

A. Modernization of the Personal Income Tax Structure

The impact of the personal income tax structure on Georgia taxpayers has changed considerably over time as a result of inflation. This topic has received particular emphasis by the Tax Reform Commission throughout its efforts. The Commission reviewed previous changes made to update the tax structure and analyzed how the tax structure, in combination with inflation, leads to disproportionate tax increases. Based on these findings, the Commission's recommendation is intended to prioritize the restoration, or modernization, of the tax structure.

Deterioration of the structure occurs because most of the tax provisions are specified in fixed dollar values, and, therefore, lose value during inflationary times. The erosion of these values translates into higher taxes for Georgia taxpayers. First, as the exclusions from adjusted gross income (personal exemptions and the standard deduction) decline in real terms, the taxable portion of total income is increased. In effect, the tax is levied on a larger percentage of family income. Secondly, the taxpayer is forced to pay taxes at a higher rate on all additional income, whether or not there is an increase in real income. The taxpayer is subject to higher marginal tax rates due to the fixed dollar bracket values and the progressive structure. The effective tax rate increases even for those taxpayers already in the highest tax bracket, since a larger portion of total taxable income is taxed at the highest marginal rate.

The Commission has placed highest priority on revising the bracket structure to better represent the income distribution of Georgia taxpayers today. On an infrequent basis, the General Assembly has restored the value of the tax exclusions. For example, the personal exemptions for dependents, the elderly, and the blind were increased from $600 to $700 in 1971. But the tax brackets have not been altered since 1937 when the structure was initially instituted.

Since 1937, the significance of the specified divisions in the tax brackets have been altered because of the large shifts in the income distribution of the population. This shift is especially pronounced for the highest tax bracket category. In 1968, 5.5% of all taxpayers were in the 6 percent

tax bracket. This category has grown to include almost a majority of all taxpayers today. Thus, the highest bracket today includes both middle income taxpayers and the wealthiest of taxpayers.

While the tax structure still allows for marginal tax rates ranging between 1 percent and 6 percent, the incomes of most taxpayers have outgrown the 1937 tax structure design. Most of the state income tax base is currently being taxed at a relatively high average rate. For example, in 1964 the total tax base, or income net of all exemptions and deductions, was taxed at an average rate of 2.7 percent. This average rate has continually increased as incomes rise, and, in 1978, the average rate was 4.2%.

Because of the marginal nature of the tax structure, there is progressivity even within the highest tax bracket. That is, when comparing two taxpayers in the 6 percent bracket, the taxpayer with the higher taxable income will pay tax at a higher effective rate. While this is true, there would be significantly more progressivity with more variation in tax rates among income levels. Therefore, continuation of the current bracket arrangement will tend to continually reduce the progressive quality of the tax.

The brackets considered appropriate in 1937 are extremely narrow in light of current inflationary conditions. As a result of inflation, with no real increase in income, taxpayers are moved very rapidly into higher tax brackets. Because of the tax rate increases, tax liabilities grow more rapidly than the taxpayer's income. If each tax bracket was broadened to cover a larger range of income, it would reduce this tendency.

The Commission recommended to the 1980 General Assembly the gradual expansion of the tax brackets over a three-year period, while maintaining the 6 percent maximum rate. This recommendation was introduced to the Legislature as House Bill 1282. It passed the House and was not acted upon in the Senate partly because of the Governor's dissatisfaction with the program.

During this past year, the Commission has continued to study this topic and has evaluated many alternative forms of bracket-widening. Based on this further study, the Commission reaffirms its earlier recommendation that the income tax bracket structure should be widened. Many different options have been reviewed by the Commission and all of this information is available as background for guiding the efforts of the General Assembly.

In addition, the Commission recognized that bracket widening alone would not fully modernize the income tax structure. All tax provisions that are expressed in fixed dollar amounts become obsolete during inflationary times. The Commission recommended that the General Assembly should also give attention to the effects of inflation on income tax exclusions within the structure and adjust them on a one-by-one basis as is appropriate.

It is anticipated that the inflationary levels of the post-1972 period will be continuing into the future. Recognizing that these economic conditions guarantee continued obsolesence of the income tax structure, the Commission encourages the General Assembly to periodically review the entire personal income tax structure for necessary and appropriate updating.

B. Treatment of Married Taxpayers

Because Georgia's income tax law treats the family as a unit, two tax inequities occur in which some groups of taxpayers are treated very differently than others. Both inequities are popularly termed "the marriage tax" and relate to tax increases that result when taxpayers marry. These topics are more fully discussed in a staff report entitled *Equity Issues in Georgia's Personal Income Tax*.

1. As Regards the Standard Deduction

The first type of tax inequity results from the uniform standard deductions allowed for both married and single filers in Georgia. The standard deduction currently provided to both single and married-joint filers is the following: a minimum standard deduction of $1300 (or) 15% of adjusted gross income up to a maximum standard deduction of $2000. These standard deductions represent an average level of expenses that tax filers incur which, based on law, are excluded from the taxable base. Many of these expenses that are allowed as itemized deductions, for example health expense, interest charges, and state taxes, increase in relation to household size, and, therefore, married families should be entitled to larger deductions than single individuals.

Two single individuals, upon marrying, lose up to $2000 in tax exempt income, and due to this loss, their taxes will increase by up to $120, depending on their marginal tax bracket. Fifty-four percent of all married taxpayers filing joint returns in 1978 elected to receive the standard deduction. This inequity primarily affects lower and middle income taxpayers.

While all people have the option to itemize if expenses are above the standard level, in practice this will not occur. Taxpayers are required to file for deductions in the same manner as done for the federal tax. They are more influenced by the federal income tax structure since it carries a heavier burden, and they can receive $3,400 in deductions without itemization under the federal guidelines.

Correction of this inequity in the standard deduction would also correct another dilemma confronting Georgia taxpayers. Some Georgia income taxpayers receive unfair treatment because all filers can

only itemize deductions for state income tax if they also itemize deductions for federal purposes. This tax disadvantage particularly impacts married filers because the federal zero bracket amount, $3400 for the taxable period 1979, is much greater than Georgia's maximum standard deduction of $2000. For the federal tax, the filers benefit from the zero bracket amount, yet the Georgia maximum standard deduction is only $2000, less than the filers' potential itemized deductions. For this reason, they are unable to receive all of the deductions from their Georgia income that their economic situation affords them. At a maximum, they are currently disallowed $1400 in deductions. Increasing the standard deduction would reduce the disallowed amount, and, therefore, would significantly reduce the number of disadvantaged taxpayers.

In evaluating this topic, the Commission reviewed many alternative changes to the standard deduction amounts. Table 8 describes several of these alternatives.

TABLE 8

Comparison of the Current Standard Deduction Policy with Several Alternative Policies

	Description[1]	Revenue Reduction, 1978 (in millions)
Current Policy	$1300 or 15% of AGI up to $2000	--
Policy Option 1	$1500 or 17% of AGI up to $3000	$13.5
Policy Option 2	$1600 or 18% of AGI up to $3000	$15.1

[1] Description of standard deduction allowance for married joint filers and heads of household with dependents.

SOURCE: Georgia Tax Reform Commission staff estimates.

The Commission recommends that the income tax standard deduction be adjusted so as to distinguish between single filers and married filers or heads of households with dependents. In order to assure larger deductions for married families at any income level, the minimum standard deduction, percentage of Adjusted Gross Income, and maximum standard deduction should all be larger than the provisions for single filers.

(2) As Regards Taxation of Two-Earner Families

The Georgia filing status procedure, begun in 1971, effectively requires that married households file jointly. This joint filing procedure was instituted to improve the state auditing system, and, as a consequence, has created sizeable tax increases for two-earner households.

Under a system of joint filing combined with the progressive tax structure, the secondary wage-earner pays tax based upon the tax rate established by the first earner's income, rather than his or her own income level. Therefore, the second earner bears a higher tax burden on his/her earnings. As two single persons they would be taxed on an individual basis. In terms of Georgia's tax structure, this inequity results in additional tax liabilities of up to $260 per family.

Two-earner families pay taxes equal to one-earner families with the same level of taxable income. This consolidation of family income is an incomplete indicator of the ability of a family unit to pay taxes, because it does not give consideration to the additional costs incurred by two-earner families. With the exception of a partial allowance for the costs of child care, Georgia's structure does not allow for other costs, especially those due to additional transportation expenses and the loss of self-performed household services.

This type of inequity affects 50 percent of Georgia's husband-wife families, according to 1975 statistics from the *Survey of Income and Education* conducted by the U.S. Bureau of the Census. These statistics show that the majority of two-earner households in Georgia are in the middle-income and upper-middle-income categories. As a result of both the economy and social trends, this group of taxpayers, two-earner families, are an increasing segment of Georgia's taxpayers.

Prior to 1971, all income earners could compute Georgia tax liabilities on an individual basis and avoid the additional tax caused by joint filing. In 1971, Georgia adopted the federal filing procedure in order to enable the State to utilize the Internal Revenue Service master file for auditing purposes. Essentially, conformity with the federal system would enable the Department of Revenue to trace Georgia tax information on entire households who file jointly under the federal system.

The practice of joint filing was instituted in 1948 by the federal government in order to improve the equity of the income tax across different states by equalizing the tax treatment of married couples in non-community and community property states. The federal government has recognized that higher tax burdens on two-earner households is a by-product of the current filing structure and is exploring methods of improving this situation for federal taxpayers.

The Commission reviewed several policy alternatives that would improve the taxation of two-earner households while also preserving the auditing arrangement with the IRS master file. Table 9 describes these alternatives.

Last year the Commission recognized the discrimination against two-earner households inherent in the current taxing method. Following additional analysis, the Commission reaffirms its earlier recommendation by suggesting the following three approaches for correcting or reducing this inequity: (1) allowing the taxation of each income earner on an individual basis, (2) expanding personal exemptions for married filers with two income earners, or (3) providing a graduated tax credit for two-earner households based on total taxable income.

TABLE 9

Policy Alternatives Improving Tax Treatment of Two-Earner Families

	Description	Revenue Reduction in 1978
Alternative 1: Additional Personal Exemption	Equal in value to earned income of spouse with smaller income but not to exceed $1400.	$32.2 million
Alternative 2: Two-Earner Tax Credit	Eligible to all married filing jointly if both spouses earn wages exceeding $500 per year. Credit would vary with total taxable income as follows:	$22.6 million
Alternative 3: Taxation of Income on Individual Basis	Taxing all income earners as individuals based on one set of tax brackets using the brackets currently authorized for married joint filers. Two-earner families would file individually on one combined return.	$70.2 million

Size of Taxable Income	Tax Credit
$ 1 - $ 1,000	20%
10,000 - 15,000	12%
15,000 - 20,000	8%
over $20,000	4%

SOURCE: Georgia Tax Reform Commission staff computations based on the Georgia Department of Revenue, 1978 Income Tax Profile.

C. Motor Fuel Taxation

Motor fuel tax revenues constitute the third largest Georgia state tax source. In this regard, Georgia relies on the motor fuel tax as a source of revenue to a greater extent than most of the Southeastern states, as well as the average U.S. state. In light of the importance of this revenue source to the state, the Commission reviewed a number of issue areas in this subject area, which are discussed in the staff report entitled *Issues in Motor Fuel Taxation*. The Commission recommends action by the General Assembly in two of these areas:

- The General Assembly should consider exempting state and local governments from the second (3%) motor fuel tax.

Some 33 states totally exempt or refund motor fuel taxes for governmental use. Georgia imposes both the 7.5-cent per gallon levy and the "second (3%) motor fuel tax" on state and local government vehicles. Moreover, prior to the 1979 Session, state and local governments were exempted from the state's 3% sales tax. At the 1979 Session, however, legislation was passed which converted this *sales* tax into a "second *motor fuel* tax." Given the fact that state and local governments are not exempt from motor fuel taxes, these governments became subject to the "new" 3% levy.

It is to be noted that when local governments are faced with increased operating costs, property tax increases are frequently the result, since this tax source is the primary source of local revenues. As inflation pushes the 3% second motor fuel tax to higher levels (when fuel costs increase), local units may be faced with this unpleasant prospect.

The Commission, therefore, recommends that the imposition of the second motor fuel tax on local governments be removed. Such action would place these governmental units in the same position as they were when the second motor fuel tax was a sales tax — i.e., they would be exempt from the levy.

- It is recommended that the General Assembly consider a means other than tax exemptions, if it determines that it is in the public interest to encourage gasohol production.

Seventeen states allow for a tax incentive of some kind to encourage gasohol production or use. Most of these states exempt gasohol from state motor fuel taxes, or tax it at lower rates. The federal government, also, offers a number of tax incentives to encourage gasohol's use. Two bills were introduced at the 1980 Session of the General Assembly to afford special tax treatment for gasohol production and/or use.

Although proponents and opponents of using tax exemptions for gasohol differ in philosophy, it is recognized that the biggest costs attendant with gasohol production are in the area of financing production facilities. As costs of gasoline and diesel fuels increase, gasohol will become competitive with these fuels' prices — even without a reduced tax rate on gasohol.

The State of Iowa, which completely exempted gasohol from that state's 10-cent per gallon levy, found that the first year's cost of the exemption to the state was some $12 million, far in excess of projected losses at the time the legislation granting the exemption was passed. The Iowa General Assembly, alarmed at this loss of revenues, passed legislation imposing a 5-cent per gallon levy on gasohol, effective May 1980. Moreover, Iowa's experience with its exemption was that Iowa farmers were not benefited by the exemption: most gasohol, that state found, was produced at an Illinois production facility, using Illinois corn. Thus Iowa found that it was subsidizing manufacturers in another state while receiving no direct benefit for its farmers or manufacturers.

Georgia's motor fuel tax proceeds, while increasing dramatically in fiscal year 1980, were composed of two elements: the quantity-based "first" motor fuel tax (7.5-cents per gallon); and the "second" motor fuel tax (3% excise tax) and interest-earnings portion of the motor fuel tax. The "first" motor fuel tax yielded *less than* 1979 actual figures, due to less fuel consumption and more fuel-efficient vehicles.

The Commission therefore recommends that in the event the General Assembly determines that it is in the public interest to encourage gasohol production, the means to accomplish this goal should not be through tax exemptions. Possible alternatives are discussed in the report *Issues in Motor Fuel Taxation.*

D. Treatment of Delinquent Taxpayers

The Commission separated its evaluation of the treatment of delinquent taxpayers into two areas: interest and penalty charges. While the interest and penalty charges are both intended to discourage delinquencies, the two charges are very different in nature. Each charge compensates the government for different expenses incurred as a result of the delinquency.

During the 1979 interim meetings, the Commission focused on the interest charge. The 1980 Session of the General Assembly approved the Commission recommendation of a uniform 12% interest charge for all taxes. The Commission believed that this charge should be uniform, because it compensates the government unit for interest foregone on its investments.

Analysis of the penalty provisions was reserved for study during the 1980 interim in order to examine each tax penalty on an individual basis as well as to identify a basic framework for the entire penalty structure of all tax soureces. This analysis is described in a Commission staff report entitled *Tax Delinquency Penalties.*

The penalty charge is evaluated on the basis of two factors: (1) an appropriate level of punishment and (2) compensation to the state for the administrative costs incurred due to the delinquency. In assessing the punishment factor, taxes were categorized as to taxpayer hardship on the basis of the following five criteria:

1. type of tax remitter (trustee accounts versus direct taxpayers);
2. frequency of tax payment;
3. expectation of tax liability amount;
4. complexity of tax computation;
5. difficulty of tax collection.

Grouping tax sources in this manner identifies where special allowances should be made for particular difficulties in tax filing and payment, and, therefore, determines an appropriate "degree" of punishment for each tax.

While reimbursement for administrative costs is an important factor in the penalty charge, it was not explicitly measured for the Commission's evaluations. These costs accumulate in cases of hardcore delinquencies which continue for several months. With the exception of the property tax, the collection of all prolonged delinquencies is now centralized in the Department of Revenue's Field Services Division. Because the collection efforts are centralized, the administrative costs do not vary to a great extent by tax source.

In general there are three types of offenses for which penalties are imposed. The first offense is a failure to file a return, whether this return is a periodic filing or a one-time registration. The second type includes both failure to pay the tax as well as underpayment of the tax because of negligence or intentional disregard of rules and regulations. The final type of offense is false or fraudulent activity with intent to evade the tax. Table 10 displays the current penalties for each of these offenses for all tax sources. As noted in the Table's footnote 3, when a taxpayer both fails to file and pay the tax the taxpayer is not penalized for both offenses for many of the tax sources. The following pages outline the Commission's recommendations.

Sales and Use Tax:

	failure to file	delinquent payment
Current Provision:	5% per month — $5 minimum; 25% maximum — $25 minimum for 5 months Forfeiture of Vendors Compensation (3%)	5% per month — $5 minimum; 25% maximum — $25 minimum for 5 months Forfeiture of Vendors Compensation (3%)
Commission's Recommendation:	5% for the first month; An additional 10% for each of the next 2 months; $5 minimum for first month $10 minimum for second month up to $25 minimum for fifth month or more Forfeiture of Vendors Compensation (3%)	same as failure to file

The Commission's recommendation is intended to more seriously discourage prolonged delinquency periods and better compensate the state for collection procedures. The minimum charge (5%) and maximum penalty rate (25%) are the same as under the current system; however, the penalty rate escalates more rapidly to the maximum level, reaching 25% in the third month.

Income Tax:

(a) Withholding by Employer

	failure to file	delinquent payment
Current Provision:	5% per month — $5 minimum; 25% maximum	5% per month — $5 minimum; 25% maximum
Commission's Recommendation:	5% for the first month; An additional 10% for each of the next 2 months; $5 minimum for the first month $10 minimum for the second month up to $25 minimum for fifth month or more	same as failure to file

The recommendation is the same as that suggested for the Sales and Use Tax. Based on the evaluation, the penalties for these two trustee accounts should be similar.

(b) Annual Income Tax

	failure to file	delinquent payment
Current Provision:	5% per month; 25% maximum	.5% per month; 25% maximum
Commission's Recommendation:	5% per month; 25% maximum	1% per month; 25% maximum

The Commission recommends no change for failure to file, and recommends strengthening the delinquent payment penalty. In comparison to the penalties for all other taxes, the current penalty for delinquent payment is especially low. The suggested charge at the rate of 1% per month is designed to be less than the failure to file penalty so as to allow for the additional difficulty in anticipating and planning for the payment of income tax liabilities. It is also intended to be less than the special 5% penalty for negligent underpayment.

Motor Carrier Tax:

	failure to file	delinquent payment
Current Provision:	$25	10% — $10 minimum
Commission's Recommendation:	% with $ minimum	10% — $10 minimum

The current failure to file charge ($25) is unfair because it is a harsher punishment for smaller carriers. A percentage charge with a dollar minimum is more appropriate.

Cigar and Cigarette Tax:

	failure to file	delinquent payment
Current Provision:	$1 per day	10%
Commission's Recommendation:	larger $ per day or % charge with minimum	10%

Because of many similarities, these penalties should be assessed in the same manner as for the sales tax. In practice, though, these delinquencies tend to be very short term because of the policing authority of the Alcohol and Tobacco Division. Therefore, a variable rate based on months of delinquency would be unnecessary. The current 10% charge for delinquent payment seems appropriate since it is comparable to the penalty imposed for a short term sales tax delinquency.

The $1 per day penalty charge for failure to file is inadequate. The Commission recommends that it be restructured as either (1) sensitive to the delinquency period — as a larger dollar charge per day, or (2) sensitive to business size — as a percentage-type penalty.

General Penalty Recommendations — Taxpayer Fraud

A 50% fradulent penalty is currently in effect for most taxes. For the remaining tax sources, no penalty is charged for tax fraud, excluding employer withholding of income tax in which the fraudulent penalty is $50 per receipt. The tax sources which presently do not have any fraudulent penalty are the following: all ad valorem taxes, estimated income payments, motor carrier tax, estate tax, corporate net worth tax, and insurance premium tax.

The Commission recommends that a fraudulent penalty should be uniformly charged for all forms of taxation.

Chapter 4

LOCAL GOVERNMENT ISSUES

A. Local Business Fees and Occupational Taxes

Business fees and taxes are one of the "second tier" sources of revenue for most municipalities and some counties, second only in importance to property taxes and local option sales taxes. Within municipalities they contribute approximately the same amount of revenue as alcoholic beverage taxes, insurance premium taxes and public utility franchise fees. For counties, they occupy the second-tier alone, contributing more than such sources as alcoholic beverage taxes, hotel-motel taxes and mixed drink taxes.

Along with their importance as a revenue source, business fees and taxes have a feature not found with most other local revenue sources: local governments have almost exclusive control as to their design and implementation. The combination of a significant revenue producer and strong local control underscores the importance of business fees and taxes to local governments.

Generally, the taxing and licensing of businesses are discussed as if they were a single entity. They do, however, have different legal distinctions. The license fee is payment for a right granted by the authority to perform an act that would be illegal without the license, while a tax is a rate or sum of money assessed against the person or property. Stated another way, a license is primarily intended for regulatory purposes while a tax is designed primarily to produce revenue.

The Georgia Supreme Court has held that a license fee should approximate the expenses of regulation. Within this broad limitation, local governments have the authority to impose various levels of fees depending on the type of activity in which the business is engaged. With respect to the actual dollar level to be imposed, the courts have never established any absolute mandatory guidelines; any determination that a particular local government is charging an excessive fee must be done on a case-by-case basis.

Municipalities generally receive the power to license and tax business in their municipal charters, and the General Assembly has allowed a great amount of flexibility in the design of business licensing and taxing ordinances.

Normally, business licensing is perceived as a municipal function. Counties, therefore, must utilize

local constitutional amendments to be afforded authority to license and tax businesses. Thus, by 1978, 28 counties had passed comprehensive business licensing amendments.

One issue which has developed with the advent of counties regulating businesses is their regulation within the incorporated areas. The first and only county in which this has already occurred is Gwinnett. Banks County has a local constitutional amendment on the ballot this year which also authorizes county regulation in the incorporated areas.

Essentially, county regulation in incorporated areas establishes the potential of dual or overlapping regulatory functions. Conceivably, a business would be required to get a license from both the county and the municipality.

A number of policy issues relating to this subject matter are contained in the Commission's staff report entitled *Local Business Fees and Occupational Taxes*. Based upon its analysis, the following recommendations are made:

- The General Assembly should clearly delineate the difference between a local business license fee for regulatory purposes and a local occupational tax for revenue-raising purposes.
- The statutory exemptions and limitations regarding local business fees and taxes should be re-examined.
- The Constitution should be amended to allow counties to license and levy license taxes on businesses.
- The Commission's previous recommendation to authorize counties to collect the insurance premium tax on life insurance premiums in the unincorporated areas of the county is reaffirmed.

B. Taxation of Mineral Properties and Mineral Resources

Clearly, mineral production has a significant economic role in our state. Given its importance and the complexity of the overall tax structure as it applies to businesses and properties engaged in mineral production, the Commission reviewed the current tax process as well as alternative tax systems in its staff report entitled *Mineral Resources Taxation in Georgia*.

The major tax paid by mineral producers other than the income tax is local and valorem tax. Taxes are required to be paid on the following types of property:

1. machinery and equipment used in mineral extraction and processing
2. inventories of processed minerals
3. real property owned by the mineral producer which shall include the value of the surface as well as the value of mineral reserves if reserves can be determined
4. leaseholds owned by the mineral producer which create an economic interest and property right in the property (interests less than fee)

As with all ad valorem taxes, the accuracy in measuring the value of these properties will determine whether or not the company is paying its fair share of taxes. The assessment of personal property such as machinery and equipment and inventories has previously been identified by the Commission as an area in need of improvement for all business properties. Several recommendations were made which, if implemented, should contribute to better assessment procedures.

The assessment of mineral reserves, however, is an area which has not received attention in the past. A survey of 16 counties indicated that counties with significant mineral properties do little or nothing with respect to assessment of minerals in the ground. Ten of the 16 counties either do not value mineral interests or accept whatever value the taxpayer returns on the mineral interest. Two counties value minerals at less than $10 and $20 per acre for mineral interests.

Valuation of active mine land is not much better. Six counties value active mine land at the same value as surrounding, open land. Three counties have a higher value on active mine land than surrounding land; they either increase the land value by a specific dollar value or by a percentage amount. Two counties have established a flat dollar valuation per acre — one county at $1,000 and one county at $10,000. Two counties value active mine land less than surrounding open land. Only three counties out of 16 make an effort to value mines and mine land as an integrated commercial enterprise by using some type of modified income approach to determine value.

Based upon its analysis, the Commission recommends that legislation be enacted which will provide for training of local assessment officials as to the proper methods for the appraisal and assessment of mine and mineral properties.

C. Financial Institution Taxation

The taxation of financial institutions has been a topic of concern to the Commission. Currently, financial institutions are taxed on a "bank shares" basis, and as a result of this exclusive method of taxation, adopted by Georgia when federal statutes restricted the method by which states could tax such institutions, these institutions are not subject to many other state and local government taxes which are paid by other businesses.

Under Georgia's current system of taxation, the "bank shares" tax is an ad valorem tax. The base for the tax is a forty percent assessment of the full

market value of the outstanding shares of the stockholders of the bank. Rates applied include the regular property tax rates levied by the affected county, municipality, and school district and a special five mill rate for state tax purposes.

A number of administrative problems as well as some potential legal problems exist with respect to this method of taxation, and the Commission last year recommended that the General Assembly examine the desirability of placing the taxation of financial institutions on a similar basis to that now applicable to other corporations and businesses.

The problems inherent in the assessment of the bank share tax have not abated. The Commission, therefore, reaffirms its recommendation that the basic method of taxation be changed to a tax measured by net income, that the bank share tax be repealed, and that the state and local governments be authorized to levy other taxes on such institutions as may be levied on other corporations. The Commission recognizes the problems inherent in shifting the primary method of taxation from a local government tax to a state tax, and it, therefore, urges the General Assembly to make every effort to replace local government revenue lost as a result of this change.

D. Local Bond and Pension System Issues

Events in a number of states in recent years have demonstrated the importance of each state's monitoring of local government fiscal health and overseeing local financial management practices. The states have a vital interest in the solvency of their local governments, and should play a major role in preventing local financial emergencies, regulating the use of short-term debt, overseeing local retirement systems' funding, and taking action when local financial emergencies occur. The Commission's staff report, *Georgia Bond Debt and Pension Issues,* discusses this subject in detail.

While there is a sizeable body of existing Georgia law dealing with local (as well as state) long-term debt, there exist no requirements that an on-going state-level analysis of Georgia local government debt be performed, or that state oversight be done to ensure that legal requirements regarding local debt are being met. Further, existing law appears to be in need of modernization and updating to make its provisions more easily understandable. The Select Committee on Constitutional Revision is endeavoring to streamline the constitutional aspects of local debt, but statutory provisions relating to this issue remain unaddressed.

Usage of short-term debt by (state and) local governments is addressed at length in the Georgia Constitution. However, there is little statutory law which provides for state oversight to ensure that the constitutional requirements on local use of short-term debt are being met.

Improper management of local pension system assets or inadequate funding of local pension systems can represent a fiscal disaster waiting to occur. A number of studies have called for state oversight and regulation of these systems, given the fact that state action (frequently in the form of financial aid) would be needed if a local system could not meet its financial commitments.

The most recent study in the area of local government pensions, conducted by the U.S. Advisory Commission on Intergovernmental Relations, urged that each state create a permanent state-local pension commission with authority and resources to analyze properly the problems of state and local retirement systems on an on-going basis and to make recommendations for state and local action aimed at resolving these problems. To assure timely reporting and disclosure of retirement system information to state-local pension commissions and to the public in general, ACIR also recommended that any state which does not already have such information should undertake to obtain a comprehensive initial accounting and evaluation of the funding and benefit characteristics of all state and local retirement systems within the state.

The General Assembly's Joint Task Force on Pension Issues has made an initial effort at compiling the information suggested as a necessary first step by ACIR, and will report on its recommendations in time for the 1981 Session.

The existing fiscal note law (ss. 47-1301 through 47-1304, Ga. Code Ann.) requires that all proposed state or local pension legislation have cost estimates attached. Also, actuarial reports and annual reports must be submitted to the state auditor by each local government having a pension system (ss. 78-1501 through 78-1503, Ga. Code Ann.). There are no requirements in the law, however, for an on-going analysis of these documents and for a reporting to the General Assembly on the systems' status. This lack of analysis is important, especially, given the fact that Georgia's local retirement systems have in the past had higher-than-average ratios of payouts-to-assets and payouts-to-receipts.

The General Assembly in 1978, recognizing the vital need to assure that the state's public pension plans are adequately funded, passed a proposed Constitutional Amendment to be voted upon in November of that year. The proposal directed the General Assembly to enact legislation which would define funding standards to assure actuarial soundness of any public pension system, and to control legislative procedures to ensure that no bill or resolution dealing with these systems be passed without concurrent provisions for funding. The amendment was not ratified by the electorate, however.

Concerned that Georgia local governments had no minimum fiscal standards required of them, and that the General Assembly lacks timely local government fiscal information upon which to base its decisions, the General Assembly passed Act 1405 at its 1980 Session. This law requires minimum budgetary, accounting, auditing and financial reporting standards of general purpose local governments (school systems are already covered by other laws). Among other things, the law requires that a copy of the required local government audits must be submitted to the state auditor. On its way to passage by the Assembly, however, language was removed which would have required review of the audits by the state auditor and notification to the local government and the performing auditor of any deficiencies which the state auditor found as regards generally accepted auditing standards. Thus, as the law presently stands, Georgia local governments could have audits performed which may not be in accordance with recognized professional standards, but these governments will never be made aware of this fact.

Based on the above findings and in recognition that Georgia's local governments have acknowledged that preservation of their home rule powers is enhanced by good financial management, the Commission recommends that the General Assembly bring together a special committee to include city and county policy officials, along with administrators and finance officers, to make specific recommendations in this highly technical area. The committee should:

- Review existing statutory law dealing with local bond debt.
- Examine the possibility of charging an appropriate state agency with analyzing, on an ongoing basis, financial conditions at the local level, including the status of local debt and pension system management.
- Examine provisions for state assistance to local governments regarding bond financing.

Chapter 5

PROPERTY TAX ISSUES

During 1980 the Commission reviewed several issues relating to the general property tax. Some of these issues were addressed in previous recommendations of the Commission, and some involved areas in which no previous recommendations had been made. Basically the work of the Commission was divided into tax relief measures and tax administration recommendations.

As reflected in the Commission's *Report of Recommendations to the Georgia General Assembly,* Georgia compares favorably to the national average tax burdens even in the controversial property tax area. A significant concern, however, is the rate of growth experienced in the property tax during recent years. In fact, the two greatest growth areas in Georgia's state and local tax sources for the period 1967-1977 were the individual income tax and the general property tax. During this time the property tax increased by 201% overall — general purpose property taxes increased by 169% and school property taxes increased by 242%. Not surprisingly, the Commission has therefore been concerned with various property tax relief measures — for the taxpaying public at large and for specifically burdened property taxpayers.

A. Property Tax Relief — Homestead Exemption

One area of broad-based tax relief which received attention by the Commission is the general homestead exemption offered in Georgia.

Since the institution of the general homestead exemption in 1937, three additional statewide homestead exemptions have been established. First, in 1958 voters approved a larger exemption for disabled veterans. In 1964, elderly homeowners on limited incomes were given a $4,000 exemption, often referred to as the "double elderly exemption." Finally, in 1972, the voters authorized the General Assembly to establish a new exemption for the elderly for school property taxes. After its ratification, the General Assembly established the exemption level at $10,000.

Thus, although the general homestead exemption amount has not been changed for many years, the General Assembly has expanded the exemption for elderly homeowners with limited income. It should also be noted that the income qualification thresholds for the two elderly homestead exemptions have

been expanded as a result of action by the 1980 General Assembly and subsequent ratification in the November 1980 general election.

In addition to the expansion of the general homestead exemption amounts, many local governments have by local constitutional authority provided for increased homestead exemption amounts. Thus, by 1978, ten counties and thirty-nine municipalities had expanded the homestead exemption provisions, and, during the 1979 and 1980 Sessions, thirty-five additional counties and seventeen additional municipalities had taken similar action subject to ratification by the people.

A major concern of the Commission has been the degree of reliance on the general property tax by local governments, particularly by local boards of education. A large scale expansion of the homestead exemption amount would, of course, further contract and erode this tax base. Recognizing this, the Commission believes that any increase in the homestead exemption should be left to local governments who must bear the cost of the expansion.

B. Property Tax Relief — General

During its existence the Commission has been genuinely concerned with the degree of reliance placed upon the general property tax by units of local government. The problem is most acute in the area of local school tax revenues since virtually all of the revenues raised locally to support public education are generated through the property tax. And, as previously noted and as documented in the Commission's earlier report, the rate of growth in the property tax, particularly school property tax, has been very significant during recent years. In addition, since 1967 there has occurred in Georgia a decline in state financial support for total public school system costs with a corresponding increase in the amount required from local sources., This, simply stated, means a heavier reliance on the general property tax for the support of public education in Georgia.

It is not surprising, therefore, that the Commission began to address this problem early in its existence when $75 million was identified as being available for tax relief purposes. In its initial report to the 1979 Session of the General Assembly, the Commission recommended that these funds be utilized to provide grants to local school systems for property tax relief.

This recommendation was favorably received and adopted by the General Assembly. Subsequent information developed by the State Department of Education indicated that the vast majority (132) of Georgia's local school systems utilized all of the grant money thus received to provide property tax credits to local property taxpayers.

Recognizing the importance of these grant funds in achieving better balance between state and local government participation in the cost of providing public education in Georgia, the Commission recommends that at least $75 million be maintained as grant funds to local school systems for property tax relief purposes.

Apart from this grant program, however, the Commission believes that additional, significant funds should be utilized by the state to support public education. Specifically, the Commission believes that public education is a basic and inherent state responsibility and recommends that the state utilize its broader base of tax sources to assume its rightful share of the total cost of public education in Georgia, thereby easing the pressure on the overall property tax structure in the state.

C. Property Tax Relief — Specific Classes

The circuit breaker approach to property tax relief has recently become a popular method for providing property tax relief to a specifically defined segment of the taxpaying population deemed to be overburdened by property taxation. By 1977, thirty states and the District of Columbia had implemented such programs. As one might imagine, the eligibility requirements of these programs vary widely — in terms of eligible taxpayers, and the income qualification limitations.

Normally the circuit breaker approach works in conjunction with the state personal income tax structure. The maximum acceptable amount of property tax burden is established as a specific percentage of the income received by the taxpayer, and any excess property tax paid by the taxpayer over and above this amount is taken as a credit against the state income tax liability or as a refund through the income tax structure.

Recognizing that there are Georgia property taxpayers who pay an inordinately high property tax in relation to their income, the Commission recommends that a circuit breaker approach to property tax relief be perfected for implementation in Georgia. The specific parameters of the program necessary to properly target the relief should be based on carefully documented evidence which adequately identifies those taxpayers who are genuinely overburdened by property taxation.

The Commission has also been concerned with the rapidly escalating level of property taxes borne by individual and family-owned bona fide farm properties. Other states have wrestled with the same problem, and most have taken steps to alleviate the property tax burden borne by such properties. Types of action taken include (1) pure preferential assessment systems, (2) preferential assessment with rollback provisions, (3) preferential assess-

ment with accompanying continued-use covenants, or (4) circuit breaker systems specifically designed for agricultural properties.

Maryland, in 1957, was the first state to enact a use-value assessment law. Since that time, 47 other states have enacted some type of use-value assessment statute or other farmland preservation law. Only Georgia and Mississippi remain without some type of program for farmers or owners of farmland, forest land or open space.

Enactment of use-value assessment systems in the United States appears to have followed a distinct and interesting evolutionary pattern from its beginning in the mid 1950's to the most recent systems in 1977. The use-value concept was pioneered by Maryland in 1957 with a pure preferential assessment system. Pure preferential laws permit use-value assessment on qualified land and impose no penalty if the land is converted to another, noneligible use. In 1959, Florida also enacted a pure preferential system, and by 1979, 17 states had pure preferential assessment laws. It was thought that this type of approach benefited the land speculator with little or no long range retention of land in productive farm or recreational use.

In an effort to minimize the advantage to speculators, a second type of use-value appeared in the mid-1960's: preferential assessment with rollback provisions or the deferred taxation concept. A deferred taxation system also allows use-value assessment on qualified land. If the land is changed to another, noneligible use, however, the state or local government will recapture some or all of the tax benefit which was allowed on the land. New Jersey, Texas, Pennsylvania, Alaska, Minnesota and Utah are some of the states which implemented the deferred taxation concept during the 1960's. The belief at the time was that deferred taxation was an improvement over pure preferential laws since deferred taxation would discourage speculators from purchasing farmland for conversion. Since that time, however, rollback provisions have also been considered ineffective in long range retention of eligible land.

In response to the perceived failure of rollback provisions, a third generation of use-value laws developed which required a land owner to sign a contractual agreement to keep his/her land in qualified use for a specified period of time. These restrictive agreements were thought to be a more effective land use planning tool since planners could be assured that the land would remain in agricultural use for at least the time period specified in the contract.

California initiated the restrictive agreement approach in 1965. Four other states enacted similar laws between 1967 and 1974.

By 1979, 35 states relied exclusively on either pure preferential assessment, deferred taxation or restrictive agreements. Six states have use-value laws combined with the purchase or transfer of development rights. Two states combine use-value with the establishment of agricultural preserves or districts while two additional states have use-value and a more restrictive agricultural zoning approach. In an attempt to "target" property tax relief to farmers, two states have implemented circuit breaker programs on farmland. Finally, one state, Vermont, has combined use-value with a land gains tax. This tax, which is based on the relationship between the length of time between sales of a property and the amount of profit (capital gain) derived from the most recent sale, is designed to reduce the profits of speculators from frequent land sales. Table 10 identifies the programs currently in effect in the United States.

Discussion of a preferential assessment system for bona fide farm properties is not new in Georgia. In fact several legislative committees have extensively reviewed this issue since the mid-1960's. Based upon the information thus far generated, the Commission recommends the implementation of a system of preferential assessments for individual and family-owned farm properties. The system should contain the following elements:

- It should be available only for those properties being utilized in bona fide agricultural production.
- It should be predicated on a covenant by the owner to continue the agricultural use for a specified period of time.
- Appropriate, stringent penalties should be provided where a covenant is broken prior to the termination of the specified period of time.

D. Property Tax — Administrative Issues

In addition to the property tax relief issues discussed herein, the Commission has also been concerned, since its inception, with various administrative aspects of the property tax. In that regard, a number of recommendations have already been made which, if implemented, would greatly improve the assessment process, the appeals process, and the state review process.

One of the earliest areas in which the Commission felt that improvement could and should be made is in the oversight and review process currently required of the State Revenue Commissioner. At the present time, the Commissioner is required by law to equalize assessment levels between counties at 40% of fair market value. This equalization is accomplished by "factoring" the assessments within the county to the 40% level. It does not, however, adequately

TABLE 10

Summary of State Programs for Farmland Preservation, By Type of Program

State	Preferential property tax assessment	Preferential property tax assessment with deferred taxation	Preferential taxation with restrictive agreement	Circuit breaker state income tax credits	Inheritance and estate taxation	Land gains taxation	Agricultural districts	Agricultural zoning	Purchase of development rights	Transfer of development rights	Land use commissions	Land banking
Alabama		x										
Alaska		x								x		
Arizona	x											
Arkansas	x											
California			x									
Colorado	x											
Connecticut	x				x				x			
Delaware	x											
Florida	x											
Georgia												
Hawaii			x					x			x	x
Idaho	x											
Illinois		x										
Indiana	x											
Iowa	x										x	
Kansas		x			x							
Kentucky		x			x							
Louisiana	x											
Maine		x							x			
Maryland		x							x			
Massachusetts		x							x			x
Michigan			x	x	x							
Minnesota		x										
Mississippi												
Missouri	x											
Montana		x										
Nebraska		x										
Nevada		x										
New Hampshire			x									
New Jersey		x							x			
New Mexico	x											
New York		x			x		x					
North Carolina		x										
North Dakota	x											
Ohio		x										
Oklahoma	x											
Oregon		x						x			x	
Pennsylvania		x	x									x
Rhode Island		x										
South Carolina		x										
South Dakota	x											
Tennessee		x			x							x
Texas		x										
Utah		x										
Vermont		x				x						
Virginia		x					x					
Washington		x										x
West Virginia	x											
Wisconsin			x	x				x				
Wyoming	x											

SOURCE: Bob Davies and Joe Belden, *A Survey of State Programs to Preserve Farmland*, National Conference of State Legislatures, April, 1979.

ensure assessment uniformity. Since the "factoring" within the county cannot be directed only to specific properties or even to specific classes of property, it does nothing to reduce the inequality of assessments as between properties within the county. In addition, several counties apparently are using the state-mandated factor from year to year in lieu of bona fide revaluation updates, a practice which, over time, will reduce the quality of property tax assessments in our state. During the period 1967-1978, for example, eighteen counties were factored five or more years.

The Commission, therefore, reaffirms its earlier recommendation that the current system of "factoring" county tax digests be repealed. In its place a digest rejection procedure should be implemented with the following features:

- The rejection by the State Revenue Commissioner should be based upon specifically defined assessment inadequacies.
- Counties should be afforded an administrative appeal process to appeal rejection decisions by the State Revenue Commissioner.
- Adequate time should be allowed for the county to correct the inadequacies leading to the digest rejection.
- Appropriate penalties should be imposed if the county defers compliance beyond the specified time for correction.

In addition to the above recommendation the Commission has reviewed the features of a proposed amendment to the Constitution passed by the 1980 Session of the General Assembly which would have authorized the General Assembly to provide for a more equitable "factoring" of county tax digests by class of property. This proposed amendment was not ratified during the November 1980 general election, and the Commission recommends that consideration be given to another effort to amend the Constitution in a similar manner.

The Commission last year extensively reviewed the property tax appraisal process in an effort to insure its adequacy and its accessibility to the taxpayer. While significant progress has been made in recent years to upgrade the appraisal process, most of this concentrated effort has been applied in the area of real property appraisal. The Commission found that very little attention has been given to the appraisal process as applied to tangible personal property although this type of property constitutes a significant portion of the overall tax base in most counties.

A second part of this analysis revealed some actual as well as potential weaknesses in the assessment appeal process currently in place in Georgia law. The overall goal of the assessment appeal system obviously is to insure a competent, inexpensive, and speedy review of the assessments in question so that all taxpayers and the government jurisdiction are assured that assessments are properly accomplished and equalization is achieved.

Recognizing that the property tax assessment and appeal process constitutes the very foundation on which the entire property tax system rests, the Commission last year made a number of significant recommendations designed to insure its adequacy and accessibility. Many of these recommendations were contained in House Bill 1301 which was passed by the 1980 General Assembly. One recommendation contained therein — that county governments be afforded the right to appeal the assessment placed upon railroad and public utility properties by the State Revenue Commissioner — was considered by some to be counter-productive. The principal stated argument was that these appeals, if carried to ultimate conclusion through the normal judicial process, would seriously impair the flow of revenue to local governments from these taxpayers. Because of this uncertainty the Bill was vetoed.

Because of the importance of the recommendations in this general area, the Commission reaffirms its previous position, and the following provisions are again urged:

- Standardized reporting forms should be required and a uniform procedure manual should be prepared by the State Revenue Commissioner for use by county appraisers and assessors in the valuation of tangible personal property for property tax purposes.
- All counties should have personnel trained and certified in the appraisal of tangible personal property.
- When state funds are available, counties should be required to have minimum staff levels of tangible personal property appraisers.
- Terms of board of equalization members should be extended beyond one year, and additional qualifications or training should be required, such training to be completed within a specified time after appointment.
- With respect to the appeal procedure itself, the local boards of equalization should be required to officially establish their procedures, to be spread upon the minutes of the board. In addition, taxpayers should be specifically authorized to be represented by counsel before the board of equalization. Also, the sales ratio study for the particular county should be specifically allowed as evidence before the board, and the board should be required to consider the results of the study in making its decisions.
- The governing authority, not the board of as-

sessors, should be responsible for providing clerical help and other staff and facilities for the board of equalization.

- County governments should be afforded an appeal when they are dissatisfied with the assessment placed on properties of railroad and public utility companies by the State Revenue Commissioner. The Commission recommends that this provision be contained in legislation separate and apart from its other recommendations as outlined above.

During 1980 the Commission reviewed Georgia's property tax collection process as it relates to the collection of delinquent property taxes. The process which is required and the application of that process were reviewed.

Once the property tax has become delinquent, the tax collector is required by law (Section 91A-136, Georgia Code Annotated) to immediately issue executions against the delinquent taxpayers and furnish them to the collecting officer. In most counties the collecting officer is the sheriff; however, under general law the tax collector can become ex-officio sheriff for the purpose of collecting property taxes, and in several counties this has been done.

The execution, or fi fa, thus issued becomes a lien against the property of the taxpayer. Liens for taxes are superior to all other liens with some specific exceptions. The lien for property taxes for example is not superior to the operation of a security deed when the tax represents tax on property of the taxpayer other than that covered by the security deed.

Once the execution has been prepared and furnished, it is the duty of the levying officer to proceed at once to enforce the execution by collection or by levy and sale. Before proceeding to the sale process, however, several steps are required. For example, notice of the levy must be furnished to the taxpayer, the taxpayer must be afforded the privilege of "pointing out" the property on which the levy should be made, and the owner of any security deed must be notified under certain circumstances. In addition, before the property can be sold to satisfy the tax execution, notice of the sale must be published for four weeks in the official county newspaper or in some paper of general circulation in the county. This notice must contain a full and complete description of the property to be sold and the name of the person in possession of the property. The sale is accomplished at public auction on the first Tuesday of the month.

In recent years many counties have undertaken carefully planned programs to insure timely collection of property taxes. Table 11 reflects the results of these efforts and indicates that marked improvement has occurred on a statewide basis. This table reflects the percentage of property tax uncollected as of a date which is for most counties approximately six months after the due date for the tax. The figures reflect that the overall percentage of uncollected taxes after six months has steadily decreased since 1975.

The Commission did find, however, some potential problems with the delinquent property tax collection procedure and believes these should be corrected.

The ultimate collection enforcement tool is of course the sale of the property by the government to satisfy the outstanding tax liability. This, however, is a very technical and cumbersome process, and most governments will avoid this step if possible. In this analysis, the Commission found some states which utilize an intermediate step to apparent good advantage. In these states, the tax lien, or a Tax Certificate, is sold at auction rather than the property itself. The advantage of utilizing this approach is that the government receives its tax money more timely, and, at the same time, the property owner is fully protected since he maintains his rights of redemption against the tax lien or Certificate holder. The lien or Certificate bears interest during the time it is held and it, therefore, represents an investment

TABLE 11

Georgia Uncollected Property Taxes, by Year

Tax Year	Measurement Date	Percentage of Tax Uncollected		
		Previous Year	2nd Previous Year	3rd Previous Year
1978 Digest	6/30/79	5.49%	.93%	.75%
1977 Digest	6/30/78	5.74%	1.64%	1.80%
1976 Digest	6/30/77	10.95%	4.87%	
1975 Digest	6/30/76	15.03%		

SOURCE: Georgia Department of Revenue data.
Tax Reform Commission computations.

for the lien or certificate holder. The Commission recommends that a similar procedure be implemented in Georgia with full protection for the property owner.

Another possible problem with the collection process relates to the fact that currently there is no provision for the imposition of a penalty charge for delinquent payment of most property taxes. Thus the delinquent taxpayer is faced with only the interest charge (currently at 12% per annum) for late payment. The Commission recommends that a specific statutory penalty of 10% be implemented for delinquent payment of property taxes. The Commission believes, however, that this charge should be imposed only if the tax lien or Certificate sale process outlined above is not implemented.

Motor vehicles and mobile homes have been established as separate classes of property for tax purposes and tax payment dates have been established which differ from other property tax payment dates. However, the statutes setting forth these requirements do not clearly provide for delinquent tax enforcement dates to correspond to the earlier payment times. The Commission recommends, therefore, that these statutes be specifically amended to make provision for timely collection enforcement.

Another area of concern relates to the collection and enforcement procedures when property assessments are under appeal. Currently it is questionable whether or not the interim payment requirements, interest charges, etc., relating to railroad and public utility companies conform to those requirements imposed on taxpayers who file returns and make appeals locally. The Commission believes that these procedures and requirements should be uniform.

A final area of concern within the property tax field relates both to tax relief and tax administration. During its existence, the Commission has reviewed the increasing number of tax limitation measures which have been proposed in several states. These limitation measures have taken many forms, one of which is commonly referred to as "full disclosure" in property taxation.

Full disclosure is a form of tax control which relies on strengthening the tax rate-setting process rather than setting an absolute limit on the rate that may be established. It does not prohibit property tax increases but it does insure public awareness and public discussion before tax rate decisions which would substantially increase the tax may be made.

The basic procedure normally used allows the local government a reasonable amount of growth in property tax revenue from one year to the next with no additional requirements. If, however, a significant increase is planned, the government must advertise that intention, hold public hearings, and then announce and advertise the fact that the increase has been affirmed.

The Commission believes that such a process should be implemented in Georgia to insure public awareness of significant increases in property tax revenues.

— NOTES —