

## **GUIDING PRINCIPLES (draft 8.20.10)**

The Council for Tax Reform and Fairness for Georgians is charged with conducting “a thorough study of the state's current revenue structure” and recommending changes. The following are basic principles that should guide this work, understanding that there are trade-offs across these principles. The Council seeks to identify a tax system that is:

- I. GROWTH ENHANCING:** Tax policy should foster strong economic growth, job creation, and a rising standard of living for all Georgians. This will occur through a tax structure that encourages investment in human and physical capital and technological advances, and that enhances Georgia’s competitive position in regard to job creation, the development of new businesses, the relocation of existing businesses into the state and the retention and expansion of businesses that are currently operating here.
- II. EFFICIENT:** Tax structures should minimize distortions of both household economic choices and of capital and labor allocations by business. This implies that tax structures and levels should minimize interference with private economic decisions and that marginal tax rates should be as low as possible. But taxes should be used to discourage behaviors that impose costs or burdens on others.
- III. STABLE:** The system of taxation should be stable such that changes in state revenue occur in line with changes in the general level of economic activity so that frequent changes in tax rates and severe changes in the delivery of government services are avoided.
- IV. CLEAR:** Tax structures should be simple, understandable, and predictable. Each tax or revenue structure should be as simple as possible to increase voluntary compliance while lowering compliance and administrative costs. The tax structure should be relatively stable and predictable to avoid disrupting business and individual tax planning and to reflect the full economic and competitive effects of past actions. The tax system should be simple and designed so that costs of compliance, collection and enforcement are as low as possible and enforcement is as complete as possible.

- V. FAIR AND EQUITABLE:** The tax burden should be equitable (meaning that tax burdens vary by ability to pay, which is called vertical equity) and fair (meaning that equals are treated the same, which is called horizontal equity) in its impact on all Georgians. Tax burdens should recognize the ability to pay or benefits received. Similarly situated taxpayers should pay approximately the same amount of tax.
- VI. PROPERLY DEVELOPED:** The Tax Reform Council should conduct its business openly and should develop its recommendations based on an analysis of the issues and options.

### **CONCURRENCE**

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

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