

Mr. Chairman and members of the Special Council on Tax Reform and Fairness for Georgians, my name is Larry Hanson, and I serve as City Manager for the City of Valdosta. It is a pleasure to have you in Valdosta and I appreciate the opportunity to share a few thoughts and comments with you. First of all, I commend each of you for your willingness to tackle such a difficult and complex issue and I appreciate the time you are giving to this important topic. Equally important, I appreciate the fact that you are holding hearings and encouraging participation from throughout the state of Georgia. I want to address several topics, some general in nature and some from a local government perspective. A comprehensive review of the tax code is long overdue. Our current tax code is antiquated and has been piece mealed over time. We need a 21<sup>st</sup> century tax system and while it is necessary to look at each individual tax, the solution relies on a tax system that is carefully balanced, achieves maximum equity, ensures fairness, ensures compliance, and strategically positions Georgia for a

competitive and prosperous future. I am particularly impressed with the Draft "Guiding Principles" you have or will adopt and the concurrence statements from economists that support those principles.

The first specific area I would like to address is sales tax exemptions. Currently there are more than 110 exemptions. These exemptions continue to increase each year. Many have been around for years, without being quantified as to their benefit or being reviewed as to their continued need or effectiveness. Sales tax exemptions cost the state about ten billion dollars annually in lost revenue. While certainly some of these are important and benefit the economy and state as a whole, I am relatively certain some have outlived or failed to meet their original intent and benefit few. It would seem to me to be a prudent exercise to evaluate the benefit to the state as a whole for each and every exemption and eliminate those failing to meet a certain standard. In addition, perhaps exemptions could be granted for no more than a three year period and to continue, would require re-authorization by the

General Assembly. Also, each and every exemption should require a fiscal note as to both the documented financial benefit and cost to the state.

The second area I wish to address is compliance. Our city served as one of several cities and counties in a pilot project with the GA Department of Revenue regarding sales tax collections. There is undisputable evidence that many businesses throughout the state do not pay their required sales taxes. For all practical purposes the state has a voluntary payment system and the lack of auditors only worsens the problem. Cities and counties can and want to be a partner with the state to ensure compliance of all businesses. It is completely unfair that honest businesses are punished and in fact have their businesses placed at a competitive disadvantage by being honest and remitting their sales taxes while others do not. Since most local governments assess occupational or business licenses based on gross sales, we can be a tremendous resource to the state in addressing this issue. Likewise, the state can be a tremendous

resource to cities by fully capturing all sales tax data, whether electronic or manually filed, and providing that data to cities bases on collections within each municipal boundary. It is done in other states and doing so in Georgia would help both the state and local government, while improving collections and ensuring a level playing field.

The third point is remote vendors. The annual estimated loss of revenue from e-commerce is over 300 million dollars. Several states have adopted innovative laws to capture the sales tax which is owed but rarely paid by out of state businesses selling to Georgia residents. While e-commerce is important and necessary in today's economy, again we have the fairness and equity issue. Brick and mortar businesses in Georgia should not be penalized and face an unlevel playing field because an out of state merchant, who is already not paying property and other taxes in Georgia, can also avoid paying sales taxes and thus sell products at a lower cost further harming Georgia businesses.

Finally, flexibility is the key to success in business and in taxation. There is no one-size fits all solution. To the extent that discussions evolve into local government taxation, I would encourage the Council to respect the fact that we do not have one state economy, we have many diverse local economies. A city like Decatur might collect a much higher percentage of its revenue from property tax while a city like Valdosta has sales tax as its largest source of revenue. We have communities with agricultural based economies, textile or manufacturing based, commercial and retailed based and more. We need choices that respect our local needs and local economies, not one size fits all approaches.

I would urge the Council to consider these options before considering additional taxes. Even during these recessionary times, the population of Georgia has grown by over 1.5 million people in recent years. Cities and counties have the largest burden in providing the services to meet the needs of Georgia's residents as well as these newcomers. With declining revenues, the

challenge has been difficult. And in such challenging economic times, we find that well intended efforts such as sales tax exemptions, truthfully merely transfer the tax burden from one taxpayer class to another. Likewise those who are not paying sales tax get a free ride at the expense of others.

Thank you for the opportunity to share some thoughts and comments. I appreciate your time and your service.