



Council on Tax Reform and Fairness for Georgians

September 8, 2010

“Sound policy requires that we consider long-run effects and all people, not simply short-run effects and a few people.”

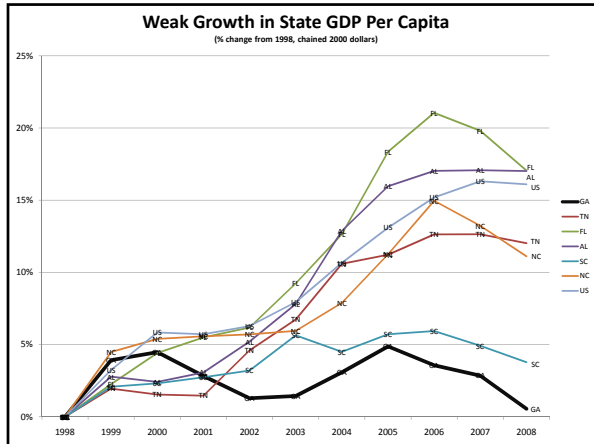
– Lawrence Reed paraphrasing Henry Hazlitt

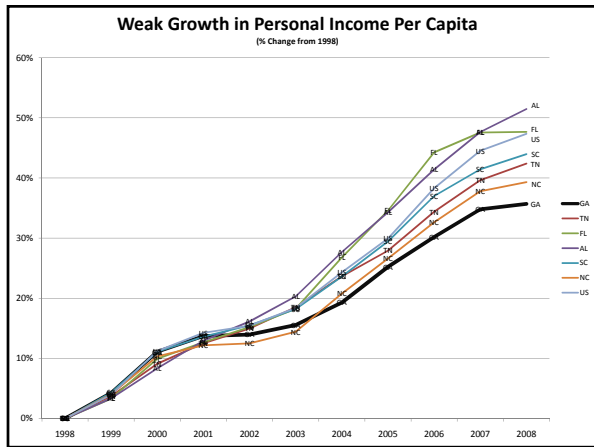
Where Does Georgia Rank?

Tax Structure: How and What You Tax
 Georgia compares poorly with neighboring states, with lower rankings in business tax climate and taxation of items that few other states tax

| | <u>AL</u> | <u>FL</u> | <u>GA</u> | <u>NC</u> | <u>SC</u> | <u>TN</u> |
|---|-----------|-----------|--------------------|-----------------------|-----------|-----------|
| 2010 State Business Tax Climate Index | 19 | 5 | 29 | 39 | 26 | 22 |
| 2010 Small Business Tax Index | 7 | 6 | 21 | 37 | 12 | 13 |
| Inventory Tax | Yes | No | Yes | No | No | No |
| Sales Tax on Energy Used in Manufacturing | Exempt | Exempt | Taxed at full rate | Taxed at reduced rate | Exempt | Exempt |

Only 15 states levy an inventory tax and only 14 states fully tax energy used in manufacturing.





Broader Base and Lower Rates
with one exception

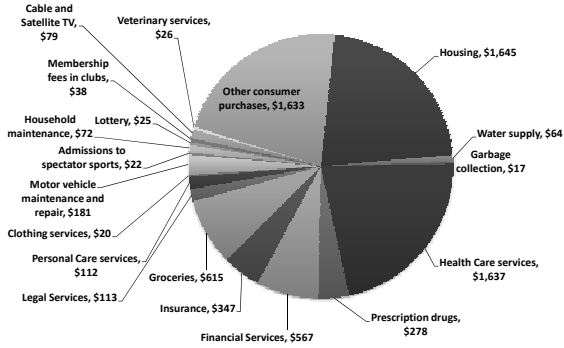
**The Exception to Broadening the Sales Tax Base:
Business Inputs**

*A graduate student wrote me recently and asked what I thought was the most egregious flaw embedded in the state tax system. I told her that I thought there were about 100 flaws that could vie for the top spot. Here is one:
the sales tax on business purchases.*

- David Brunori, contributing editor of
State Tax Notes

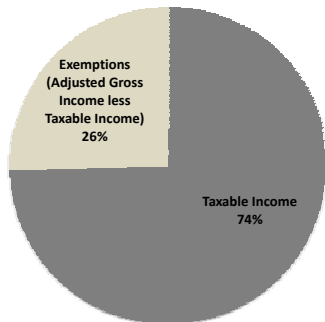
Breakdown of Untaxed Consumer Purchases

Estimated New Sales Tax Revenues (at 4%) in Millions (2007 base year)
\$7.4 billion total could reduce rate from 4.0% to 1.8%



Georgia Personal Income Tax Exemptions

\$3 billion total could reduce rate from 6% to 4.4%



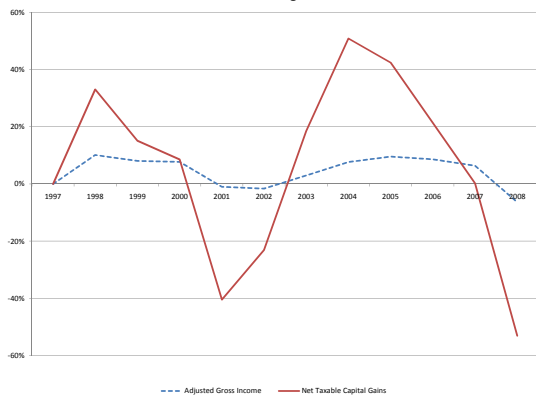
Tradeoffs

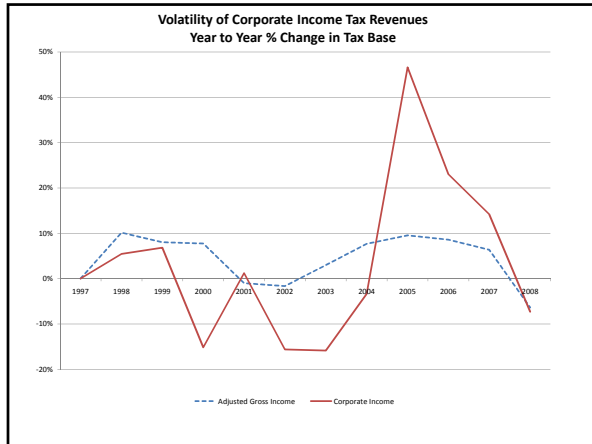
| Personal Income Tax Rate | Sales Tax Rate | | |
|-----------------------------|----------------|---------------|--------------|
| | Current Base | Expanded Base | Maximum Base |
| 0% | 10.0% | 8.5% | 4.4% |
| 1% | 8.6% | 7.3% | 3.8% |
| 2% | 7.2% | 6.2% | 3.2% |
| 3% | 5.9% | 5.0% | 2.6% |
| 4% | 4.5% | 3.8% | 2.0% |
| 5% | 3.1% | 2.7% | 1.4% |
| 6% | 1.8% | 1.5% | 0.8% |

Expanded base = Current base plus expansion of \$1 billion (at 4% rate).
 Maximum base = All personal consumption expenditures less education and nonprofits plus currently taxed business inputs.
 All estimates assume elimination of all personal income tax exemptions and a flat rate.

Stability and Growth

Volatility of Capital Gains Tax Revenues
 Year to Year % Change in Tax Base





If long-term growth rates seem too low relative to other states, lowering aggregate state and local marginal tax rates is likely to have a positive effect on long-term growth rates.
 – Federal Reserve Bank of Atlanta

Source: "Do State and Local Taxes Affect Relative State Growth?"
 Federal Reserve Bank of Atlanta

A Broader Sales Tax Base = More Stability and a Higher Rate of Growth

| | STABILITY | GROWTH |
|-------------------|-----------|--------|
| Current Sales Tax | 5.7 | 111% |
| Broad Sales Tax | 2.5 | 185% |

Comparison of state sales tax revenues and estimated personal consumption expenditures from 1990 – 2008. Standard deviation used as a measure of stability.

What Kind of Economy
Do We Want?

**Georgia is losing its standing
as an innovation hub.**
– Atlanta CEO Council Technology Policy
Position Paper

**Forty percent of venture-capital invested
companies are no longer in Georgia after
three years and 75 percent are
gone after 10 years.**
– Georgia Tech study

**We are in real danger of becoming one big
technology incubation center whose
successes are raided by other regions.**
– Dr. Dan Breznitz, Georgia Tech

**Capital goes where it's welcome
and stays where it's well treated.**
– Walter B. Wriston, former CEO of Citicorp

**How many people created the technology build-out
that led to the \$10 trillion of unplanned revenue growth
over the last 25 years in the United States?
It appears to be about 1,000 people.**
– Jim Clifton, CEO, Gallup

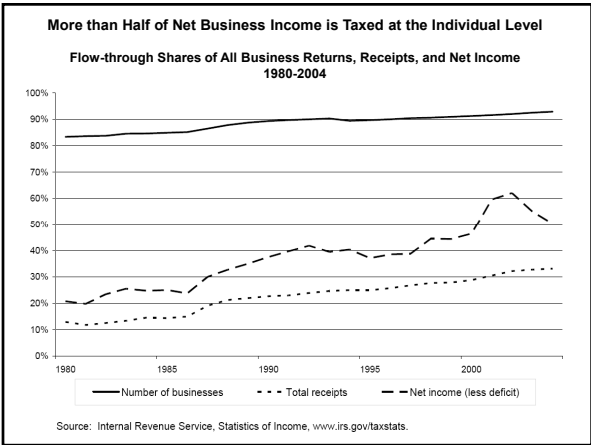
**Without startups, there would be no net job growth in
the U.S. economy. From 1977 to 2005, existing
companies were net job destroyers, losing 1 million
net jobs per year. In contrast, new businesses in their
first year added an average of 3 million jobs annually.**
– Kauffman Foundation study

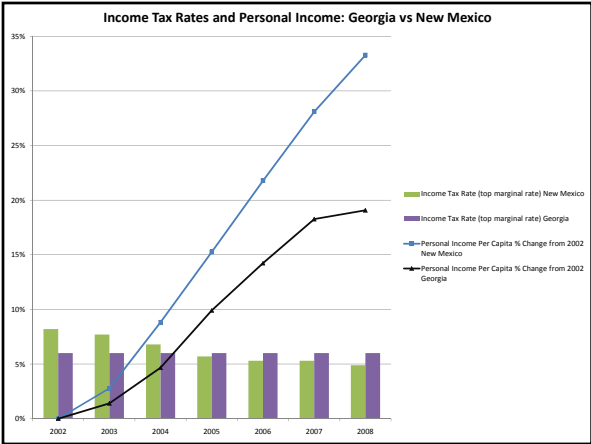
Relying on sales or consumption taxes more broadly imposes fewer economic costs on society and allows for a more prosperous state.

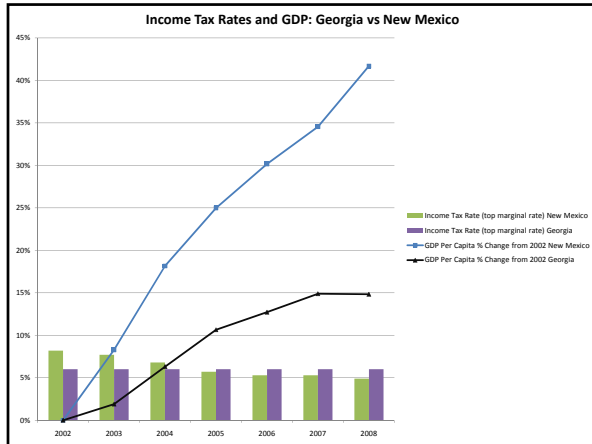
Consumption taxes, of which sales taxes are one category, are actually among the most efficient (least costly) ways of raising revenue in terms of minimizing economic distortions.

Higher taxes – especially on income and capital – stifle entrepreneurship and lead to lower investment and slower economic growth.

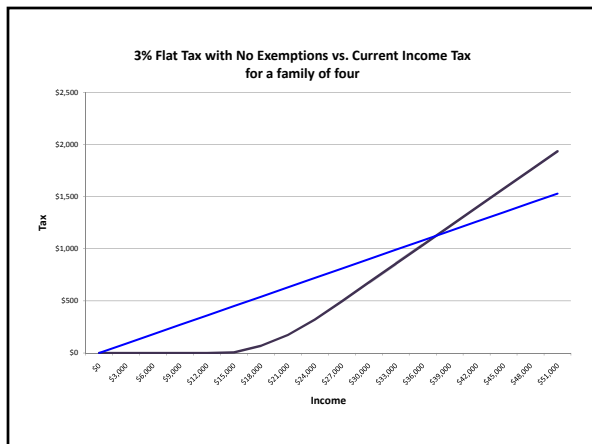
– Pacific Research Institute

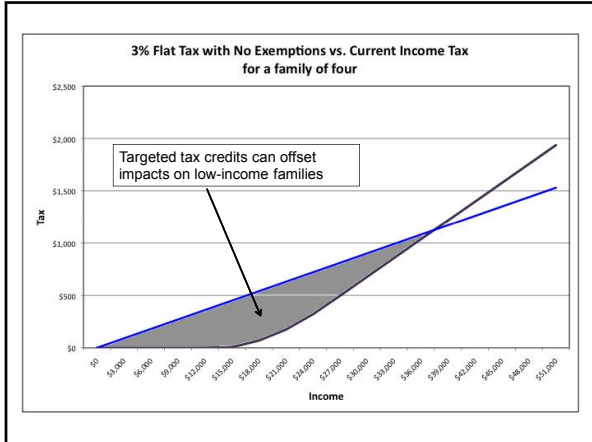


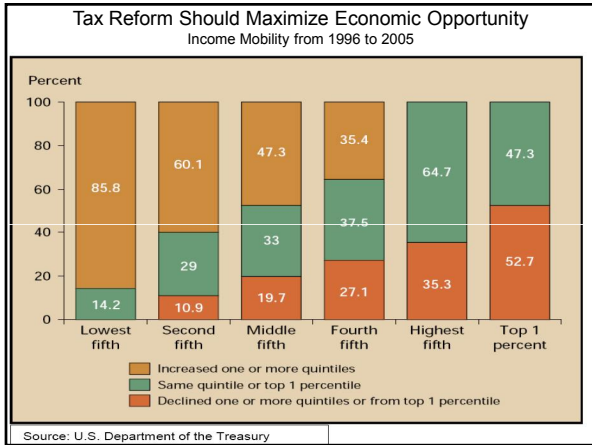





Fairness









Georgia Public Policy Foundation

Since 1991, the Foundation has conducted scholarly research and analysis of state public policy issues and worked to educate citizens, policy-makers and the media.

Our philosophy is that good public policy is based upon fact, an understanding of sound economic principles and the core principles of our free enterprise system – economic freedom, limited government, personal responsibility, individual initiative, respect for private property and the rule of law.

www.GeorgiaPolicy.org
