

Remarks to Georgia's Special Council on Tax Reform & Fairness

Michael L. Reynolds

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*"America today has plenty of rich and super- rich. But it has far more families who did all the right things, but who still have no real security. Going to college and finding a good job no longer guarantee economic safety. Paying for a child's education and setting aside enough for a decent retirement have become distant dreams. Tens of millions of once-secure middle class families now live paycheck to paycheck, watching as their debts pile up and worrying about whether a pink slip or a bad diagnosis will send them hurtling over an economic cliff." **Dr. Elizabeth Warren, Leo Gottlieb Professor of Law at Harvard University***

My name is Michael Reynolds; I have lived in Rome, Georgia for sixteen years. My roots are as a son of the Piedmont in North Carolina where my grandparents and parents struggled through the Depression. Their experiences shaped my views and values.

I want to address two overarching criteria for the Council to consider in its deliberations: Fairness and Adequacy. I selected them because they are key to expanding Georgia's middle class, renewing Georgians' faith in the possibility of bettering yourself, taking care of our vulnerable citizens, and preserving the Republic.

Income Inequality

For three decades we have seen a steady increase in income inequality in our country; Georgia has not escaped that trend. Between 1980 and 2007, the aggregate share of income held by the top 10% of earners in the state increased by 14%. Each of the remaining deciles lost ground over the decade, except the 9th which remained unchanged. 12.4% of Georgia's income flows to the bottom 40% of its citizens; 38% of income is held by the middle 40% of Georgians. 16.9% of income is earned by those in the ninth decile and the highest 10% of earners claim 33.2% of Georgia's aggregate income.(FRC #199)

In 2008 Georgia ranked 40th in the country in infant mortality. One in five Georgia children lived in poverty. Educational attainment is low; we were ranked 48th in the nation in high school graduation. (United Health Foundation America's Health Rankings 2008)

This inequality is partially rooted in a decline in jobs and employment income; over 35,000 Georgia jobs were lost between 2001 & 2007. The reduction of aggregate employment income was significant because many of the jobs lost were higher wage positions while those gained were in low wage industries. (FRC #205)

The industry Georgia attracts is predominantly low wage. To develop a higher wage, more diversified industrial base, Georgia must invest in public resources that support tomorrow's companies. This requires changes to our tax revenue code.

People and Opportunity

Everywhere, including Georgia, the middle class is steadily shrinking. The link between productivity and wages has been broken; males working full time have seen no increase in real earnings since the 1970's. (America Without a Middle Class, Dr. Elizabeth Warren)

Those who work hard and follow the rules increasingly find themselves running in place and very vulnerable to economic calamity from the unpredictable. Increasingly, they believe the playing field is not level and opportunity for a better life is fading.

Inequality at the level we have in Georgia is corrosive to social cohesion. Our culture is Calvinist; people believe that economic success is a sign of God's approval. Conversely, economic distress and adversity, even when uncontrollable, are signs of individual failure and God's displeasure. This self-blame is strong; it stresses family life, makes employment recovery harder, and feeds the populism we are seeing.

Adequacy and Fairness in Georgia's Tax Code

The regressive character of Georgia's tax code is evidence that middle class people are right about the absence of a level playing field. Georgia generates a significant amount of revenue from a **sales tax**. It is a regressive tax falling heavily on lower and middle class workers who consume all their income.

The bottom 20% of earners had 3.4% of aggregate income to live on in 2007; they paid 11.7% of that aggregate income in state sales, excise, income, and property taxes. (FRC #199 & ITEP, Nov 2008)

In contrast, the top 20% of Georgia taxpayers had 50.1% of Georgia's aggregate income to live on and they paid an average of 7.2% of that in taxes. (FRC #199 & ITEP, Nov 2008) The cost of government weighs disproportionately on low and middle income citizens, an unfair and inadequate revenue structure.

The current **income tax** structure is essentially a highly regressive flat tax that does not take account of ability to pay. Total taxes paid by individuals as a share of income by quintiles is steeply regressive. (Who Pays? ITEP Nov 2009)

Georgia is one of five states in the Union that levys an income tax on working, two-parent families of four, earning less than $\frac{3}{4}$'s of the poverty level (\$16,460). It's pretty hard to get out of poverty with that heavy a tax burden. (CBPP, Oliff, April 2010)

The income tax needs bracket and rate structure modernization to enhance fairness and adequacy.

Georgia's **corporate income tax** rate is very low; it was ranked 41st in the nation in 2008. (Advancing GBPI). But, the state's corporate income tax base has been narrowed by decades of exemptions and credits now hidden in the budget; their continuing effectiveness at serving a public purpose is not regularly evaluated. This presents an opportunity to broaden the tax base, increase fairness, and substantially increase revenues.

Civic Capital

In my work, I am fortunate to deal with a number of Georgia Tech alumni who have successful companies. So I went to the horses' mouths so to speak asking them to list for me in priority order the five or six critical factors they would consider in choosing a business location.

The predominant factors identified as most important were related to the quality of the work force, wage rates, costs of real estate, availability and costs of intermodal transportation, quality of residential areas, cost of energy, and presence of educational resources.

Tomorrow's infrastructure, mixed use residential communities, a skilled and innovative workforce - all require public investment. Georgia cannot meet the needs of its citizens or achieve prosperity without transforming the way it views and operates the public revenue structure – and raising taxes.

Georgia should institute a progressive income tax system raising revenue from those with the ability to pay in order to build the public material and human capital for long-term wealth creation.

Recommendations

1. Keep the code progressive

Georgia needs additional revenue to build a 21st century infrastructure and care for the young, the sick, and the aged. Middle and lower income workers do not have the money; high net worth individuals will have to bear most of the burden.

2. When addressing adequacy fill in "the gap" but also plan for revenue to serve as investment capital for innovators and entrepreneurs with ideas to enhance public resources.

3. Update the sales tax by

covering services and Internet sales to broaden the tax base

reducing the tax rate

4. A progressive PIT is effective because it does not insert itself into the workings of the market, its revenue can be targeted to a specific use, it has the scale to address the size challenges we face, and it is immediately available. (Hamilton Project, Brookings)

Broaden the PIT tax base, increase fairness and adequacy by

eliminating deductions and credits; increasing the standard deduction

scaling back the retirement income exclusion

maintaining the current capital gain rate

treating dividends as ordinary income

exempting persons at or below 125% of the poverty level from income tax

expanding the brackets and rate ranges to reduce the burden on the three middle quintiles

creating a 7.5% top rate with a 1% surcharge on incomes over \$750,000

5. Georgia's corporate income tax rate ranks 41st in the nation; it is low. An annual evaluation process confirming the creation of public wealth as a result of tax preferences and coordinating those preferences with directly legislated economic development programs would focus resources.

Adopting "combined reporting" by affiliated companies would increase fairness and adequacy

Modernizing the corporate net worth tax and adjusting it for inflation addresses adequacy

6. Resurrect the Estate Tax in order to moderate excessive concentration of wealth, enhance adequacy, and maintain opportunity. Impacts very small percentage of Georgians.

If Georgia is to grow a diversified, living wage economy, it must invest more in the civil capital tomorrow's businesses require. Low wage workers and Georgia's middle class do not have the wealth to make those investments. In fact, they need tax relief. Those who have been fortunate, who have had the vision, intelligence, and drive to utilize the social resources available to them will have to shoulder most of the burden of building the next generation of Georgia's civic capital.