

Address to the Special Joint Committee on Georgia Revenue Structure

2010 Special Council on Tax Reform and Fairness for Georgians

Tax Council Representatives:

*Brad Dickson, Roy Fickling, Gerry Harkins, Skeetter McCorkle,
Christine Ries, Roger Tutterow*

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History, Guiding Principles, Pro-Growth

Dr. Roger Tutterow
Mercer University

Origins of the Tax Council

- HB1405 signed into law on June 1, 2010; Kickoff meeting of the Council held on July 28, 2010
- Mission was to study the state's current tax revenue structure and make recommendations to the Speaker of the House and the Lieutenant Governor by January 10, 2011
- 11 Council Members
 - Governor Perdue, Suzanne Sitherwood (GCC), Gerry Harkins (NFIB), Bradford Dickson, Skeetter McCorkle, Roy Fickling, AD Frazier, Dr. Roger Tutterow, Dr. David Sjoquist, Dr. Jeffrey Humphreys, and Dr. Christine Ries

Work of the Tax Council

- 6 formal meetings
 - Presentations from tax experts and opinion leaders to understand current system and future opportunities
- 11 fact finding sessions across the state
 - 750 attendees, ~200 speakers
- Established guiding principles
 - to align with a 21st century tax system that is pro-growth, job-friendly, and fair for our citizens

Guiding Principles

- The following are basic principles that guided this work, understanding that there are trade-offs across these principles. The Council seeks to identify a tax system that is:
 - Growth Enhancing – focus on creating jobs
 - Efficient – simplified process to enhance compliance
 - Stable – minimize steep increases and decreases
 - Clear – simple, understandable, predictable
 - Fair and Equitable – taxpayers believe they’re getting a fair shake
 - Properly Developed – based in fact and analysis
 - Provides an Avenue for Resolution – appeals process

Georgia as an Enterprise

- Georgia is well-managed
 - Ranked 49th in state tax revenue per capita with a AAA bond rating
- Georgia is believed to be a business-friendly state
 - Business drivers include an educated workforce, infrastructure, transportation, training, and quality of life factors all of which rank high in Georgia; however Georgia ranks at the bottom in K-12 education
 - *Site Selection* magazine recently ranked Georgia 6th in terms of “a good place to do business”
 - Council on State Taxation (COST) ranks Georgia 10th on business taxes as a percent of state GDP

Tax Philosophy for the Future: Why This Plan is Pro-Growth, Pro-Jobs

- Offset income taxes with consumption taxes
- Maintain diverse tax revenue streams
- Seek stability of structural, recurring revenue streams
- Expand the base of tax-paying entities in anticipation of lowering the rate
- Avoid tax pyramiding
- Improve competitiveness of tax structure with surrounding states
- Use tax credits for both new companies and existing businesses
- Preserve the AAA bond rating

Personal Income Tax – The “balancer” to Neutral

Brad Dickson

Windham Brannon PC

Dr. Christine Ries

Georgia Institute of Technology

Georgia's Tax Revenue Today

- 83% of the forecasted \$15.1 billion in FY 2011 tax revenue will come from personal and sales & use

Source	FY 2011 Estimate	%
Personal Income Tax	\$7.3 billion	48.1
Sales & Use Tax	\$5.3 billion	34.7
Corporate Income Tax	\$602.0 million	4.0
Motor Fuel Sales Tax	\$856.2 million	5.7
Insurance Premium Tax	\$378.6 million	2.5
Motor Vehicle License Tax	\$283.2 million	1.9
Tobacco Tax	\$226.8 million	1.5
Alcohol Beverages Tax	\$177.4 million	1.2
Property Tax	\$81.5 million	0.5
Total	\$15.1 billion	100%

82.8%

Today: Personal Income Tax

- Nearly half (48% or \$7.3 billion) of tax revenue today comes from personal income tax
- Current tax rate schedule is flat with the top tax rate reached at a taxable income of \$10,000 for a joint return
- Complexity from brackets, deductions, exemptions, credits

Recommendation: Personal Income Tax

- Eliminate all adjustments to federal AGI so that Georgia AGI conforms to federal AGI with limited exceptions. Nonconformity exceptions to remain are: social security, interest and dividends from Georgia or Georgia municipal or subdivision obligations, adjustments related to federal credits, and adjustments affecting only tax years prior to 2012. Adjustments used to compute income from pass-through business entities are not to be affected by this provision.
- Repeal the retirement income exclusion increases that are set to begin in 2012 and phase-out the current exclusion limit of \$35,000 over a period of time.
- Replace the existing 6 tax brackets with a single flat tax rate not to exceed 4.0% effective January 2014. The current tax rate of 6.0% should be reduced progressively over the next three years in a manner such that the rate does not exceed 5.0% effective January 2012 and does not exceed 4.5% effective January 2013. By phasing in the rate reduction over time, the Legislature retains its ability to validate the effects of rate reductions on tax collections. In the event that economic conditions cause tax revenues to grow more slowly than anticipated, the Legislature may opt to defer the effective date of the rate reduction to 4%.

Recommendation: Personal Income Tax

- Eliminate all Georgia itemized deductions, standard deductions and personal exemptions for taxpayers. Retain and modify personal exemption amount for dependents to \$2,000. Establish a personal credit that provides at least tax neutrality for low-income taxpayers. The personal credit is to mitigate the loss of deductions, exemptions, and credits. The credit phases out with increasing income and declines in future years as personal income tax rates fall. (See Appendix E for illustration of personal tax credit based on varying incomes and number of dependents)
- Sunset all other current personal income tax credits in 2014, including the current low income credit, except the following credits should remain: 1) credit for income taxes paid in other states, 2) federally-funded credit for energy and water efficient products, and 3) angel investor credit which contains a sunset in law. Credits earned prior to the sunset date should be grandfathered.

Corporate Income Tax

Gerry Harkins
2010 Chairman, National Federation of
Independent Business

Today: Corporate Income Tax

- Volatile revenue stream
- \$602 million or 4% of the current tax revenue
- Currently have 33 corporate income tax credits
- The system of corporate income tax credits is hard to qualify for, and is particularly disadvantageous to small business

Recommendation: Corporate Income Tax

- Maintain parity of tax rates for corporations and individuals by taxing both at a rate no greater than 5% in January 2012, future reductions in corporate tax income tax rate should match the personal income tax rate.
- Eliminate all current economic development tax credits in 2012.
- Create a fund, with an annual dollar cap set by the Legislature, to allow the Department of Economic Development to attract new and existing businesses considering locating or expanding in Georgia. The Department of Economic Development should be granted the authority to craft the rules and regulations for application. The fund would be used to convert the current system of economic development tax credits to two credits based upon 1) the number of jobs created or 2) the amount of capital investment. The Department of Economic Development should be granted the authority to craft the rules and regulations for these two new credits, and the credits should be made available to any company, large or small, existing or new to Georgia. These credits would be allocated by the Department of Economic Development (rather than be allowed by law).
- Sunset all other existing corporate tax credits in 2014. Credits earned prior to sunset date should be grandfathered.