

## **Special Council on Tax Reform and Fairness for Georgians**

Wednesday, August 25, 2010 1:00pm

Blue Room – Georgia Freight Depot

### **Council Members In Attendance:**

Bradford Dickson – Tarpley and Underwood  
Roy Fickling – Fickling & Company  
A.D. Frazier – Affiance LLC  
Gerry Harkins - 2010 Chair, National Federation of Independent Business  
Dr. Jeffrey Humphreys – University of Georgia  
D.E. “Skeeter” McCorkle – McCorkle Nurseries  
Governor Sonny Perdue  
Dr. Christine Ries – Georgia Tech  
Suzanne Sitherwood -2010 Chair, Georgia Chamber of Commerce  
Dr. David Sjoquist – Georgia State University  
Dr. Roger Tutterow – Mercer University

### **Meeting Minutes:**

- Meeting commenced at 1:03 pm with AD Frazier’s opening comments
  - AD begins meeting by talking about the help of Donna Moore and Lindsey Napier as resources to the Tax Council
  - AD mentions multiple meetings since last meeting with organizations and individuals interested in what the Council was working on
  - Asked 4 Economists to present data; looking for principles of growth in our economy- growth friendly tax environment
  - It is not the duty of the Council to compromise on what the end result- leave that up to the legislature to do
  - Encouraged the Council and the audience not to speculate on information given at meetings
  - Many states are or have already looked at tax reform in their area
  - Georgia has a triple A bond rating- one of few states
  - Have 4 council members come up with a set of draft guiding principles
  - At this meeting a lot of information will be given but no vote
  - Pro-growth should set the guiding principles for policy in a state desiring growth friendliness; the list of principles presented today will eventually be voted on and adopted by the council (not necessarily in its entirety) at a later date

### **1:19pm Dr. Jeff Humphreys, University of Georgia- Draft Guiding Principles for the Tax Council’s Consideration**

- See presentation on website for details
- There are two types of vertical equity: proportional and progressive.
- Example: Head Tax (per capita)
  - Everyone in Georgia pay \$3000.00 a year
  - Will promote growth, job creation, business sales, efficient, stable (be able to see rise and fall), predictable, simple and easy for compliance and to enforce, fair with horizontal equity.
  - BUT violates vertical equity- ignores a person ability to pay the tax

- All need to taken into account with tax reform
- Cannot comply with only one
- There was a question regarding the last sentence under Mr. Humphreys' explanation of the 'Efficient' Principle.
  - This addresses things like the "sin tax": a tax on goods and activities that has a cost to society, i.e., the cost is not borne solely by the person partaking in that good or activity.

### **1:33pm Conclude presentation- open for comments and questions from Council**

- AD asked about the last sentence of principle #2- sin tax?
- Dr. Humphreys agrees that it can be interpreted differently
- Suzanne- need to come up with a weighting system for taxes
  - Rate current tax system to the principles currently
- Dr. Humphreys- best practices are not as innovative as they should be right now
- Dr. Sjoquist- simple tax system compared to other states: income, sales and property
- Dr. Ries- eliminate 1 type of or put in new- each should comply with the principles the council sets to have a strong argument to reasons why it doesn't
  - Need to increase the efficiency in the state
  - Each tax is not right or wrong but need to work with them if they have problems
- Gerry- small business owner
  - Compliance- if people don't think it's fair they cont comply
  - Cost of compliance can cost jobs- where efficiency comes in
  - Can't make things too complicated for people to understand
  - Need basic principles
  - Cost of compliance is a major drain on the state
- Bradford- all principles cannot be give equal weight in importance
- Dr. Sjoquist- tax people for things that are harmful to them (sin tax)
  - Should we tax people for things we want them to do?
  - Shift away from income tax- tax for pollution, time of day traveling, cigarettes
- AD- should we be looking at sin tax?
  - Leave it up to the legislature/politicians to make that decision
  - Don't think we should get involved with moral judgments
- Dr. Reis- many other states have larger taxes on cigarettes- not because is a moral thing but it brings in revenue
  - Look at Georgia Public Policy Foundation research on cigarette taxes- make it more of a user fee
  - Ripple effect- what will happen if you make a large tax on cigarettes- convenience stores that are outside the border will start selling more cigarettes then soda, gas ...

### **1:56pm Dr. David Sjoquist, Georgia State University- Georgia Tax Code Today**

- See presentation on website for details
- This presentation provided an inventory of issues – not all issues require change.
- Administration is important component because without good administration the public will lose faith in the system.
- There are trade-offs with taxes – if you raise one tax, you can lower another.

- Different taxes satisfy different principles.
- (Regarding slide 3): Are there any taxes fair so poorly that we can do without it? Should there be a consumption tax? A gross receipts tax?
- Needs to be supported by the public
- Still details need to be worked out
- Portfolio taxes in Georgia- where should we be on trade off for each one- will be differences in weight each with council
- Overreaching Issues:
  - Eliminate certain areas of system?
  - Possible big changes
  - Increase revenue from somewhere else
  - New tax? Fundamental
    - Consumption tax or something that other states haven't used or come up with.
- Personal
  - Flat rate structure
  - Need to be flatter?
  - More efficient
  - Less progressive
- Exemptions
  - Not adjusted for information now
  - We have to conform to federal tax
  - Suppose to simplify state filing
  - At mercy for the federal government
  - Timing is an issue- pass tax law in April with ¼ of the year before you know what the tax law will be for the state
  - Need to look into how to change that
- Sales and Use Tax
  - Doesn't tax services
  - See categories of services- 166 different ones
  - Hawaii uses 160 (most of any state)
- Numerous exemption
  - 110 counted
  - 89 code sections- additional subsections
  - 5 new added this past session- HB 277
  - 10 billion dollars in potential revenue
- Purchases by businesses
  - retail sales tax not imposed on business purchases
- Internet purchases
  - Federal internet vendor in state cannot be requires to collect state sales tax
  - 310 million dollars in revenue lost- current estimate
  - Pay sales tax to vendors- don't have a cap
- Corporate income tax
  - Credit 33 different ones
  - 99 page report providing background on each including the code sections
  - 2009 \$95 million taken from corporate returns
  - Fair to provide certain businesses but not others?

- Treated different for tax purposes?
- Net worth tax
  - Small and hasn't changed since 1931
  - Doesn't generate much money
  - Cost more to file the tax than money generated

**2:25pm Conclude presentation- open for comments and questions from council**

- Suzanne- need some sort of scoring system for the guiding principles
- D.E.- need to look at the big picture
- Gerry- costing ourselves money to produce revenue in Georgia General Assembly
- AD- start with clean sheet of paper on tax reform
  - What type of tax system do we want
  - Hard to look at each exemption
  - Is the state getting what they want out of the exemptions- should be a guideline
- Dr. Ries- many people from the public feel they are getting a raw deal
  - Everyone else gets all these exemptions
  - 80% of credits are from two main exemptions
  - Many of the exemptions do not even make sense when you are looking at them

**2:40pm Dr. Roger Tutterow, Mercer University- Changes in Georgia's Economy and Relevance to the Tax System**

- See presentation on website for details

**2:52pm Conclude presentation**

- Should have sunset for some exemptions
- Set money aside for a reserve

**3:00pm Mayor Kasim Reed comes to speak to the council**

- Georgia is at a cross road
- Challenging economic times
- Need to invest more in human capital
- Invest and protect high paying jobs
- 3 items he wants the council to look at
  - 1- Every exemption needs to be looked at by the panel- need to make a case for each one
    - Is it helping to educate young people or training people for jobs in Atlanta
  - 2- Reduce the size of state government by 10-15 % in the next 36 months
    - Has about 75,000 employees
  - 3- Develop bipartisan approach to increasing education
- AD and Mayor Reed talking- method of taxation growth too friendly?
  - Look at exemptions
  - Don't change income tax- keep it flat
  - Need a much more radical change
- Governor Purdue- need to start with looking at What do we need?
  - How much is right amount to invest in needed areas?

### **3:18pm Governor Purdue and Mayor Reed discuss issues**

- Major issue is wage growth
- Recession issues hit Georgia really hard
  - 2001- post 9/11 hit the Information Technology area and airlines
  - Recent recession have hit the financial and real estate areas in Georgia
  - Hard to come back after being hit so hard

### **3:23pm Mayor Reed leaves**

### **3:24pm Dr. Christine Ries, Georgia Tech- Tax Reform in Other States**

- See presentation on website for details
- Can create a much more competitive market in Georgia
- Need to find the best possible use of state resources
- Terms of tax categories- create least distortion in the state
  - Ones that create most distortion are on the left of the table (see presentation)
- Two things with income- consume it or save it
- Adding brackets to exemptions and special cases adds more distortion- makes things more complicated
- People making decision based on taxes- might not do what they would normally do because of taxes- definition of distortion
- Look in detail and the articles she presented

### **4:02pm Conclude presentation- wrap up of meeting**

- AD wants everyone to:
  - Where less tax = more income in Georgia?
  - What other states are doing and doing right (especially TN)?
  - Research distortion by exemptions
  - How much so we need in tax reform
  - Create modern day tax system in modern day economy- need breathing room and for the economy to grow

### ***Fact finding session tomorrow:***

**Thursday, August 26<sup>th</sup> - Blue Room of the Georgia Railroad Freight Depot**

**4:00-7:00pm**

**4:22pm Meeting Concluded**