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Georgia Farm Bureau Federation

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**Comments of Georgia Farm Bureau President Zippy Duvall
Special Council on Tax Reform & Fairness for Georgians
Fact Finding Session, Gainesville State College
Oakwood, Georgia
September 9, 2010**

My name is Zippy Duvall, and I am President of Georgia Farm Bureau. Our organization was founded in 1937 under the name "United Georgia Dirt Farmers." By choosing that name, it is clear our founders intended for the organization to represent farmers; the men and women who actually live on farms and do the important work of producing food, fiber, and fuel for this nation.

In 1941, the name was changed to Georgia Farm Bureau, and we became affiliated with the American Farm Bureau Federation. While the name changed, our purpose did not. At our annual convention, our members reaffirm our official written purpose: "...to assist in providing farm families a fair and equitable standard of living and to ensure the existence of agriculture as a vital and thriving industry in the future."

Farm Bureau is local, state, and national in scope. Individual members belong to a local county chapter which is managed by a locally elected board of directors who serve without compensation. County Farm Bureaus are members of the state organization, and similarly, states are members of the American Farm Bureau Federation. Our legislative positions are based on official policies that are ratified each year by our members. We strive to be the "Voice of Georgia Farmers."

Before being elected President of Georgia Farm Bureau in 2006, I was a lifelong dairyman. I retired from the dairy business in 2005, but my wife and I still operate our farm in Greene County. We have a 150 cow herd of commercial beef cattle, and we produce about 480,000 broiler chickens per year. I am here as a farmer speaking on behalf of farmers.

Thank you for holding this series of hearings around the state. We have followed the proceedings carefully, and many of our members have commented at the meetings. The openness of this Council is very important, and you are to be commended for your efforts in that regard. Your willingness to hear all points of view brings different ideas to the table for deliberation, and it also inspires confidence in our citizens that this Council is working to achieve a fair and equitable result.

The Council's website includes a copy of your guiding principles. We have studied that document because it outlines your intent. It states the Council seeks to identify a tax system that is growth enhancing, efficient, stable, clear, fair & equitable, and properly developed. In preparing these remarks, we have sought to keep the guiding principles in mind and relate our comments to them.

Growth enhancement should be kept in mind when making tax policy decisions. Properly developed tax policy can encourage new businesses to come to Georgia and help provide new jobs. Farm Bureau members are happy to see the Council's interest in "*the retention and expansion of businesses that are currently operating here.*" When added together from all across the state, Georgia's farmers are a huge business that is already here.

According to the 2007 U.S. Census of Agriculture, there are more than 47,000 in Georgia, and the average farm size is about 200 acres. The UGA Center for Agribusiness & Economic Development (CAED) reports that in two thirds of Georgia's counties, agriculture and related industries comprise the largest or second largest economic sector in the county. The Center also has 2008 data showing that agriculture and all the related processing and distribution generates more than 350,000 jobs and a total economic impact of \$65 billion. Clearly, agriculture is an industry that we need to continue to foster in our state.

Georgia House Speaker David Ralston has been quoted as saying that all tax issues are open for consideration by this Council, and other respected leaders have made similar observations. These comments, along with media reports, have caused our members to be concerned that farm inputs might be considered as a source of sales tax revenue for the state.

While it is prudent for this Council to look at all possibilities, we believe subjecting farm inputs to sales tax would be ill advised. Agriculture has a large economic presence in Georgia, but much of that impact is dependent on the existence of farms. Subjecting farm inputs to sales tax would put a tremendous cash expense on a business that already operates on small margins. It is no understatement to say that many farms would be in jeopardy if farmers were forced to pay sales taxes on input costs.

Currently, farmers are not assessed sales taxes on feed, seed, fertilizer, chemicals, equipment, and certain uses of fuel or electricity. A loss of these exemptions would significantly affect the bottom line on every farm in Georgia.

For example, a family sized dairy operation milking about 300 cows could easily have annual feed costs of \$750,000 per year. A 7 percent sales tax would add \$52,500 in cash expenses without any corresponding improvement to production or efficiency. Similarly, an average Georgia row crop farmer could expect to pay about \$25 per acre more in sales taxes. An average poultry grower will face additional sales taxes of \$700 per poultry house per year.

Obviously, farmers do not want to be burdened with additional sales taxes, but your concern must be the implications for the state. Your guiding principles call for an efficient system that minimizes distortions in the economy. The sales tax exemptions for farm inputs demonstrate a textbook case of a properly designed device.

According to a Georgia State University study, sales tax exemptions in Georgia amounted to \$10.9 billion in 2006. Of that amount, the agriculture exemptions amounted to less than \$58 million, or roughly one half of one percent of all sales tax exemptions (0.53%). Additionally, the agriculture exemption was the smallest of all the itemized exemptions. The farm exemption ranked just above "miscellaneous" on the chart.

The state of Georgia received a great benefit for that small exemption. The 2006 total "Farm Gate Value," the value of all food and fiber crops grown in the state, was \$10.4 billion. The important point is that while farmers received exemptions of \$58 million, those same farmers marketed products worth more than \$10 billion. That is a remarkable return on investment for the state. We do not mean to suggest the sales tax exemption is totally responsible for farm productivity. However, we believe it demonstrates an efficient use of sales tax exemptions.

In the "efficient" heading of the guiding principles, there appears to be a contradiction. "*Tax structures and levels should minimize interference with private economic decisions...*" We agree on that point, but the very next sentence seems to run counter to it: "*But taxes should be used to discourage behaviors that impose costs or burdens on others.*"

We find the latter sentence worrisome. We do not understand why this Council would focus on that point by adding it as a guiding principle. It is one thing to offer tax incentives as a reward to businesses that follow a particular course. It is a totally different matter for the government to discourage legal behaviors of adults based on a perception that those behaviors impose costs or burdens.

In recent years, there have been calls across the country to impose fees on food based on fat content to offset the costs associated with obesity. The climate change bill passed by the U.S. House of Representatives last summer (H.R. 2454) calls for fees based on greenhouse gas emissions and the perceived association with global warming. Some people have suggested fees for groundwater withdrawals to offset perceived costs associated with that activity. Georgia Farm Bureau opposes all these efforts, and we urge the Council to revisit that concept in the guiding principles.

The guiding principles also state "*the tax system should be simple and designed so that costs of compliance, collection, and enforcement are as low as possible and enforcement is as complete as possible.*" On that point, we urge consideration of what neighboring states are doing with their tax structure. If ease of compliance and enforcement is a goal, it is very important not to offer incentives to taxpayers for non-compliance.

For example, you heard a farmer in Savannah testify that a John Deere Model 7830 farm tractor sells for approximately \$120,000. Most of our neighboring states have no sales tax on farm equipment (Alabama taxes farm equipment at a lower rate). Why would any farmer buy that tractor in Georgia if a short drive across the state line would save \$8400? If the sales tax exemption for farm equipment were repealed, the prudent business decision would be to buy that tractor in South Carolina.

Recognition of the taxpayers' ability to pay is also a guiding principle. More than most industries, farmers operate very close to what economists call the purely competitive model. There are lots of producers with identical products, and none of them can significantly alter the market. Farmers do not pass on costs; they absorb them or cease operations.

Additional sales taxes would be a huge cash expenditure for the average farmer. The expense would have no value to the product being produced, nor would the cost be reduced over time. Any business expansion would increase that cost, and the only way to defray it would be to reduce inputs needed for production. We know taxing farm input costs would hurt farmers. We sincerely believe it would hurt the economy of the entire state, and the final result would be less overall state revenue. We believe subjecting farm inputs to sales taxes would be counterproductive.

Thank you for the opportunity to come before you. I am grateful to you for your service to the people of Georgia.

Sincerely,

A handwritten signature in black ink that reads "Zippy Duvall". The signature is written in a cursive style with a large, prominent "Z" and "D".

Zippy Duvall, President
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