

The Council of Tax Reform & Fairness for Georgians met last Wednesday, September 29th to hear from leading Georgia industry experts. Instead of focusing on new tax structures or possible tax opportunities, the Council used this meeting to familiarize themselves with current industries, emerging industries, and local taxes in Georgia. The Council heard presentations from the Georgia Chamber, the three main industries of Georgia, and cities and counties.

All of the presentations can be found on the Council's website at

<http://fiscalresearch.gsu.edu/taxcouncil/index.htm>

I. Current Georgia Industry

A. Presentation: The Georgia Chamber of Commerce John Krueger, Senior Vice President of Public Policy

The Chamber:

- Promotes economic growth and retention within the state
- Promotes a tax structure that is competitive, balanced, and predictable
- Supports the creation of an independent tax court to improve the current tax structure

The Chamber conducted a survey to all of its members to see favorable & unfavorable tax structures in the business community:

Favorable Policies:

Encourage the domestication of insurance taxes
Exempt business inputs
Expand taxes to services

Unfavorable Policies:

Taxes on energy
Taxes on construction materials
Accessibility to Quality Jobs Tax Credit
Payroll Withholding Tax – not all companies profitable enough to use

Recommendations:

- Look at economic growth in addition to revenue
- Examine all exemptions - focus on the tax exemptions that work
- Sunset new exemptions to see if they work

Each industry expert discussed the importance of their industry to Georgia:

B. Presentation Agriculture:

Bryan Tolar, Vice President of Public Affairs

Agribusiness Council

- Georgia has a strong diversity in terms of agriculture production (peanuts, cattle, peaches, cotton, poultry, soy, etc.)
- Industry provides jobs in areas which have little or no job opportunities
 - Main Focus then should be: If these agricultural jobs disappear, where would these people go?
- Agriculture accounts for 42% of manufacturing in Georgia
- Agriculture/Farming generated \$1.8 billion in local & state sales tax (2009)
- Industry needs exemptions for “goods producing” items

C. Presentation: Manufacturing

Roy Bowen, President

Georgia Traditional Manufacturers Association

- There are 9,900 manufacturing operations in Georgia (located across every county)
- Currently employs 400,000 people
- Covers 15.6% of employment outside of Atlanta
- Recent decline in manufacturing employment – loss of \$66 million in wages

Manufacturing is important:

1. Drives wealth creation in communities
 2. Remains significant contributor to Georgia employment
 3. Pays premium wages & provides benefits to employees
 4. Plays a disproportionate role in economies of Georgia’s smaller communities & rural areas
 5. Largest multiplier effect (jobs create 2-3 per manufacturing jobs)
 6. Exports to world markets and helps to reduce America’s deficit
 7. Invests in research and development to create & manufacturer new products
 8. Set environmental initiatives
 9. Supports countless charities
- Manufacturers rely on exemptions on business inputs (maintain exemptions)
 - Manufacturers are hurt by the energy tax in Georgia

D. Presentation: Tourism

Lauren Jarrell, Director of Communications

Atlanta Convention & Visitors Bureau

- Tourism encourages spending in the market place, economic impact, & growth
- Employs 217,000
- Generates \$34 million annually & \$105 million in visitors spending

- Atlanta holds the largest convention center – Georgia tourism mainly based on convention visitors
- Employees mostly consist of salesman – market place exceedingly competitive
- Hotel Motel Tax supports tourism industry
- Began in 1960s as a decision by the industry
- Now 15% tax, 8% sales tax and 7% occupancy tax (similar to other competing states)
- Convention centers work with a \$20 million budget

Questions/Comments by Industry Experts:

Where would you shift taxes if you were to get rid of a tax on energy or others?

No one from the industry had decided where to shift taxes, but all agree the taxes on energy are harmful to Georgia businesses.

In terms of energy taxes, Georgia must rely on other factors to entice businesses to relocate into the state. Roy Bowen commented that credits and single factor apportionment are great incentives for manufacturers to remain or build in Georgia. Energy is the second largest cost conversion; businesses choose where to invest based on cost production. The energy tax becomes a distinct competitive difference.

The energy tax is an attractive tax to eliminate because costs are apparent, savings can be easily created, and the problem can be solved quickly – so most companies believe in its removal.

How much of farming inputs is not exempted?

Bryan Tolar: Not sure, over the years farmers and the farming industry continued to change exemptions based on the actions of bordering states. Due to this reactionary behavior, agriculture exemptions are not uniform and are often on a sunset – and often not renewed.

What can put Georgia on a level playing field with other good producing states?

Bryan Tolar: Georgia needs to focus on a tax structure that is growth enhancing and simple. In order to create opportunity for businesses to grow the tax structure needs to cut down on business inputs and remove energy tax. Also, Georgia needs to deepen the Savannah River and utilize ports so the state becomes a place to send goods.

What would be the optimal tax structure?

All experts agreed a broadening of the tax base and an expansion of the sales tax on services. However, Lauren cautioned the Council that additional sales taxes could potentially harm convention business/tourism because of the already 15% tax rate.

John Krueger: Tax credits need to be more flexible in utilization. Currently not all businesses can take opportunity to use. Sales exchange for tax credits could be a possibility in the future. The Council plans to research the film tax credit's success and its potential for flexibility within other markets.

II. Local Taxes

A. Presentation: How County Taxes Work

Lamar Norton, Director of Governmental Affairs
Georgia Municipal Association

- Cities are home to over 41% of Georgia citizens
- \$6.84 billion cities revenue in 2008
- Income based on property tax, sales tax, excises, licenses, intergovernmental contracts, etc
- Little over 100 cities that don't have property tax
- Cities population growing faster than state
- Cities tax in different ways: no sales tax & high property tax, cap on property assessment and use ESPLOST or LOST, no property tax and rely on sales tax, etc

Recommendations:

- Extend Georgia Business Expansion & Support Act for five years and start to include retail businesses.
- Authorize up to a penny sales tax for tourism, arts, trails, etc – will create jobs and maximize existing infrastructure
- Provide local flexibility with TADS (Tax Allocation Districts) and PILOTS (Payments in Lieu of Taxes)
- Allocate more money to Department of Revenue
 - Compliance & collection are critical - turnaround to local governments needs to be 60 days
- Continue Franchise Fees and Ad Valorem Tax on automobiles

Cities like to have the option to tax themselves on sales tax. Currently, a one percent tax would not be passed.

B. Presentation: How County Taxes Work

Clint Mueller, Legislative Director
Association of County Commissioners

- 159 counties in Georgia
- Revenue Stream – 38% property tax, 22% sales tax, various fees & excise make up the rest

1. Property Tax: ACCG ran by Department of Revenue Appraisal Manual in attempt to create uniformity with property taxes

2. Sales Tax:

- LOST 147 counties
- SPLOST 151 counties (main revenue for infrastructure)

- o Generated \$3.5 billion
 - o Pass rate of 96.8% since 2004
 - HOST (Homestead Option Sales & Use Tax) – only two counties
 - Others: MARTA tax, etc
 - A county cannot have more than a two pennies tax
3. Excise & Use Tax:
- Utility Tax – county only uses for cable
 - Franchise Fees are currently deposited into the general fund although meant for right of way maintenance & construction
 - Telecom Excise Tax – all telecom platforms taxed differently

Recommendations:

- Redirect SPLOST money (ex: instead of using for jail, as intended, can use for roads if county later sees the need).
- ACCG believes in broadening the tax base and lowering the rate
- Need for sharing local data:
- Business Occupation Tax – unfair competitive advantages between retailers, many businesses not registered for sales tax (ex: a salon may not be listed under sales tax, but they sell shampoo)
 - o State loses money from these retailers
- Remove sunset on Unidentifiable Sales Tax
- Create Vehicle Tax reform – simplify the process
- Move away from Franchise Fees to Right of Way Occupation Fee so money is only used for right of way maintenance, etc.
- Taxpayer Transparency – fees set aside for specific purposes are being used for other obligations. The fee therefore becomes a tax and should not be misrepresented or redirected.
- Counties need to disclose full cost of new capital, which includes staff, costs of operation, and ongoing maintenance
- Tax bills should be introduced the first year of the two year legislative cycle and be allowed to pass in the second year
- Expand sales tax base in order to remove reliance on property tax
- Change motor fuel from cent to percent, even if the tax is more volatile it will keep up with inflation
- Audit more sales tax accountants

III. Emerging Industries in Georgia

Panel Discussion:

Tino Mantella, Technology Association of Georgia

Carter Burton, Omni Surgical

Carol Henderson, Innovation & Technology Office of the Georgia Department of Economic Development

Danny Groves, Internap

How does the Georgia tax code rank in terms of standard of living, education, workforce when attracting emerging industries?

Carter Burton & Danny Groves: Tax code is important, but the most important in terms of taxes is the Income Tax Credit.

Tino Mantella: Most important factors are the airport and transportation, retraining dollars, and venture capital investment – access to capital needs to be better in the state.

Carol Henderson: Overall business cost is the most important; talent is key, access to capital and global market, retaining cash to reduce cost.

What can the state do to promote job creation? Is K-12 education an issue?

Carter Burton: Reduce personal income tax. You do not need to remove it but should lower it.

Tino Mantella: Education is an issue only because the state continues to publicize it. HOPE scholarships and upper level education are very strong recruiting tools.

Danny Groves: K-12 education is not a factor, because most people will move to where there is a great school or put their children in a private school.

All panelists agreed sales tax is not that important in terms of recruiting emerging industries.

All panelists agreed taxes matter as part of a business's decision to relocate or stay, but not the main reason.

Recommendations:

- Georgia needs to promote more start up companies
- Provide more capital (Georgia provides 2% and California provides 50%)
- Continue with refundable credits & incentives – proves Georgia wants these industries
- Make people more aware of the convention center
- Create awareness and promote current companies
- Encourage talent to relocate to Georgia
- Need critical mass: companies need to be assured if their business fails, their employees will be able to find jobs in the same industry in Georgia

We will continue to keep you advised as to future meeting dates of the Council, recommendations of the Council, reaction from the business community, citizens, and other stakeholders. If you have any questions or any suggestions for changes to the tax code that you wish to have submitted to the Council, please let us know.