

Summary: Full Tax Reform Council Meeting September 8th

The Special Council on Tax Reform and Fairness for Georgians met Wednesday, September 8th to hear presentations from tax policy experts across the nation. Due to the national economic climate, several states are organizing tax reform councils, Georgia, however, is the only state in the nation, who's Council can create legislative reform. All experts agreed the tax structure needs to focus on promoting a better standard of living in Georgia. Through the Tax Reform Council, Georgia has the ability to improve its current tax structure and therefore promote better investment in public interests. Despite the increase in current revenue numbers, the Council believes there is still much improvement needed in the state.

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

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

I. "State Tax Reform in a Challenging Environment: What's Working, What's Not"
Presentation by Matt Gardner, Institute on Taxation and Economic Policy, Executive Director

Focus on Tax Lessons from Neighboring States

Georgia faces dual fiscal problems

1. Deficit of \$2 billion
2. Structural Deficit: Loss of funds to provide public investment demands

States currently face two options:

1. Choose a flattened rate base with a lower tax rate
2. Increase rate with a narrower base

Too soon to decide which tax policy is the best model

Broadening Tax Reform

Recommendations: Broaden base of income tax

(Preliminary ideas on how to broaden from South Carolina)

- Create a minimum tax – everyone pays a token \$25 fee with no refunds or credits
- Change Tax Brackets – (brackets are unadjusted for inflation) plan to increase top bracket, move start point to 13,000 to 21,000
- "No Tax Floor" – stop indexing tax exemptions and standard deductions for inflation
- Capital Gains – increase tax on investments

North Carolina chose to eliminate most itemized deductions and create credits

Mississippi chose to cap value of retirement income exemption at \$25,000

2. Sales Tax

- Need to look at what items are attainable to tax
- Look at what has not been taxed yet

- Look at what has been taxed in other states and failed
- Make the items taxed sensible & broad
- Pick 4-5 services politically vulnerable
- Can tax digital downloads
- Focus on internet sales collections
- Tax Services: to lower sales tax rate & broaden base need to tax personal services
- Must focus on personal services and NOT business (dry cleaning, pest control, self storage)

3. Corporate Income Tax (provides \$670 million in taxes to Georgia)

Problems with the corporate income tax:

1. Tax is more volatile than others
2. There is a difference between profit and making money
3. Several loopholes can be created to get around tax
4. Differences in state rules can cause zero taxation or double taxation to businesses

Create a “combined reporting”- generate less incentive for multi-state corporations to shift sales & pay taxes elsewhere

Demand greater disclosure of information on corporate tax breaks

Repeal corporate income tax – not the best solution, if removed it will force higher tax rates to others

- Companies do not just look at corporate income tax as an incentive to locate in a state (transportation, ports, standard of living are also driving factors). Corporate income tax used as leverage.
- To repeal is not the best long-term goal, same idea applies with eliminating the inventory tax

Rhode Island created “Jobs Development Act” – if a business creates 10 jobs than they receive a rate cut on tax. If the business maintains the jobs they can keep the rate cut. No one knows if this “Act” is effective.

4. Gasoline Excise Tax: Gas tax used to fund transportation

Other states indexed taxes to cost of construction

Future Steps:

Broadening Base

- Look at what not collecting
- No tax break is sacred – look at are these tax breaks cost effective
- Need to broaden in name of economic development

Rate Reductions

- Reductions are not a given & depend on fiscal circumstances
- Need to look at how rate reductions impact public investment
- Link tax rate reduction & economic development

II. “A Fair & Equitable Tax System for a Progressive State”

Presentation by Alan Essig, Georgia Budget & Policy Institute & Kelly McCutchen, Georgia Public Policy Foundation

- 82% of Georgia’s budget goes to education, health care, and public safety
- Georgia is historically a low tax state
- Foundation needs to be modernized, diversify revenue streams

Options for Reform

- Need to update to sales taxes to reflect current realities, include modern purchases by expanding bases
- Do not include business, medical or legal services in service tax
- Broaden income tax base give itemized deductions & retirement income exclusion, modernize brackets & rates, enact refundable earned income tax
- Encourage reenactment of state credit for estate tax
\$125 million went to federal government instead of Georgia in 2009
- Cannot tax business inputs
 - Harmful to tax telecommunication companies networking equipment (prevents modernizing smaller rural communities)
 - Tax retail items at final sale – creating a broader sales tax base will create stability and higher rate of growth (least volatile)

Georgia ranks lower in business tax climates than all of its’ bordering states

Georgia taxes two items only 14-15 other states do not tax

1. Inventory
2. Energy – puts Georgia at a disadvantage

Desired Economy

- Encourage traditional industries & cutting edge industries (video games, films, etc) in Georgia
 - Need to award innovation
 - Loosing innovative companies within the state (last 10 years have lost 75% of start up companies)

Tax codes lay foundation for start up companies. Higher tax rates stunt growth. Set a personal income tax rate that will promote innovation/entrepreneurial companies.

Tax Credits

- Target tax credits that can offset impact on low income families, which will create far less cost to the state
- Must educate citizens on credits
 - In 2009, \$2.7 billion in earned income tax credit was not applied for (people did not know of credits) –size of stimulus money given to Georgia

Income Tax

- Lowering income tax would improve economic opportunity
- Income tax doesn’t tax the rich it taxes the “coming” rich

Opportunities

Grocery Tax: provides advantage to broaden base and lower rate

- Creates a higher burden on sales tax and will need to provide credits
- Must provide relief through income tax for low income households. Questionable if they will receive the relief.
- Argue some of these low income could be illegal immigrants

Pension Reform

Lower Personal Income Tax Rate

Create Service Taxes: these taxes need to be have easy compliance, mobility, and be realistic (do not tax on medicals)

- Service Tax should not be regressive if chosen for the right service (ex: auto repair, it is unlikely people will not get their brakes or oil changed because of tax)

III. “State Business Taxes & Sales Taxes on Services”

Presentation by: Jim Eads, Federation of Tax Administrators

Streamline Sales Tax is extremely important

- Federal legislation will be the ultimate relief to loss of internet sales tax, but the legislation has yet to pass

Taxing Business:

- Combined Reporting: if corporation is unitary or part of an affiliated group then the state will tax the larger “pot” of income and eliminate ability for a multi-state to skip on their bills
- Multi-state Corporations – taxing needs reform, had opposition to update law (last updated in 1955)

Congress looking at 15-20 tax bills now

- Nexus Tax: State Tax Administration Act, if you live in Alabama and owe Georgia money then Georgia can take money from your tax return check
- Cell Tax Fairness Act: cannot change wireless tax for five years

IV. Panel Discussion:

Joseph Crosby, Legislative Director, Council On State Taxation

Mike Petrik, Tax Policy Committee of the Georgia Chamber of Commerce

John Masters, Georgia Society of CPAs

Nick Masino, Gwinnett Chamber of Commerce

Question: How can Georgia use the tax code to attract businesses and jobs to the state?

Nick Masino: Keep tax burden low, have strong tax incentives, modernize tax structure to increase the quality of life, and don't do any harm.

John Masters: Broaden base of income tax.

Question: What does the tax code need to provide in order to make Georgia more economically developed?

Mike Petrik: Do no harm to current tax structure. Make tax changes incrementally rather than instant, don't deprive businesses from their expected benefits, and maintain rate reductions. Keep exemptions on business input and personal property.

Joseph Crosby: Look at what Georgia does now to discourage relocation of businesses. Georgia should tax income on property not corporate property. Georgia needs to provide a better environment for mobile capital. Need to survey the costs of the Department of Revenue, need an appellate forum (taxpayer court where tax payers can dispute taxes). Appellate Forum can be set up several different ways, but require the following

1. They are independent of the Tax Department
2. They are adjudicated
3. The citizen is not required to pay until after the tax review.

Legislation drafted at least twice, but never introduced. Representative Peake said it will be introduced this year.

Mike Petrik: Need to focus on creating a high standard of living and great workforce in the current environment.

Nick Masino: We need a structure that is fair, simple, and reliable. Utilize programs like Quick Start, which supplies training programs for workers to get companies up and running as quick as possible (ex: Had NCR up and running in 6 weeks).

Question: How can the new tax structure prevent job loss? What accounts for the tremendous job loss Georgia experienced last year?

Mike Petrik: Georgia is vulnerable to recession catalysts—real estate.

Joseph Crosby: Need to focus on taxes on businesses. Georgia should not tax on telecommunications or energy. These taxes make businesses less competitive. Need better communication between Department of Revenue and legislature to draft laws that are easy to comply with.

Question: Explain several ways Georgia can create a pro-growth atmosphere, not necessarily tax related.

1. Georgia needs to advertise the "things" they do have and the tools like Hope Grants and technology schools.
2. Create an independent tax tribunal: appellate forum where citizens can dispute taxes
3. Exempt business inputs and sales tax – can create better exemptions, broaden sales tax in order to lower it
4. Keep Mega Tax Credit
5. Promote innovative businesses to locate in Georgia- gaming & film
6. Provide a solar tax credit (will help keep companies in Georgia)
7. Fix current loopholes that hurt business employees

All agreed the focus needs to be on educating the workforce over tax reform to provide better growth and more jobs.