The Special Council on Tax Reform and Fairness for Georgians met yesterday, August 25th in Atlanta. For their second meeting, Chairman A.D. Frazier requested each economist on the Council to focus and present on four subjects. These four subjects will create a guideline for restructuring Georgia's current tax system. The presentations included an overview of the Council's guiding principles, Georgia's current tax code, changes in Georgia's economy and its relevance, and tax reform in other states.

Guiding Principles

The Council will focus on the six "Guiding Principles" constructed by economist Dr. Jeff Humphreys of the University of Georgia. The six principles will be pivotal in the Council's review and suggestions.
These include

1. Growth Enhancement – To encourage investment, promote a higher standard of living, expand businesses, and prevent the future relocation of existing Georgia businesses.

2. Efficient – Minimize distortion and capital allocations.

3. Stability – To avoid frequent changes and keep up with Georgia's economic pace.

4. Clear & Simple – Keep the tax structure as understandable and predictable as possible. This tax predictability will avoid business disturbance, as well as create a friendly cost compliance atmosphere.

5. Fair & Equitable – Create the ability for all people/businesses to pay taxes.

6. Properly Developed – To be open on all options and analyses. The Council is committed to maintaining full disclosure by reporting all meetings, minutes, submitted materials, and questions/conversations at their website online.

The Council agreed that to enhance the growth of Georgia there needs to be a broad system tax base, few exemptions, a promotion of equity through tax credits (so Georgians have a greater income), and to keep tax rates low in order to increase activity and serve the state.

Georgia's Tax Code Today

In today's Georgia tax code, there are several main sources of income – personal income tax, sales and use tax, corporate income tax, and others that provide smaller resources for the state.

Currently the personal income tax maintains brackets last updated in 1955, as a result the personal exemptions are eroded in terms of real value. The income tax credit benefits are also disappointing and the Council plans to seek alternative solutions. They will also research other options regarding time conformity to federal taxes. The federal tax system is set mid year causing Georgia to spend a quarter of the year without knowing a tax plan. In addition the Council plans to explore the benefits of tax elimination of retirees and if the elimination violates tax fairness.

Currently Georgia only taxes thirty-six of the one hundred and sixty-six potential sources for use and sales tax. Most of these taxes include utilities, purchase, leases, etc. The Council believes these taxes create a disincentive to purchase goods. Despite the potential loss of billions, the Council believes their focus should be streamlining internet sales and obtaining taxes from online purchases.

The corporate income tax in Georgia is much different than other states in the nation. Georgia provides thirty-three tax credits and has a proportion rate or tax formula used for companies based in several states. The Council plans to research how beneficial this proportion is to encouraging businesses and state growth.

Other taxes that craft Georgia's tax structure are insurance premium tax, tax abatement, motor fuel tax, inheritance tax, and severance tax. These taxes generate very little revenue for the state. The motor fuel tax is eroded, as it has yet to be adjusted for inflation since created. Georgia also cannot profit from the inheritance tax since it is tied to the federal tax.

In order to change today's structure, the Council plans on looking at what produces revenue for the state, cutting taxes with poor compliance, and examining if the state is receiving the desired benefits from tax exemptions.

Changes in Georgia's Economy and Relevance to the Tax System

In the last decade Georgia's economy has endured the consequences of two recessions. The first in 2001, where there was a backlash against airplanes, flight production and travel, then again in 2008-2009 where real estate sales suffered. In responding to the economy Georgia evolved through the following

1. Production of fewer goods - The main goods of agriculture, mining, utilities, and factory continue to shrink. Employment perspective also drops.

2. Rise of Services – In the past 15-16 years Georgia increased from 38% to 70% service based. This increase means that sales tax revenue will not grow in line with general growth.

3. Rise of E-Business/Internet Sales – Internet sales now account for 4% of sales in state. Businesses are moving more of their services/products out of the country. Georgia needs to collect more taxes on these purchases.

4. Inflation & Buying Power Relationship - Creates consequences with the inflation costs for the government to provide services. The government must still provide services they cannot afford. Main costs of Georgia budget are health care and education.

5. Drop in Nominal v. Real Tax Revenues – More variations in tax structure, causes less predictability.

The Council would like to focus on creating greater reserves in case the future economy is more fickle.

Tax Reform in Other States

To enhance growth, promote more jobs, and create a business friendly environment the Council also decided to focus on tax reforms in other states. States with low taxes see higher population growth than states with higher taxes. Chairman Frazier requested the Council research the tax structure in Tennessee as a potential model or guideline.
Tennessee does not have an income tax; however, the Council is unsure if Georgia could do the same.

The next Tax Reform Council meeting is Wednesday, September 8th from 1:00-5:00pm at the Blue Room in Georgia Railroad Freight Depot. Any presentations may also be found on their website at

http://fiscalresearch.gsu.edu/taxreform/

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.