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## Tax reform will impact many Ga. businesses

Atlanta Business Chronicle - by [Dave Williams](#) Staff writer

Tax breaks that business recruiters have long relied upon to attract corporations to Georgia and keep existing businesses here could be on their way to extinction.

A task force formed by the General Assembly to examine Georgia's tax code will look at whether the state should reduce or eliminate tax exemptions for industries from energy to computer technology to moviemaking, as part of a broader debate to be taken up this summer.

Reforms recommended by the politicians, business professionals and economists on the panel also could include expanding the state sales tax to cover purchases of services as well as goods, modernizing a decades-old state income tax structure, and/or overhauling Georgia's corporate income tax.

"All of these things are going to have an impact on businesses large and small across this state," said Rusty Paul, a former state senator who heads the government affairs and public policy practice team at **Arnall Golden Gregory** LLP. "It's something the business community needs to pay close attention to."

Gov. Sonny Perdue signed legislation June 1 creating the 2010 Special Council on Tax Reform and Fairness for Georgians.

Besides Perdue, the 11-member council will include four leading Georgia economists, the chairman of the **Georgia Chamber of Commerce**, the chairman of the state chapter of the **National Federation of Independent Business**, two members appointed by Lt. Gov. Casey Cagle and two named by House Speaker David Ralston, R-Blue Ridge.

After its evaluation of the tax code this summer and fall, the panel is to report its findings and recommendations to a special legislative committee by the beginning of the 2011 General Assembly session in January.

The committee then will develop one or more tax reform bills for the full legislature, which will decide them in up-or-down votes without amendments.

This won't be lawmakers' first crack at tax reform in recent years.

In 2004, before Republicans captured full control of the General Assembly, then-minority

House GOP leaders floated a proposal to replace all school property taxes with a statewide sales tax.

Former House Speaker Glenn Richardson, R-Hiram, introduced a dramatic overhaul in 2007 that, among other things, would have abolished property taxes in Georgia.

Another effort led by former Rep. Mark Burkhalter, R-Johns Creek, called for getting rid of the car tax.

While those didn't pan out, the recession has increased the prospects for tax reform in Georgia this time around, said Jeff Humphreys, director of the Selig Center for Economic Growth at The University of Georgia's Terry College of Business and a member of the special council.

The downturn has sent tax collections plummeting across the country, but more so in Georgia. State revenues during the fourth quarter of last year fell by 12.8 percent, the sixth-highest decline in the nation, according to the Albany, N.Y.-based **Nelson A. Rockefeller Institute of Government**.

Humphreys said tax reform is needed in Georgia to address that volatility.

"Revenue collections have actually accentuated the ups and downs in the business cycle," he said. "I would like a [tax] structure that tends to produce a revenue stream that is more in lockstep with the business cycle, that doesn't zoom up in the good years and plunge in the bad years."

Although declining tax revenues played a major role in the timing of this year's drive for tax reform, that doesn't mean the council will push to raise taxes.

"Our job is not to figure out how to raise revenue. It's how to fix the tax base," said David Sjoquist, director of the Fiscal Research Center at **Georgia State University** and another member of the council. "There are a variety of ways to make it revenue-neutral."

But Alan Essig, executive director of the Georgia Budget and Policy Institute, said a revenue-neutral bill would miss the council's purpose: to ensure adequate revenue to support state services.

"If we didn't have a budget, we wouldn't need a tax code," he said. "They need to link the tax code not only with the short-term needs of the budget but with the long-term needs."

Those on both sides of the revenue-neutral debate agree that the council is likely to recommend broadening the sales tax.

Humphreys said that as the state's economy becomes increasingly dominated by service industries, a system that only taxes purchases of goods captures a smaller and smaller piece of the market.

"We need to more accurately reflect the economy that we have today versus the economy we had 20, 30 and 40 years ago," he said.

Sjoquist said the council also will probably look at the structure of Georgia's personal income tax, which has become virtually flat in the decades since it was first imposed.

Humphreys said the corporate income tax also should be re-examined because it has become one of the most volatile of the state's revenue streams.

But those are relatively low-hanging fruit. The most controversy likely will come when the council takes up the tax exemptions that governors and legislatures loaded into the tax code during the boom years of the 1990s and part of the last decade, when the state was running surpluses.

Business representatives concede the timing is right to give those tax breaks a close examination.

"They complicate the tax code and create winners and losers," Paul said.

But John Krueger, senior vice president of public policy for the Georgia Chamber of Commerce, said the council should be careful to separate the tax breaks that are helping to produce jobs in Georgia from those that aren't.

"If it's working, let's not do anything to destroy that momentum," he said.

Essig, whose organization has been a consistent critic of targeted tax breaks for industries, said the upcoming debate will guarantee employment for an army of lobbyists, as companies fight to protect the tax breaks that benefit them.

Paul said the smart ones won't wait until the legislative session to get to work. Because the House and Senate will be restricted to up-or-down votes on tax reform, the decisions will be made this fall, he said.

That's why Paul put out an alert almost a month ago warning clients of the upcoming debate. "If you're an industry that has gotten special consideration under the tax code," he said, "you've got to at least be interested, if not concerned."

### **Decline in tax collections**

Georgia suffered the sixth-highest decline in state tax collections in the fourth quarter. A panel of Georgia politicians, business professionals and economists will begin meeting this summer to recommend tax reforms:

#### **State Tax revenue decline**

Oklahoma 26.9 percent

Arizona 17.1 percent

Texas 16.8 percent

Alaska 14.5 percent

Wyoming 14.5 percent

**GEORGIA 12.8 percent**

Montana 11.5 percent

Missouri 9.3 percent

Colorado 9.1 percent

Idaho 8.8 percent

*Source: Nelson A. Rockefeller Institute of Government*

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