



POLICY TALKING POINTS

Modernizing the Sales Tax

Spending patterns have changed over the last several decades.

When Georgia's sales tax system was created in 1951, consumers bought more goods, such as clothing and appliances, than services, such as haircuts and pest control. Those spending patterns have changed in the past 50 years, according to recent studies. While 39 percent of purchases were goods and 31 percent were services in 1970, today's American consumer focuses 33 percent of purchases on goods and 44 percent on services (2001 data). This trend of buying more services than goods is likely to continue.

As spending patterns changed, Georgia's sales tax system remained the same.

While Georgians shifted to buying more and more services, the sales tax base remained focused on goods. In 2004, Georgia taxed 36 out of 168 possible services. The national average was 57 services in the tax base. In the South, several states tax more services than Georgia, such as Arkansas (72), Florida (62), Louisiana (55), Mississippi (74), and Tennessee (67).

Georgia should modernize its sales tax by broadening the base and lowering the rate.

Lawmakers should broaden the sales tax base to include more services.

Because the sales tax base leaves out so many services, the sales tax rate is higher than necessary. Broadening the base to include more services would allow lawmakers to lower the sales tax rate on all purchases. Including more services would also increase fairness, since consumers buying goods and services would be treated equally. For example, currently, Georgians who purchase landscaping services will not pay sales tax, but those who purchase a lawnmower must pay the tax. Broadening the base to include more services would treat these purchases similarly and increase fairness between consumers.

In addition, Georgia's sales tax system is weakened by a myriad of exemptions.

Excluding services from the sales tax base is not the only weakness in the sales tax system. Georgia's sales tax base is also eroded by numerous sales tax exemptions lawmakers have enacted over the years. Each sales tax exemption, which excludes a certain item from the sales tax base, decreases the amount of revenue the state can generate. This lost revenue must be made up through a higher sales tax rate on the remaining base or less funding for services. Georgia should review and debate sales tax exemptions to identify those that no longer fulfill contemporary economic needs.

Tax modernization is a benefit to Georgians that everyone can support.

Citizens understand that today's economy is not the same as it was in the 1950s. Bringing Georgia's tax system into modern times should not be a partisan issue, but rather part of good government measures to make sure our government runs as efficiently, effectively, and fairly as possible.