

## Recovery of Taxes Due/Revenue Options for Georgia

Option	Description	Amount of Revenue Loss Prevented
<i>Recover Taxes That Are Due</i>		
<p><b>Require combined reporting of income for corporations, close the corporate “PIC” trademark loophole, and redefine “business income”</b></p>	<p>For tax purposes, corporations apportion income across states where they do business and use strategies to artificially shift to low- or no-tax states. 16 states now use combined reporting to treat all related corporations operated as a single business enterprise, any part of which is conducted in the state, as one taxpayer for purposes of apportioning income: AK, AZ, CA, CO, HI, ID, IL, KS, ME, MN, MT, ND, NE, NH, OR, UT. Combined reporting assures that state income tax liability is the same regardless of the corporate legal structure. Large companies also shift reporting of income by using a “passive investment company” or PIC which is a corporate affiliate shell in Delaware. It owns the parent company’s patents and trademarks and charges huge royalties to the parent company, thus shielding the funds from taxation. 31 states have closed this loophole including AL and NC. Combined reporting is a good long-term solution to this problem. Finally, certain corporate profits from irregular transactions such as sales of plants or equipment fall outside the definition of “business income” and thus escape state taxation. Georgia is one of 13 states that could realize additional revenue by distinguishing between apportionable business income and allocable nonbusiness income, changing the definition of apportionable income, and defining allocable income as all other income of a taxable corporation.</p> <p>These are among the most costly corporate tax loopholes from a state revenue perspective. Changing these provisions can begin capturing lost revenue fairly quickly. Also, Studies show these kinds of tax changes are unlikely to have significant negative impact on industry decisions on where to locate.</p> <p>Sources: Mazerov, M., “Closing Three Common Corporate Income Tax Loopholes Could Raise Additional Revenue for Many States,” Center on Budget and Policy Priorities, 2002. “Corporate Tax Sheltering and the Impact on State Corporate Income Tax Revenue Collections,” Multistate Tax Commission, 2003.</p>	<p>Need more information on estimates for these individual options.</p> <p>However, Multistate Tax Commission estimates Georgia lost roughly \$287 M in 2001 to corporate domestic and international tax sheltering (\$162 domestic). These were primarily the trademark loophole, no-where income, offshore tax havens, shifting taxable income away from the U.S. through pricing with jointly owned companies.</p>
<p><b>Enact a “throwback” rule for corporate “nowhere income”</b></p>	<p>P.L. 86-272 prohibits states from taxing corporate income if the corporation does not conduct a certain level of activity in the state. Corporations often claim that a large portion of their profits come from sales in the states where they cannot be taxed. For tax purposes, the income seems to come from nowhere. About half of states have a “throwback” rule directing that if income is not taxed in the state where a product is sold, it is taxed where it was made. If the state does not have a throw back rule, 50-100% of the profits of its resident corporations often will be “nowhere income.” Statutory language will be: “Sales of tangible personal property are [deemed to be] in this State [for apportionment purposes] if the property is shipped from an office, store, warehouse, factory, or other place of storage in this State and the taxpayer is not taxable in the State of the purchaser.”</p>	<p>See above.</p>

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	<p>This is among the most costly corporate tax loopholes from a state revenue perspective. Changing these provisions can begin capturing lost revenue fairly quickly. Also, studies show these kinds of tax changes are unlikely to have significant negative impact on industry decisions on where to locate.</p> <p>Source: Mazerov, M., "Closing Three Common Corporate Income Tax Loopholes Could Raise Additional Revenue for Many States," Center on Budget and Policy Priorities, 2002.</p>	
<b>Enact personal income tax amnesty</b>	Enforce tax laws. Give an appropriate amnesty to recover taxes due quickly.	
<b>Collect back taxes owed by corporations and individuals</b>	<p>Approximately 80,000 companies and 287,000 individuals owe some \$1.6 billion in back taxes.</p> <p>Source: Bart Graham, State Revenue Commissioner, quoted in Atlanta Journal &amp; Constitution, Saturday, December 13, 2003, pp. A-1 and A-13.</p>	Up to \$1.6 B. Department of Revenue's current goal is to collect \$98 M to \$137 M.
<b>Temporarily suspend a small portion of the property tax homestead exemption increase</b>	O.C.G.A. 36-89. The property tax relief promised by Gov. Barnes and accounted for in the recent budget amounted to about \$ 329 M in tax expenditures. Suspending a portion of the additional grants to counties and school districts temporarily could generate funds needed to ride out the economic downturn and salvage key programs.	\$3.29 M for every 1% by which effect of the exemption is reduced
<b>Temporarily increase non-grocery sales tax by 1%</b>		\$1.25 B
	<b><i>Redirect Revenue</i></b>	
<b>Temporarily redirect a portion of motor fuel tax revenue to general fund</b>	There are two state motor fuel taxes. The first is a 7.5% excise tax levied on distributors that is earmarked under the state Constitution for providing and maintaining roads and bridges. The second is a sales tax on motor fuel retail sales. A 4% sales tax is actually collected, although current statute only allocates 3% of the sales tax for roads and bridges (O.C.G.A. 48-9-14 (a)). The remaining 1% is deposited in the general fund and can be used for any purpose. O.C.G.A. 48-9-14 (a) could be amended to allocate 2% for roads and	\$65-\$80 M

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	bridges, allowing the remaining 2% to be deposited in the general fund. Diverting an additional penny of the second motor fuel tax to the general treasury and funding necessary road improvements through bond issues could help reduce the deficit.	
	<b><i>Eliminate or Suspend Tax Breaks for Wealthier</i></b>	
<b>Decouple from federal estate tax changes</b>	<p>The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) phases out and eventually eliminates the federal estate tax in 2010. The credit for state estate taxes is being reduced by 25% per year in starting in 2003 and ends in 2005. At present, states have an estate tax equal to the allowable credit for state estate taxes allowed on the federal tax form. Georgia stands to lose millions of dollars if it does not de-link from the federal changes. State estate taxes offset some of the erosion in state revenue relative to economic growth that occurs because of over-reliance on more regressive consumption taxes. The federal estate tax (and the state's pickup) is paid solely by the wealthiest 2% of people who die each year. Reducing taxes on the wealthy is inappropriate when Georgia is cutting programs that affect people at all income levels. 17 states now decoupled: KS, ME, MD, MA, MN, NE, NJ, NY, NC, OH, OR, PA, RI, VT, VA, WA, WI.</p> <p>Sources: McNichol, EC and Llobrera, J, "Why States Should Act to Preserve Their Estate and Inheritance Taxes," Center on Budget and Policy Priorities, 2003. Budgetary Responsibility Oversight Committee of the Ga. General Assembly.</p>	<p>SFY 04 - \$56-70 M  SFY 05 - \$89-110 M  SFY 06 - \$121-155M</p> <p><i>Estimates from BROC based on Dept. of Revenue &amp; Governor's Economic Advisor.</i></p>
<b>Increase income tax rate for high income filers</b>	<p>Enact a temporary or permanent 1% rate increase for high-income tax filers on the portion of their income that exceeds a set amount. The state could choose those over \$200,000 in adjusted gross income (2.1% of taxpayers), over \$500,000 AGI (.5% of taxpayers), or over \$1 million AGI (.1%). Actual cost to these individuals would average only 2/3 of the amount the state collects because they can deduct state income taxes on federal tax returns if they itemize.</p> <p>Sources: McNichol, EC, "Using Income Taxes to Address State Budget Shortfalls," Center on Budget and Policy Priorities, 2003. Center for Policy Alternatives.</p>	<p>&gt; \$200,000 - \$213 M  &gt; \$500,000 - \$123 M  &gt; \$1 million - \$59 M</p> <p><i>Estimates are based on federal statistics of income data. It is important to get the state's estimates.</i></p>
<b>Delay additional retirement income exclusion</b>	<p>O.C.G.A. 48-7-27. HB 43 enacted in 2003 raised retirement income exemption from \$14,500 to \$15,000 effective for tax years 2003 through 2005. For 2006 it is \$25,000; for 2007, \$30,000; and for 2008, \$35,000. The exclusion applies only to retirement income, not to earned income.</p>	<p>\$11,400,000 (2002)</p> <p>Source: Edmiston, K., et al., "Revenue Implications for Georgia of Tax Changes Since 1987, FRP Report No. 68, Fiscal Research Program, Andrew Young School of Policy Studies, Ga. State University, 2002, p. 17.</p>
	<b><i>Temporarily Suspend Targeted Corporate Tax Windfalls</i></b>	

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<b>Suspend research tax credit</b>	<p>Enacted in 1997 by HB 428. O.C.G.A. 48-7-40. Allows a credit of 10% of increased research outlays in Georgia</p> <p>Source: Edmiston, K., et al., "Revenue Implications for Georgia of Tax Changes Since 1987, FRP Report No. 68, Fiscal Research Program, Andrew Young School of Policy Studies, Ga. State University, 2002, p. 7.</p>	\$5,884,000 (2002)
<b>Suspend revisions to bank tax credit</b>	<p>Enacted by HB 145 in 2000 session. O.C.G.A. 48-7-21, 48-7-29.4, 48-6-93, and 48-6-95. Allows for acquiring firms to take unused credits of the acquired firm or, if acquiring is a subchapter S corporation, to pass the credits through to that entity.</p> <p>Source: Edmiston, K., et al., "Revenue Implications for Georgia of Tax Changes Since 1987, FRP Report No. 68, Fiscal Research Program, Andrew Young School of Policy Studies, Ga. State University, 2002, p. 8.</p>	\$5,884,000 (2002)
<b>Consider suspending a portion of tax credits for job creation</b>	<p>Revisions to BEST enacted in 2000 by HB 1509. O.C.G.A. 48-7-40, 40.1, 40.4, 40.9, 40.15, and 40.17. These are variable level tax credits for creation of jobs. Suspend only those tax credits that have not produced a measurable net benefit to Georgia.</p> <p>Source: Edmiston, K., et al., "Revenue Implications for Georgia of Tax Changes Since 1987, FRP Report No. 68, Fiscal Research Program, Andrew Young School of Policy Studies, Ga. State University, 2002, p. 9.</p>	Up to \$55,877,000 (2002)
<b>Suspend port traffic expansion tax credit</b>	<p>Enacted in 2001 by HB 609. O.C.G.A. 48-7-40.15. Allows a \$1,250 add-on credit to amounts allowed by original legislation passed in 1998 via HB 1667.</p> <p>Source: Edmiston, K., et al., "Revenue Implications for Georgia of Tax Changes Since 1987, FRP Report No. 68, Fiscal Research Program, Andrew Young School of Policy Studies, Ga. State University, 2002, p. 10.</p>	\$31,000,000 to \$51,000,000 (2002)
<b>Suspend sale or use tax exemption for video or film rental</b>	<p>Enacted in 1989 by HB 488. O.C.G.A. 48-8-3. Exempts the rental fee (distribution fee) paid by movie theaters for use of films for which they charge an admission. (Doesn't apply to home videos.)</p> <p>Source: Edmiston, K., et al., "Revenue Implications for Georgia of Tax Changes Since 1987, FRP Report No. 68, Fiscal Research Program, Andrew Young School of Policy Studies, Ga. State University, 2002, p. 17.</p>	\$4,170,000 (2002)
<b>Suspend sale or use tax exemption for coin operated amusement machines</b>	<p>Enacted in 1992 by HB 1256. O.C.G.A. 48-8-2 and 3. Includes items such as pinball, video, coin-operated pool tables, etc. There are master license fees for machine owners and permit fees per machine.</p> <p>Source: Edmiston, K., et al., "Revenue Implications for Georgia of Tax Changes Since 1987, FRP Report No. 68, Fiscal Research Program, Andrew Young School of Policy Studies, Ga. State University, 2002, p. 17.</p>	\$2,100,000 (2002)

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<b>Suspend sales tax exemption for purchases of certain manufacturing machinery</b>	<p>Enacted in 1995 by HB 336. O.C.G.A. 48-8-3. Exempts purchase of machinery used in manufacture of tangible personal property , including replacement or upgrade.</p> <p>Source: Edmiston, K., et al., “Revenue Implications for Georgia of Tax Changes Since 1987, FRP Report No. 68, Fiscal Research Program, Andrew Young School of Policy Studies, Ga. State University, 2002, p. 19.</p>	\$19,482,000 (2002)
<b>Suspend sales tax exemption for machinery replacement parts</b>	<p>Enacted in 2000 by HB 1510. O.C.G.A. 48-8-3. Clairfied exemptions from sales and use taxes components to upgrade machinery. Phases in exemptions for certain repair or replacement parts.</p> <p>Source: Edmiston, K., et al., “Revenue Implications for Georgia of Tax Changes Since 1987, FRP Report No. 68, Fiscal Research Program, Andrew Young School of Policy Studies, Ga. State University, 2002, p. 26.</p>	\$16,400,000 (2002)
<b>Suspend sales tax exemption for purchases or leases of computer equipment</b>	<p>Enacted in 2000 by HB 1510. O.C.G.A. 48-8-3. Provides an exemption with respect to sales or leases of computer equipment to certain high-tech companies when value of equipment exceeds \$15 million.</p> <p>Source: Edmiston, K., et al., “Revenue Implications for Georgia of Tax Changes Since 1987, FRP Report No. 68, Fiscal Research Program, Andrew Young School of Policy Studies, Ga. State University, 2002, p. 26.</p>	\$10,000,000 to \$20,000,000 (2002)
<b>Suspend sales tax exemption on sod grass</b>	<p>Enacted in 2000 by HB 1210. Exempts sales made by sod producer, a family member or employee.</p> <p>Source: Edmiston, K., et al., “Revenue Implications for Georgia of Tax Changes Since 1987, FRP Report No. 68, Fiscal Research Program, Andrew Young School of Policy Studies, Ga. State University, 2002, p. 27.</p>	\$1,600,000 (2002)
<b>Suspend sales tax exemption for fuel used by poultry industry</b>	<p>Enacted in 2000 by HB 1236. O.C.G.A. 48-8-3. Exempts from state sales tax sales of liquefied petroleum gas (Propane) or other fuel used in chicken houses.</p> <p>Source: Edmiston, K., et al., “Revenue Implications for Georgia of Tax Changes Since 1987, FRP Report No. 68, Fiscal Research Program, Andrew Young School of Policy Studies, Ga. State University, 2002, p. 28.</p>	\$300,000 to \$450,000 (2002)
<b>Suspend sales tax exemption for film production equipment</b>	<p>Enacted in 2001 by HB 610. O.C.G.A. 48-8-3. Exempts from sales tax certain film production equipment or services used by film producers for films intended for national commercial distribution.</p> <p>Source: Edmiston, K., et al., “Revenue Implications for Georgia of Tax Changes Since 1987, FRP Report No.</p>	\$4,600,000 (2002)

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	68, Fiscal Research Program, Andrew Young School of Policy Studies, Ga. State University, 2002, p. 29.	

Notes:

In Georgia, the share of total state taxes contributed by corporate income tax has declined from 9.2% in 1979 to 5.3% in 2000.

Source: Mazerov, M., "Closing Three Common Corporate Income Tax Loopholes Could Raise Additional Revenue for Many States," Center on Budget and Policy Priorities, 2002.