



FULTON COUNTY TAXPAYERS FOUNDATION

501©(3) Non-Profit Advocate of Lower Property Taxes in Atlanta/Fulton

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True Tax Reform Requires Thorough Study

By Jim Higdon, Executive Director Georgia Municipal Association

Jim Higdon, Executive Director of the Georgia Municipal Association (GMA) is our guest columnist for January. Based in Atlanta, GMA is a voluntary, non-profit organization that provides legislative advocacy, educational, employee benefit and technical assistance services to its 500 member cities.

When the General Assembly convenes in Atlanta in a few short weeks, one of the first issues legislators will take up is going to be restructuring local taxes. Not necessarily cutting taxes, but changing the way in which taxes are levied and distributed.

Understanding the flaws of HR 900

There are a number of tax bills out there, but the most commonly discussed is House Speaker Glenn Richardson's GREAT plan. The plan, which never was that great, stands for "Georgia's Repeal of Every Ad valorem Tax." It still goes by that name, but it has been scaled back some to currently only remove property taxes on education.

Getting rid of property taxes certainly wins popularity contests. But it does not win any sound fiscal policy awards. Unfortunately, should the resolution pass the legislature, it will be put forth to voters on the 2008 ballot as a simple question: "Should the Constitution of Georgia be amended so

as to implement the GREAT Plan by providing immediate tax relief and authorizing future tax relief?" Who wouldn't vote for tax relief? But this is a classic bait and switch. Voters will be approving a measure that may increase their taxes, removes local accountability and centralizes power at the state Capitol.

Georgia's School System is already burdened with tax waste

How will education be funded if there are no local property taxes? Trust us, state leaders say, we'll provide the funds. Ask any local school board member or school superintendent how that's worked out for them so far. I'm sure they'll tell you that because of the state's austerity cuts to the funding formula – made in flush economic times – they've had to raise the local millage rate to make up the difference.

Taxing low-income residents is not the answer

Richardson's legislation, HR 900, would remove the sales tax exemption on groceries, place a 4 percent state sales tax on lottery tickets and also tax consumer services, such as haircuts, landscaping, accounting, automotive and legal services. In

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communities where senior citizens benefit from a larger homestead exemptions on property taxes due to age and/or income, this is definitely going to be a tax increase. It will also raise taxes on lower-income residents, who spend more on services.

Property taxes have the added value of being transparent. You know each year how much you spend on property taxes. You can even find out how much your neighbor or any business in your community pays in property taxes. And you can go to your school board, city hall or county courthouse and see how those taxes are being spent in your community. With a sales tax, unless you keep meticulous records, you will not know how much you are spending on taxes. And because the state budget is drafted, negotiated and ironed out in the halls of the Capitol by a handful of legislators, you'll have no input on where tax revenue gets spent. Even most legislators do not know what's in the state budget until after it has been approved.

Then there is the accountability factor. Instead of a locally-elected board of education making tough funding decisions and having to live within the communities affected by those decisions, you'll have legislators from all over Georgia deciding how much revenue your school system needs.

Parents will have to turn to the Legislature, not the School Board

Parents that value musical education for their children may find funding for those programs cut. Parents who want school bus stops within the 1.5 mile minimum established by the state will no longer be able to go to their school board and request service to students living within that range. Instead, if they want music programs, extra bus service, athletic programs – items typically paid for by local property taxes – they'll have to petition their legislative delegation, who will then have to convince the powerful state budget writers to include funding for those programs. There would be 181 school systems lobbying members of the General Assembly to get their programs funded in the 40-day period the legislature meets each year.

Under that scenario, there is no accountability, transparency or efficiency.

Fiscal responsibility falls short

The speaker has made it clear that eliminating school property taxes is just a first step. It is his intention to remove all property taxes, cities and counties included, and replace them with an expanded sales tax. Several studies have said the sales tax revenue would be anywhere from \$2 to \$6 billion short of what's required to fund local governments at the 2006 level. And, under this plan, it would create "donor" counties. Sales tax revenue generated in more prosperous areas of the state will be used to fund services in other areas. Property taxes, however, are raised in a community and stay in that community to provide services that citizens deem of value to them.

There are other tax proposals that have been introduced for the 2008 session.

Interestingly, most are aimed at controlling local taxes; apparently, it is easier for the state government to control local government spending than its own.

Improve the system of collecting, rather than replace

If state legislators are serious about providing relief for property owners, one of the easiest things they can do is to upgrade the Department of Revenue's technology or privatize the collection of sales taxes. Because of a lack of technology and enforcement, sales tax money due the state is not being remitted. When Alabama began allowing local governments to audit sales taxes within their jurisdictions, or contract with a private company for the service, sales tax revenues rose 25 percent. This was not a new tax nor a tax hike. It was money due to the state and paid for by the consumer that was going uncollected by the state. Mississippi, too, saw an increase in its sales tax revenue when it allowed local governments to collect and audit sales taxes.

If Georgia were to adopt a similar system, sales tax revenues could be used to provide greater property tax relief. Before the state begins radically changing the tax system, wouldn't it be better to improve efficiency in the system we already have?

Forty legislative days is not enough time to drastically re-write the state's tax code. That is the belief of the Georgia Municipal Association's membership – along with school boards, counties and parent/teacher associations.

Conclusion

Many of these proposals have the potential to do great harm to a tax system that has been developed deliberately and carefully over the years and remains remarkably balanced.

In light of the potential negative impact these proposals could have on our local communities, our schools, and our local and state economies, our organizations have joined together for the purpose of discussing responsible tax reform.

Any tax reform effort should ensure adequate revenues, maintain local control, enhance the ability of local governments and boards of education to use local revenue sources to mitigate reliance on the property tax without eliminating the property tax, and be fair, simple and predictable.

Responsible tax reform should be based on well-thought-out policy decisions involving a myriad of interests. That's why GMA, the Association of County Commissioners of Georgia, AARP Georgia, the Fulton County Taxpayers Foundation, the Georgia School Boards Association, Georgia School Superintendents Association, League of Women Voters of Georgia, Professional Association of Georgia Educators, Georgia Budget and Policy Institute, Georgia Association of Chiefs of Police, the Georgia Parent Teacher Association, Constitutional Officers' Association of Georgia, Georgia Association of Educators and the Municipal Gas Authority of Georgia have asked Governor Sonny Perdue to convene a Commission on Comprehensive Tax Reform to initiate a thorough and open discussion on the implications of tax reform based on sound data and research.

This is not a new concept. A House Comprehensive Tax Reform Study Committee took up the issue of taxes in 2006. Among the conclusions of this study committee is that more study is needed. "We suggest that we utilize this study as a beginning and hereafter authorize and fund further academic study of our codes and systems going beyond stake-holder perspective into a global study that contemplates at least 20 years into the future."

Tax reform needs to be done right. If the current tax reform proposals proceed unchallenged and are placed before the Georgia voter without proper vetting, Georgia's economic prosperity could be irrevocably damaged.

Fulton County Taxpayers Foundation

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