Addressing Individual Objections to the State FairTax Bill

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Objection: The State will lose revenue

***Short Answer*: The proposed legislation has been specifically designed to be "revenue neutral" so the state receives the same amount of money that it takes in now.**

Beacon Hill Institute (BHI) is a nationally recognized, policy analysis consulting group in Boston, MA. BHI utilized the latest available GA Dept of Revenue data to come up with a tax structure that is "revenue neutral," meaning the plan is designed to produce the same amount of state revenue as the current system generates.

The 1.5¢ increase to the state tax rate and the mix of goods and services taxed were specifically designed to be revenue neutral (the same amount of revenue that the state currently receives from sales tax plus individual and corporate income taxes). They are a product of detailed analyses using the latest econometric modeling techniques and Georgia-specific data from Beacon Hill Institute, a widely respected consulting group at Suffolk University in Boston. The model results were also vetted with the Center for Fiscal Policy at Georgia State University.

The concept of taxing consumption rather than income should actually grow future state revenue and help to relieve budget stress.

- Faster economic growth leads to more jobs and more consumption.
- Rewarding work, rather than spending, encourages more people to work, contributing to state productivity, and decreasing need for government-provided services.
- Reduced need for government services puts less need for the state to spend more and increase taxes.

Objection: Everything will be more expensive

***Short Answer*: Elimination of the state income tax will reduce costs on businesses. Firms won't pay state income tax and can charge lower prices and still make the same amount of money.**

Objection: Moving away from an income tax towards a consumption tax will hurt the working class.

***Short Answer*: Not taxing income increases workers' take home pay, encourages employers to hire more people, and gives everyone a greater incentive to work. That accelerates economic growth which loops back to create even more prosperity. And the prebate untaxes basic necessities of goods and services.**

Working class people will enjoy an immediate boost in take-home pay since no state income tax will be deducted from their paychecks and no income tax will be owed. In fact, taxing income rather than consumption discourages work, the primary activity that adds real wealth to a household. The percent of Georgians in the workforce has declined to the lowest level in 40 years. The absence of an income tax helps to counter that trend.

"…more attention focused on boosting a region's workforce may be imperative for the future of many areas..."

Source: *How the Shrinking of the Labor Force Might Impact Your Community,* Federal Reserve Bank of St. Louis, Fall 2014

Objection: Retirees on fixed income will suffer.

***Short Answer*: Florida has a higher percent of people over 65 than any other state. It has no income tax. If retirees are hurt so badly, why do they move to Florida?**

Sharon Epperson, Senior Personal Finance Consultant on CNBC, said "…People don't just move to Florida because of the weather. It's a no-income-tax state so that's one of the reasons why folks like to move there."

No one's income, including retirees, will be taxed. Seniors who choose to work longer, an economic benefit for all, will receive higher take home pay. In addition, the prebate, which is based on household size, reimburses the entire sales tax paid on necessities. Those most in need will benefit the most from it.

The fastest growing segment of people who have left the labor force isn't retirees; it is people who still want a job, but can't find one. They are the people who will supply the goods and services retirees need if the economy is healthier.

Source: *How the Shrinking of the Labor Force Might Impact Your Community*, Federal Reserve Bank of St. Louis, Fall 2014

Objection: Taxing sales rather than income is a gift to the rich who don't spend as large a share of their income on consumption as poorer people do.

***Short Answer*: The rich consume more high cost food, health care, vacations, etc. Also, wages are the pathway to increased wealth. This legislation encourages work at all levels of income. That not only helps the individual, but has a positive overall impact on the economy.**

What matters most isn't the wage gap between the rich and others. What matters most is the ability of the economy to provide more jobs and economic growth in which all can participate. This is what has provided a standard of living in the US that is unprecedented in human history. Continued success will be achieved by having a vibrant mix of businesses that compete effectively in the marketplace. Taxing consumption rather than income rewards the expansion of those businesses that are competing most effectively and offer the most solid foundation for job growth.

Objection: It will increase the volatility of state revenue.

***Short Answer*: This is simply not true. In fact, the latest 10 years of data show just the opposite. Sales tax revenue is significantly more stable than income tax revenue.**

Objection: The bond rating of the state will be hurt and will cost taxpayers more money in interest.

***Short Answer*: There are four states with a AAA bond rating that have no income tax. States without income tax enjoy bond ratings just as high as Georgia. Other**

factors figure into bond ratings and overall economic growth is a major one. Taxing consumption rather than income stimulates economic growth.

It's important to understand that income (measured by money) is not the same as wealth. Wealth is stuff: a kitchen table, an apartment building, an iPhone. When people say that there is a major income gap, that doesn't always mean there is a major wealth gap. Wealth, not income is what determines a standard of living.

Any American earning more than $25,000 a year in income is in the top two percent of world income. Many of the 99 percent that are crusading against the one percent actually fall into this income level.

The real problem behind the income inequality debate should be about the ability of citizens to gain wealth and a higher quality of living. America's poverty line is $23,283 for a four person household according to the U.S Census Bureau. With that amount of money, Americans can still afford better housing than a super majority of citizens in certain African and South American countries. These Americans have access to more food than ever and don't worry about being malnourished.

The reason people in "poverty" can experience a level of wealth that is unprecedented in other countries today and even amongst the wealthiest of citizens over a hundred years ago is because of entrepreneurs who have found ways to make these good more affordable than ever. Companies throughout history, like Ford, Walmart, Microsoft, McDonalds, and Standard Oil, have found ways of making goods more affordable and accessible to more people so that people with lower incomes can have better standards of living.

Empowering entrepreneurs to continue to innovate and make goods more affordable is the key to a country's and its citizens' prosperity. The underlying issue in America is not income inequality, it's the government barriers and cronyism that prevents the middle class Americans from being able to easily start up businesses. By fixing regulations and lowering barriers to entry, the income gap will fix itself.

KEVIN D. WILLIAMSON April 21, 2014
http://www.nationalreview.com/article/376231/politics-poverty-kevin-d-williamson

Objection: Businesses in communities that border states with lower sales tax will lose business as people drive across state lines to buy things.

***Short Answer:* Border Counties make up only about 14% of total GA Adjusted Gross Income. Georgia businesses, including retailers, will have a lower cost structure because**

they don't pay corporate income tax and can reduce prices without hurting their bottom line.

Some GA border city taxes are <u>lower</u> than adjacent cross-border cities right now. In the NW GA area, the proposed sales tax change would still place the sales tax below Chattanooga's rate. Only along the SC border, would the sales tax in GA be the full 1.5¢ higher than SC. That state is also considering eliminating its income tax.

Examples of current Border Cities Sales Tax rates*

Georgia City		**Nearby Cross Border City**	
Columbus, GA	8.00%	Phenix City, AL	8.75%
Dalton, GA	7.00%	Chattanooga, TN	9.25%
Augusta, GA	8.00%	Aiken, SC	8.00%
Athens, GA	7.00%	Anderson, SC	7.00%
Valdosta, GA	7.00%	Tallahassee, FL	7.50%
Savannah, GA	7.0%	Ridgeland, SC	8.0%

*All rates include local sales taxes

Objection: Georgia needs to have both income tax and sales tax to maintain its triple A bond rating.

***Short Answer*: This belief is not supported by the facts. There are States without income taxes that have bond ratings just as high as or higher than states with the highest income tax rates.**

Moody's Ranking Scale

Higher ---									---Lower
Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3

States without Income Tax

State	Moody's Bond Rating
Alaska	Aaa
Florida	Aa1
Nevada	Aa2
South Dakota	No Gen Obligation
Texas	Aaa
Washington	Aa1
Wyoming	No Gen Obligation

States with Highest Income Tax Rates

State	Income Tax Rate	Moody's Bond Rating
California	13.30%	Aa3
Hawaii	11.00%	Aa2
Oregon	9.90%	Aa1
Minnesota	9.85%	Aa1
Iowa	8.98%	Aaa
New Jersey	8.97%	A2
Vermont	8.95%	Aaa
New York	8.82%	Aa1

State	Moody's Bond Rating
Georgia	Aaa

States that don't Tax Wages	Moody's Bond Rating
Tennessee	Aaa
New Hampshire	Aa1

A variety of factors contribute to a state's bond rating, including the state of its Economy, Governance, Finances and Debt. A thriving economy, conservative government spending that limits debt, and stable finances all figure into a state's financial soundness and its credit rating.

Objection: Sales Tax creates uncertainty because it's more volatile than income tax.

***Short Answer:* This myth is not supported by historical fact. Income taxes are nearly twice as volatile as sales taxes. Depending on income taxes actually increases volatility and risk.**

GFFT examined state tax revenue over the most recent 10-year period from 2005-14. Both General and Selective Sales Tax Gross receipts for Georgia had an average year to year change of 4.7% and 6.9% respectively. Both of these numbers were lower than the 7.4% for the Georgia Individual Income Tax and the 15.7% for the Georgia Corporate Income Tax.

This pattern was true not only for Georgia, but every one of Georgia's border states with the exception of Florida which has no personal income tax to compare. Consistent with all those other states, Florida's corporate income tax revenue was almost 50% more volatile that its General Sales Tax receipts and 164% more volatile than its Selective Sales Tax revenue.

Source: US Census Bureau report from data submitted by state revenue depts.

Objection: The state needs to offer income tax breaks to attract selected businesses.

***Short Answer:* Offering special tax breaks is about picking winners and losers, according to the amount of political influence they wield. The absence of an income tax is good for both existing businesses and newcomers and doesn't discriminate based on cronyism.**

Picking winners and losers at taxpayers' expense has been a very risky proposition as results often don't turn out as expected. If the state still needs to provide incentives, there are smart people who can figure out other ways to do that.