

Gehl: Georgia still needs real tax reform plan

By **SARAH BETH GEHL** - Athens Banner-Herald
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At the dinner table recently, I was discussing the Georgia legislature's latest proposal for tax reform, which failed to get through the recently concluded legislative session.

This latest version of tax reform entailed modestly expanding the types of purchases covered by the sales tax and lowering the income tax rate. It would take in the same amount of revenue as today's taxes, but those making the most money would enjoy a significant tax cut, while most everyone else would see no change or a small increase.

I was convinced there were some positive steps here, even amid the shortcomings. The proposal brought wealthy seniors back into the income tax system, limited itemized deductions and began to move the sales tax toward reflecting the service-based economy. Each of those changes would strengthen Georgia's finances in the long run.

My dining companion finally stopped me and asked, "Have you ever considered that you might be suffering from Stockholm syndrome?"

I Googled it. Stockholm syndrome is a condition of sympathizing with your hostage-taker. When the hostage-taker shows you some kindness - like allowing you to stretch your limbs after being forced to remain still - you begin to think, "Well, he's not such a bad guy after all."

Did my "it's not that bad" feeling about the tax plan stem from being conditioned to expect it could have been a lot worse? And since it wasn't that much worse, then it must actually be good?

Georgia's leadership has an ideological bent toward shifting taxes away from the wealthy and businesses, saying that will spur growth. Proposal after proposal in recent years has tried to accomplish that shift, by cutting the income tax rate on capital gains, for example, or choosing a favored business for a break.

Given all of that, I expected the tax shift in the recent proposal to be much worse. While the tax shift down the income ladder was relatively modest, I took that as a positive sign. It seemed like something of a compromise in the right direction. But, really, what is compromise when you're outside the power structure?

My ideal for tax reform would have been broadening tax bases and lowering rates. But it also would involve lessening the existing tax disparities between income groups rather than making them worse. And, rather than the state losing money or just breaking even, we would create a structure that grows with the economy and meets tomorrow's needs.

The tax reform recommendations we at the Georgia Budget and Policy Institute made at the beginning of this process included lower income tax rates, but with a few graduated brackets to ensure equity of the entire tax package. We also sought to improve equity by accompanying the expansion of taxable services with lowering the sales tax rate, raising standard deductions from a level last updated in the 1980s, and creating a refundable credit for low- and moderate-income Georgians to offset the impact of the new sales taxes.

Knowing these options were not the direction state leaders would take, I recalibrated my expectations. A reasonable strategy seemed to be to accept their start point and try to make progress on their grounds.

In the end, it didn't matter. Last-minute tweaks turned the proposal from break-even to a revenue loser. Going forward, Georgia would have had even less resources than it has in a year in which we are threatening economic growth by cutting school calendars, deferring much-needed maintenance of infrastructure and reducing access to higher education.

Georgia will continue to have an outdated tax system that no longer meets the needs of its residents and businesses.

The population will grow in the coming years, but our tax system won't keep pace with their needs. Economic competition will require more highly skilled workers and state-of-the-art infrastructure but we will fail to make the investments needed to make Georgia attractive to businesses.

We need tax reform. State leaders should restart the process.

But we can't afford for the conversation to be what it was in this year's regular legislative session - identifying what level of pain is OK in terms of tax shifts and shrinking services. Instead, we need a vision of what we want Georgia to be and a willingness to do what it will take to get there.

• *Sarah Beth Gehl is deputy director of the Georgia Budget and Policy Institute, an independent, nonpartisan, nonprofit organization working to raise the level of public policy debate in the state.*

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