

**GEORGIA STATE SENATE
BUDGET AND EVALUATION OFFICE**

Chairman's Column

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Georgia's Business Climate - Important for the Future?

This column has been looking recently at Georgia's "Tax Portfolio" and trying to understand how our state stacks up against the states Georgia competes with for not only new jobs but job retention and expansion as well.

Georgia is a comparatively "low tax" state and as we have learned, less dependent on fees and federal funds than other similar states or more dependent on taxes may be a better way of presenting this conclusion.

But, looking to the future, a very important determinant of business's decisions to locate or expand is the business "climate" of the state. That is, how does a state stack up against other states in key areas that determine the cost of doing business and the ability to make a profit.

The Tax Foundation, www.TaxFoundation.org, publishes a number of analyses on various tax policies of states and provides comparisons. One report they issue yearly is the State Business Tax Climate Index, the latest edition being dated September, 2009. The Foundation points out that because of mobile capital and labor, businesses today have the ability to locate or relocate where the business has the greatest competitive advantage.

In fact, when some are critical of tax breaks that the legislature has granted to industry, a closer examination usually reveals that the break is necessary to maintain or enhance an industry's ability to be competitive and for the state to retain or expand jobs.

As states compete today for expanded or new jobs, the business tax climate takes on a high importance particularly as Georgia begins to try to recover from the recession. And no one can deny that the pathway out of the recession is in the creation and retention of jobs.

The Tax Foundation states that lawmakers should heed two rules:

1. Taxes matter to business... and that the effect across the board affects a business's profitability.
2. States do not raise or lower taxes in a vacuum - that every change affects the cost of products and the cost of doing business in a competitive environment. Even making no changes while others raise taxes can be a positive.

The theories the Tax Foundation espouses are: low, flat tax rates on the broadest base possible, treating all alike. Actually, they do not favor targeted tax breaks, but favor all businesses benefiting from sound policies.

Categories of the Business Tax Climate Index

1. Corporate Tax Index
2. Individual Income Tax Index
3. Sales Tax Index
4. Unemployment Insurance Tax Index
5. Property Tax Index

This year Georgia ranks 29th Overall in Business Tax Climate Index with a lower ranking better and a higher ranking worse. So under this assessment, Georgia ranks below 28 other states and above 20 others. Other Southeastern states rankings include North Carolina at 39th, Alabama at 19th, South Carolina at 26th, Florida at 5th and Tennessee at 22nd.

Under Corporate Tax Index, Georgia ranks 8th nationally, North Carolina 25th, Alabama 23rd, South Carolina 9th, Florida 15th and Tennessee 11th.

Individual Income Tax ranks Georgia 30th, North Carolina 36th, Alabama 17th, South Carolina 28th, Florida 1st (no income tax) and Tennessee 8th (no personal income tax).

Sales Tax Ranking places Georgia 23rd, North Carolina 34th, Alabama 25th, South Carolina 18th, Florida 32nd, and Tennessee 49th.

Unemployment Tax Index has Georgia 22nd, North Carolina 5th, Alabama 16th, South Carolina 43rd, Florida 3rd and Tennessee 32nd.

Property Tax Index lists Georgia 36th, North Carolina 37th, Alabama 17th, South Carolina 26th, Florida 22nd and Tennessee 46th.

Obviously, these are not the only factors that affect businesses but are those which have great influence on the "tax climate" of a state.

So, Georgia is in the upper middle range overall at 29th overall and ranks best on Corporate Tax Rates, with the others in the range of 22nd to 36th , the highest being property taxes, which is essentially a local tax.

The Unemployment Insurance Tax Index might be the one index the state might find easier to improve, but a study of the structure of our unemployment tax rates would have to be accomplished.

Georgia competes pretty well with other Southeastern states in business tax climate and really shows up well against states from other parts of the country. The traditional top states in this ranking have immense natural resources like natural gas or oil which provides income for the states and helps keep taxes low. For example, South Dakota, with large natural gas deposits, is 1st in the ranking and oil and gas states like Wyoming and Alaska follow.