



AT ISSUE STATE EDITION



2019 • Volume 4 • Issue 2

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In the latest state edition of *At Issue*, we focus on three debates that will have, or continue to have, an indelible impact on Georgia politics and our economy: we review the recent upgrades that were approved for our elections system, thanks to the passage of House Bill 316; we highlight recently proposed tax legislation that vows to help us keep pace with our dynamic, and increasingly digital, economy; and we learn a little about the proliferation of so-called “benefit corporations.”

I am particularly proud of the passage of House Bill 316, which paves the way for new voting machines that will provide a paper trail of ballot choices. House Bill 316 received a thorough vetting throughout the legislative process, with protracted debate and over 20 hours of public comment between the two chambers. This article will detail the history,

current comprehensive overhaul and future of Georgia’s voting system as outlined within the bill, which I should point out was passed amidst some controversy. In fact, I want to commend everyone who came together despite the controversy to ensure the passage of this legislation, which I hope will keep our elections secure in the years to come and instill in our citizens the confidence they deserve in our democratic process.

The second article addresses advances in technology and how states are adjusting their tax structures to keep up with revenue generated from digital sales and services. Over the past several years, there have been numerous studies on how Georgia should approach the effort to tax digital goods and services. During this past session, several bills were introduced addressing this, including House Bill 428 which did not receive final passage. This article provides the background on this very complex issue and what the future may look like with the effort to have House Bill 428 become law next year.

The final topic addressed in this edition pertains to “benefit corporations” and the impact they can have on society beyond profit margins. This article, specifically, provides an overview of how other states have addressed these so-called “benefit corporations” and how their practices could be utilized in Georgia, a state where a business currently cannot incorporate as a “benefit corporation.” If there are topics you would like for us to cover in future editions, please do not hesitate to reach out to my office. Our second Federal Edition of *At Issue* will be coming out soon.

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Ethics

It's Time for an Upgrade – Georgia's Comprehensive Overhaul of Our Elections System

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Many of us have not yet fully recovered from the last round of elections – days of endless TV ads, debates and yards signs. Ready or not, though, Georgia is gearing up for the next round of elections. With a voting system nearing 20 years old and heightened concerns around the Nation about election safety and cybersecurity, Georgia is in the process of ushering in a completely new voting system.

This session, the General Assembly worked to pass a comprehensive overhaul of its election machine system. *House Bill 316* (the “Act”), sponsored by Representative Barry Fleming, was signed by Governor Brian Kemp and became law on April 2, 2019. This Act came, in part, as a result of proposals made by the Secure, Accessible and Fair Elections (SAFE) Commission. This 18-person Commission consisted of then-Secretary of State, Robyn Crittenden, Representatives and Senators from the Majority and Minority Parties, local election officials, a cybersecurity expert and citizen members.

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The Commission was tasked with “thoroughly studying and discussing all options for Georgia’s next voting system, with a focus on security, transparency, voter experience, accessibility and inclusion, voters’ ability to adjust to a new system, and the ability of election officials to adapt to a new system quickly and accurately.”¹ The Commission held four public meetings over the last year, met for over twenty-two hours, and heard from voting rights experts, officials and voters across the state.²

The bipartisan Commission voted (13-3) to approve a final report, which included eight recommendations, the first of which was a recommendation that Georgia “should adopt a voting system with a verifiable paper record.”³ Throughout the 2019 Legislative session, the House Governmental Affairs Committee and the Senate Ethics Committee held public hearings on *House Bill 316*. The committees also heard from voters, experts, and the current Secretary of State, Brad Raffensperger.⁴ House Bill 316 covers a multitude of areas specific to our voting process and this article will explore several areas of interest for Georgia voters.



Sen. William Ligon carried H.B. 316 in the Senate
Source: Senate Press Office

A New Generation of Voting

We have come a long way since the days of pulling a lever and punching our ballot. Since the Help America Vote Act (HAVA) was passed in 2002, in fact, states have been required to replace the lever and punch voting machines. Seventeen years ago Georgia moved to a uniform voting system and currently utilizes a system that is one of the primary tabulation methods employed across the country – Direct Recording Electronic (DRE) machines. The current DRE machines allow a direct vote by manually touching a monitor. Then the DRE machine records the individual vote and vote totals directly into computer memory, and does not use a paper ballot.

House Bill 316 requires the state adopt a new voting system that utilizes ‘electronic ballot markers’, which is defined in the legislation as an electronic device that does not compute or retain votes, unlike Georgia’s current machines. The new system will use electronic technology to mark a paper ballot at the direction of the voter, communicate the ballot selections for the voter’s verification and then will print a verifiable paper ballot for the voter. Based on these new requirements, the paper ballot would then be put into a ballot scanner, an electronic recording device, which collects and reads the ballot, then tabulates the votes on the ballot.

The sponsor of the bill, Representative Barry Fleming, testified in the Senate Ethics Committee that this verifiable paper ballot will not only allow voters to check their ballots, but if a voter notices a discrepancy in his or her electronic choices on the paper ballot, they can ask an elections worker to complete the voting process again. This paper ballot also serves to create a paper trail and allows for any possible recounting or audits following an election. According to Rep. Fleming, at least twenty-four states use some type of touch screen ballot markers in their elections.⁵

While the new machines will likely look similar to the old system, the new electronic ballot marker devices will never be connected to the internet and will have protective casings around the machine to prevent tampering.⁶

Voter Verification

If potential voters run into issues registering due to discrepancies with their identification records, *House Bill 316* now gives citizens the ability to complete their voter registration regardless. Voters will be allowed to produce proof of their identity to an election official at a later date, but before an election is held and before they request a ballot. This issue could arise in a situation where a citizen’s driver’s license, social security number, or date of birth, does not exactly match the information on file with the Georgia Department of Drivers Services or Social Security Administration. Prior to this Act, the voter registration application would only be accepted as valid after the identification of the applicant had been authorized.

Absentee Ballots

Georgia law allows citizens to request an absentee ballot for any reason, regardless of whether they will be “absent” during the election in which they plan to vote,⁷ and significant portions of *House Bill 316* provide voters with new absentee voting protections. One such provision allows non-felons in jail to request an absentee ballot be mailed to them in jail.

The Act also prohibits absentee ballot applications from being automatically rejected due to an apparent mismatch between the signature of the voter on their application and the signature on file with the board of registrars. Instead of rejecting the absentee ballot application, the election official handling the application will now be required to send the applicant a ‘provisional ballot’ with information on how the voter can cure the signature discrepancy.⁸

In the event a voter has not received their absentee ballot, believes their ballot has been lost in the mail, and even where the ballot is in their possession, Georgia law indiscriminately allows voters to cancel their ballot. The Act now allows voters to cancel their absentee ballots and vote in person if they received their absentee ballot, but have not returned it for whatever reason.

In an attempt to further protect the absentee voting process, especially in the case of disabled voters, the Act prohibits ballot harvesting by strangers. Absentee ballots may be delivered by caregivers of a disabled voter, or in the case of a voter in custody at a jail, the ballot may be delivered by a jail employee. But ballots are prohibited from being delivered or “harvested” by a voter’s employer, agent of the voter’s union, or a relative of a candidate whose name is on the ballot.

Audit of Paper Ballots

In addition to allowing voters to check their ballot using the verifiable paper ballot, the paper ballots will be used to inspect and audit the election results. The audit, performed in public, will ensure that all types of ballots are included and will consist of manual inspections of random samples to confirm accuracy. The Secretary of State is now tasked with conducting a risk-limiting audit pilot program, which, per the Act, should be designed to limit the risk of certifying a preliminary election outcome, thus constituting an incorrect outcome.

Coming Soon

On July 29, Secretary of State Brad Raffensperger selected Dominion Voting Systems to implement Georgia’s new verified paper ballot voting system. The statewide voting system contract was awarded for \$106,842,590.80. According to information presented by the bill sponsor, Representative Barry Fleming, a portion of the 150 million dollars appropriated by Governor Kemp for the new voting system will also be used to fund a comprehensive training effort for poll workers and election officials across the state.⁹ The Act did not specify a deadline for the machines to be purchased or put in place, but according to Secretary Raffensperger’s press release, implementation of the new secure voting system will start immediately and be in place and fully operational for the March 24, 2020 Presidential Preference Primary. - MM

Finance

Working Against the Stream: Modernization of Tax in the Digital Age

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It is always hard to appreciate how far technology can continue to develop. Even in this age of technological advancement, it is difficult to envision the developments that will quickly become commonplace in society. We can often fall easily into the trap of believing that we live in an era of peak technological advancement. This sentiment is especially true regarding how entertainment media is consumed. It was not long ago that the compact disk revolutionized music, people flocked to Blockbuster to rent the latest movie, and consumers studied their TV guide to catch an episode of their favorite show. Years ago, physical copies of VHS, CDs, and books were the only way to enjoy this media. Today, nearly every form of entertainment is consumed digitally. The vast majority of consumers now stream or digitally download each form of entertainment. Television shows and sporting events are frequently streamed through applications or services such as Netflix and Hulu. Movies are digitally rented or bought through new media giants, and books are increasingly downloaded and read off smart phones and tablets. In 2018, subscriptions to Netflix surpassed cable and satellite television subscribers for the first time.¹ According to a recent report by the Motion Picture Association of America, physical sales of DVDs and Blu-ray disks decreased 48% since 2014, while home entertainment consumer spending increased 36% during this same time period, illustrating a distinct transition to new media.² Consumers are progressively opting to receive their entertainment through new forms of media, abandoning media until recently, considered essential. But while technology continues to sprint ahead, the law often struggles to keep up.

Technology and media consumption methods continue to change rapidly, but the law, particularly sales tax, is often slower to respond. Traditionally, when a tangible form of media, such as a book or DVD, is purchased the applicable sales tax is collected on that purchase. The same media, purchased digitally, is often not subject to sales tax in many states since a tangible, physical item is not obtained. As more and more media is streamed or digitally downloaded, many states have looked to adjust their sales tax to address these new products and the resulting dwindling sales tax revenue. As of February of 2019, 29 states levy some form of tax on digital products and services, while 16 states generally exempt these goods and services.³ States have taken different paths to levy a tax on this new media consumption. Some states have opted to modernize their codes, specifically adding new provisions or including new definitions, while others have interpreted their sales tax laws to apply to this new technology as previously written. Taxes on digital goods vary even among states that have opted to generally collect tax on this media, as states differ in what digital products to tax, how to define these different products, and what form of consumption to tax. Digital purchases, rentals, and pure streaming services can often be treated differently for tax purposes among these states.

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An effort to tax digital goods and services has gained momentum in Georgia in recent years as a means of not only increasing sales tax revenue, but modernizing the tax code to equitably tax the same media in all forms. A tax on digital goods and services was recently proposed as a 2018 recommendation from the Georgia House of Representatives Rural Development Council, as part of a larger effort to increase rural broadband access. The Council proposed eliminating current franchise fees on cable television and landline phones and eliminating current sales tax on landline phones, cell phones, and broadband equipment. These eliminated fees and taxes would then be replaced by a reduced state and local tax on telecommunications and cable services and digital goods and services, and a state tax on direct broadcast satellite services. This proposed communications service tax aimed to “continue the modernization of the tax code and to level the playing field between bricks and mortar retailers and those who sell digital products.”⁴ This proposal would effectively lower costs associated with current communications and entertainment technology by expanding the tax base to include new, previously untaxed goods and services. Estimates of the fiscal impact of the proposed 4 percent digital services tax show that the tax could generate approximately \$48 million in state revenue in 2021.⁵ The Council’s proposal and the resulting legislation were met with resistance from some Georgia citizens and elected officials as a new tax. A poll by the Atlanta Journal Constitution reported that 65% of those surveyed did not support the proposed tax change.⁶ Representative Jay Powell, a member of the Council and proponent of the proposal, defended the tax change stating, “This is not a new tax. Technology is changing. The bottom line is, I’m getting movies, sports, news and all the things I’ve always gotten, but I’m getting them via a different medium, which is streaming services as opposed to cable TV.”⁷ A proposed bill, House Bill 428 by Representative Bill Werkheiser, provided some of the changes the Council recommended, but did not advance in the 2019 legislative session. House Bill 428, or another similar piece of legislation, will undoubtedly be a significant issue facing elected officials when they reconvene in 2020.

An effort to address new forms of media consumption is only one of many challenges facing Georgia as it works to modernize its tax codes for the digital age. Technology has drastically changed more than just entertainment as online shopping, ride sharing applications, and short-term rental properties have dramatically altered long standing industries. State officials have annually been required to address these emerging technologies as they gain popularity within the state. While issue surrounding ridesharing applications, such as Uber and Lyft, and short-term rental property websites, such as Airbnb and VRBO, remain under debate, advancements to address the emergence of online shopping have been made recently. In 2018, many states, including Georgia, worked to preemptively adjust their tax code to allow for the collection of sales tax from out of state retailers, to accommodate tax collection from popular online retailers. These efforts were rewarded when the United States Supreme Court overturned long standing precedent, allowing states to collect sales tax from out of state retailers without a physical presence in the state. This significant change in law allowed Georgia to reform its sales tax code to address shifting trends in the marketplace resulting from the growing prominence of online shopping. But as Georgia and other states work to modernize their tax codes, undoubtedly technology will not wait for the law to catch up. Technology will continue to advance and lawmakers must remain vigilant in reactively ensuring their state laws are ready for the digital age. - RB

Judiciary

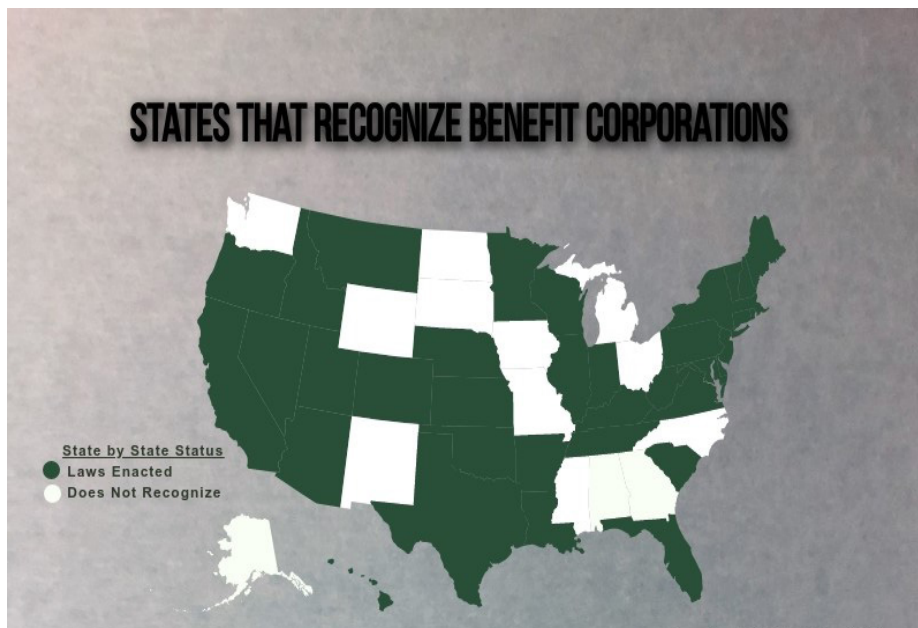
Beyond the Bottom Line – A Critical Assessment of Benefit Corporations and the Growth of Social Enterprise

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On April 15, 2019, Governor Kevin Stitt (R) of Oklahoma approved [House Bill 2423](#), and effective November 1, 2019, Oklahoma will allow businesses to incorporate as benefit corporations. On June 17, 2019, Governor Janet Mills (D) of Maine signed [similar legislation](#) to allow for incorporation of benefit corporations in that state.

A traditional, for-profit business entity, such as a corporation, can engage in activities that result in a public benefit, but the corporation’s directors may find their hands tied by legal standards that require corporate directors and officers to maximize the company’s value for stockholders. Benefit corporations, like those recently authorized in Oklahoma and Maine, make allowances for a for-profit corporation that is committed both to generating profit and to creating a public benefit (i.e., making a material positive impact on society or the environment). Examples of benefit corporations include Kickstarter (a crowdfunding platform that reincorporated in Delaware as a public benefit corporation in 2015) and Patagonia (a clothing company registered as a benefit corporation in California in 2012). Regarding its shift to becoming a benefit corporation in 2015, [Kickstarter notes](#) that “we broke away from a system that prioritizes profits above all else, and hoped to set an example for others” and that the company has “hardcoded our mission into our charter, along with commitments to always support art and artists, to operate in accordance with our values, and to donate 5% of our post-tax profits to arts education and organizations fighting inequality.”



Source: Senate Research Office

As reflected above, 36 states (in addition to Washington, D.C. and Puerto Rico) have enacted legislation to allow a business to incorporate as a benefit corporation; Georgia currently does not. However, the growing adoption of these hybrid entities has raised some concerns. In this article, we explore the pros and cons of the growing trend of states recognizing benefit corporations and assess the public policy “balance sheet” for benefit corporations, as well as other alternatives for the growth of socially conscious companies.

The 50,000 Foot View of Benefit Corporations

The legislative framework for benefit corporations varies somewhat from state to state. For example, [Hawaii](#) recognizes “sustainable business corporations,” whereas [Delaware](#), [Texas](#), and [Colorado](#) have “public benefit corporations.” In Tennessee, such entities are referred to as “[for-profit benefit corporations](#).”

Setting aside the minor deviations in what they are called, there are common elements across states in laws regarding benefit corporations, including for example, a requirement that the governing articles for the benefit corporation contain a statement that this is a benefit corporation. Other common elements of benefit corporation legislation include:

1. Added to the Body of State Law regarding Corporations

Typically, the states that have chosen to recognize benefit corporations have built them into the portion of state law regarding business corporations generally. For example, Ark. Code Ann. § 4-36-102(c)(1) states that, unless otherwise provided, the Arkansas Business Corporation Act is generally applicable to a benefit corporation. Indeed, this is a feature of the [Model Benefit Corporation Legislation](#) proposed by B Lab (a nonprofit organization, discussed below), which provides that, “[e]xcept as otherwise provided in this [chapter], [the enacting state’s business corporation law] shall be generally applicable to all benefit corporations.” This statutory placement allows the state’s body of corporate governance law to generally apply to the benefit corporation, unless otherwise provided.¹

2. General Public Benefit/Specific Public Benefit

A benefit corporation has the purpose of creating a general public benefit, which in broad terms requires a material positive impact on society and/or the environment, as assessed against a third-party standard. However, Delaware, pursuant to Del. Code Ann. tit. 8, § 366(c)(3) makes it optional for the benefit corporation to “use a third-party standard in connection with and/or attain a periodic third-party certification addressing the corporation’s promotion of the public benefit or public benefits identified in the certificate of incorporation and/or the best interests of those materially affected by the corporation’s conduct.”

Specific public benefit purposes could also be identified by the benefit corporation, which might include a particular benefit that, to provide just a few examples: provides products or services to low-income or underserved communities; the restoration of the environment; improvement to health; or promotion of the arts and sciences.

3. Annual Benefit Report

Benefit corporations are also required to prepare an annual benefit report to reflect whether the benefit corporation acted materially in accordance with its public benefit purpose or purposes. Examples of annual benefit reports from [Kickstarter](#) and [Patagonia](#) are publicly available and can be accessed online.

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Benefits, Concerns, and Ongoing Questions for Benefit Corporations

The proliferation of benefit corporation legislation arose to address the need for a new type of business entity that could shift the focus from “shareholder primacy” (i.e., that shareholder interests/profit should be assigned first priority) and to respond to market demands for businesses that can attract more socially and environmentally-focused customers, investors, and entrepreneurs.² Formation as a benefit corporation could provide corporate fiduciaries with some relief from the pressure to maximize profits. Furthermore, benefit corporations could also be [less vulnerable to hostile takeovers](#) because their management is tasked with broader considerations than maximizing the financial returns of shareholders.

However, concerns have been raised that the law does not provide enough guidance for directors of benefit corporations regarding how to pursue a profitable enterprise that also fulfills a stated social mission. Others have raised concerns that benefit corporation laws allow these same directors to enjoy broad protections that may not be truly needed and leave the mission of the benefit corporation and the stakeholders unprotected.³

For these reasons, the passage of benefit corporation legislation has not gone without controversy. In 2013, the New Mexico legislature passed benefit corporation legislation by decisive margins – 33-6 in the Senate and 62-3 in the House. However, then-Governor Susana Martinez (R) exercised a [pocket veto](#) to nix the legislation. During the 2019 legislative session, New Mexico Rep. Zachary Cook (R) introduced another benefit corporation bill in the New Mexico House, but after a committee recommendation of Do Pass, further action on the bill was [postponed indefinitely](#).

Other Ingredients in the Social Enterprise Corporate Stew

Further complicating the analysis of the value of benefit corporation legislation is the proliferation of other somewhat similar but distinct corporate forms that could be recognized under state law, such as low-profit limited liability companies (“L3Cs”), benefit limited liability companies (“BLLCs”), or social purpose corporations (“SPCs”). However, benefit corporations are by far more widely recognized than these alternative hybrid entities. According to the [Grunin Center for Law and Social Entrepreneurship](#), L3Cs are offered in 8 states, BLLCs in 5 states, and SPCs in 4 states. Some states recognize a combination of benefit corporations and/or these other corporate forms. Currently, none of these alternative business entities are available under Georgia law.

A low-profit limited liability company (also referred to as a “L3C”) is a permutation of a limited liability company (“LLC”), in which, generally, the owners are not personally liable for the company’s debts or liabilities and the owners avoid the double taxation commonly associated with the corporate model. L3Cs are not without controversy. North Carolina enacted legislation to recognize L3Cs only to [repeal that law](#) with an overhaul of its LLC statutory scheme in 2014.

Deviating from the trend of enacting statutes to recognize benefit corporations, Washington took a somewhat different approach when it enacted legislation in 2012 regarding social purpose corporations. Social purpose corporations are generally regarded as having less stringent verification and reporting requirements than a benefit corporation.⁴

California recognizes both benefit corporations (Cal. Corp. Code §§ 14600 et seq.) and social purpose corporations (Cal. Corp. Code §§ 2500 et seq.) [Florida](#) and [Texas](#) also recognize both benefit corporations and SPCs.

In addition, there is a nonprofit organization that offers a “Certified B Corporation” program, for any type of for-profit business entity. [B Lab](#) offers a certification process that requires companies to consider the impact of business decisions “on their workers, customers, suppliers, community, and the environment.” [Any for-profit company](#) with at least a year of operations, “from LLCs to traditional corporations to benefit corporations and cooperatives,” may pursue B Lab’s B Corp Certification. Certain companies, such as those under a year old, those with related entities, or large multinational and public companies, have [additional considerations and requirements](#).

As of July 25, 2019, there are 2,933 B Lab Certified B Corporations, across 64 countries and 150 industries. The B Lab certification process, as noted above, is available for any for-profit business and would not be limited to companies that are incorporated specifically as benefit corporations.

Conclusion

The final balance sheet for benefit corporation legislation may be unclear, but the same could be said for any new trend in legislation. It will be interesting to see how the body of statutory law, legal precedent, and retrospective financial and social analysis continue to develop around this emerging area in public policy. During the 2019 legislative session in Georgia, there was some movement toward recognizing benefit corporations in Georgia. [House Bill 230](#), sponsored by Rep. Scott Holcomb of the 81st (D) passed from the House (165-2). In the Senate, the bill was assigned to the Judiciary Committee, where it received a hearing on March 27, 2019. Only time will tell where benefit corporations fall on the ledger of public policy decisions. - BV

It's Time for an Upgrade – Georgia's Comprehensive Overhaul of Our Elections System Endnotes

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