

AN ALERT FROM THE BDO STATE AND LOCAL TAX PRACTICE

BDO KNOWS:

SALT



► SUBJECT

PROPOSED GEORGIA TAX REFORM

► SUMMARY

On January 7, 2011, the Special Council on Tax Reform and Fairness for Georgians issued its report providing recommendations for Georgia tax reform. These recommendations provide for significant modifications to most Georgia taxes. It is anticipated that many of these recommendations will ultimately become law.

► DETAILS

In 2010, the Special Council on Tax Reform and Fairness for Georgians (the "Council") was charged with reviewing Georgia's tax code for fairness and to make recommendations for modifying the law to make Georgia a more business-friendly and fair-taxing state. The following is a summary of the Council's recommendations.

Corporate Income Tax Proposals

- Reduce the corporate tax rate to at least 5% (currently 6%) and keep it consistent with the individual income tax rate beginning in 2012. Any reductions in the corporate income tax rate would mean a lower individual income tax rate.
- Eliminate all economic development credits in 2012. The Council found that these credits are costly to administer and that very few businesses take advantage of them.
- Create a fund to be managed by the Department of Economic Development to attract new and expanding businesses to Georgia. This fund would effectively convert the current economic development credits (being eliminated) into a jobs credit and a capital investment credit.
- Eliminate all other corporate income tax credits in 2014.

CONTACT:

West:

ROCKY CUMMINGS, Tax Partner
408-278-0220 / rcummings@bdo.com

PAUL MCGOVERN, Tax Director
714-913-2592 / pmcgovern@bdo.com

Northeast:

NICK NESI, Tax Partner
212-885-8420 / nnesi@bdo.com

Southeast:

MARK SIEGEL, Tax Senior Manager
404-979-7188 / msiegel@bdo.com

Central:

RICHARD SPENGLER, Tax Senior Director
616-776-3687 / rspengler@bdo.com

NICK BOEGEL, Tax Senior Manager
414-615-6773 / nboegel@bdo.com

JOE CARR, Tax Partner
312-616-3946 / jcarr@bdo.com

Southwest:

GENE HEATLY, Tax Senior Director
214-665-0716 / gheatly@bdo.com

► Read more

Sales/Use Tax Proposals

- Eliminate the exemption for food purchased for home consumption effective June 30, 2011.
- Create a new exemption for energy used in manufacturing, mining, and agriculture.
- Prevent future enactment of sales tax holidays.
- Sunset all non-government and non-business input exemptions to allow the Legislature to analyze whether the justifications for these exemptions warrant renewal.
- Apply sales/use tax to casual sales of titled property including motor vehicles, watercraft, and aircraft (currently exempt).
- Apply sales/use tax to various services including clothing services (*e.g.*, alterations), household utilities (*e.g.*, garbage pick-up), moving services, membership fees (*e.g.*, country clubs), and vehicle maintenance. Currently, Georgia applies sales/use tax only to sales of tangible personal property.
- Bring Georgia into full compliance with the Streamlined Sales and Use Tax Agreement.

Personal Income Tax Proposals

- Eliminate all adjustments to federal adjusted gross income so there are limited exceptions to federal law. The exemptions that will not be eliminated include social security, interest and dividends from Georgia municipal obligations, and adjustments related to federal credits.
- Repeal the retirement income exclusion increases set to begin in 2012 and phase out the current \$35,000 exclusion.
- Apply a single flat tax rate not to exceed 4% effective January 2014. The current rate (6%) should be reduced so it does not exceed 5% in January 2012 and 4.5% in January 2013.
- Eliminate all Georgia itemized and standard deductions and personal exemptions. Reduce the personal exemption amount for dependents to \$2,000.
- Establish a personal credit for low-income taxpayers to mitigate the loss of deductions, exemptions, and credits for those taxpayers.
- Sunset all current personal income tax credits by 2014 except the credit for taxes paid to other states, certain energy credits, and the angel investor credit.

Other Council Recommendations

- Establish a tax court that is independent of the Georgia Department of Revenue to hear appeals.
- Establish a commission to review local property taxes.
- Review Georgia's tax structure periodically following the gubernatorial election cycle.
- Review the operation of the Georgia Department of Revenue to better serve taxpayers.

► CONCLUSION

The Council's recommendations contain both positive and negative provisions for Georgia taxpayers. While the reduction in corporate income tax rates is intended to attract businesses, the elimination of tax credits and sales/use tax exemptions plus the expansion of the sales/use tax base could increase tax liabilities and make compliance more challenging for businesses. Although the reduction of the individual income tax rate would seem to benefit Georgia residents, it is unclear what the overall impact will be as a result of the elimination of most deductions and exemptions. BDO will continue to monitor the progress of the Council's recommendations and will provide future updates.

The Tax Practice at BDO is among the largest tax advisory practices in the United States. With 40 offices and more than 400 independent alliance firm locations in the United States, BDO has the bench strength and coverage to serve you.

BDO is the brand name for BDO USA, LLP, a U.S. professional services firm providing assurance, tax, financial advisory and consulting services to a wide range of publicly traded and privately held companies. For 100 years, BDO has provided quality service through the active involvement of experienced and committed professionals. As an independent Member Firm of BDO International Limited, BDO serves multinational clients through a global network of 1,082 offices in 119 countries.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms. For more information please visit: www.bdo.com.

To ensure compliance with Treasury Department regulations, we wish to inform you that any tax advice that may be contained in this communication (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties under the Internal Revenue Code or applicable state or local tax law provisions or (ii) promoting, marketing or recommending to another party any tax-related matters addressed herein.

Material discussed in this tax alert is meant to provide general information and should not be acted on without professional advice tailored to your firm's individual needs. Copyright © 2011 BDO USA, LLP www.bdo.com