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Kathleen Gruben

Georgia Southern University, kgruben@georgiasouthern.edu

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Inventory tax related to budget situation?

The seriousness of Georgia's financial situation came to the forefront when university administrators were recently told to prepare for a budget cut that would reduce state funding to 1999 levels.



Kathleen Gruben

Because the retail industry is at the core of our economy, employing almost 20 percent of the state's workforce and generating a large portion of the tax base, ensuring that industry is healthy will go a long way toward healing many of Georgia's financial woes.

Retailers need the product of our educational system to be properly managed. Our educational system needs the tax revenue generated by the retailers to provide a quality education.

Balancing some of the inequities and understanding some of the anomalies within the retail industry highlight how decisions based on superficial considerations can cause problems that damage state income in the long run. Making the decision to cut state

funding to universities will have similar hidden costs.

Retailers face many issues of which most people are unaware.

The one imposed by the state that particularly places Georgia retailers at a competitive disadvantage and serves as a disincentive to prosper year-round is the retail inventory tax.

Georgia is one of only six states that continue to impose such a tax. Ideally, a tax generates more income for the state. So why did other states abolish similar systems? Primarily because it is a regressive tax that fosters inequities. It penalizes an industry that, when healthy, allows us to enjoy the frills of the good times.

One might initially think the inventory tax generates more state revenue. Don't jump into that train of thought too quickly. One major consideration is that none of the remaining five states with the inventory tax border Georgia.

When a retailer is located in a city near another state, what is the incentive for a retailer to remain in Georgia? Why not move across the border into

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another state? Some have, and frequently take customers and tax dollars with them.

Some retailers that do not want to move across state borders, but sell large items, simply rent warehouse space in a bordering state. This allows them to avoid inventory on anything in storage.

The long-term impact of this tax extends beyond the simplicity of losing the taxes generated by relocation of the business or the inventory.

It favors "big ticket" sectors that could generate larger tax dollars by exempting auto dealers, farm equipment and boat dealers.

It favors large retailers over independents. Large retailers often have out-of-state distribution centers. Merchandise is received from the distribution centers on a regular basis, allowing the large retailer

to sell down his stock and replenish it within days of taking inventory.

Independents don't have that luxury, which results in smaller retailers having to pay taxes on a larger portion of their inventory.

Retailers with a high inventory turnover rate, such as convenience stores, stores that sell perishable items and large retailers with quick replenishment, pay taxes on a smaller portion of their inventory because they don't have to maintain high stock levels. This means independent retailers carry an undue burden of the tax load, which means the tax doesn't generate state income as was intended.

These are only a few dimensions of the issue. As you consider them, remember these key points:

- Profits generated by local

retailers remain in the community much longer than the profits of a company located out-of-state.

- Contrary to common belief, the large retailers' average profit margin is only 1 percent to 3 percent per year. They employ one out of five workers while providing residents valuable services. Simply put, they could close the doors, put their employees in the unemployment lines and invest their money and earn almost as much as they do by staying in business.

- Although the state needs all the revenue it can generate, it needs to consider that providing disincentives to an industry that generates such a large portion of its income is not necessarily a wise decision.

- Cutting educational funding to the bare bones will provide another disincentive for large companies, including retailers, to even consider new locations in the state.

Dr. Kathleen Gruben is an associate professor of marketing and director of the Center for Retail Studies at Georgia Southern University. She can be reached at kgruben@georgiasouthern.edu.

Hard to imagine Hilton Head without Heritage

Imagine Hilton Head Island if Charles Fraser had failed to sell the PGA Tour on staging the golf tournament there.

Would the island be one of world's most popular golf destinations? Would it be known as South Ohio for its retiree population? Would it be considered a model of aesthetically and environmentally pleasing development?

No way. No how. Not a chance.

Now imagine Hilton Head Island's future if it loses the Heritage of Golf after the 2011 tournament.

That's a possibility, maybe even a probability at this point. This year's event is the last for longtime title sponsor Verizon and its predecessors (MCI and Worldcom).

The tournament operator, the Heritage Classic Foundation, has the funds to put on the 2011 tourney.

The Heritage's existence beyond 2011, however, depends on the recruitment of a new title sponsor. The Heritage Classic Foundation needs a corporation to write an \$8 million check.

Currently, there's little interest; so little, tournament director Steve Wilmot says, "everything is on the table," short of painting a sponsor's logo on the Harbour Town lighthouse. The Heritage Classic Foundation is even willing to move the tournament's traditional date — the week after the Masters — if that's what the sponsor demands.

Wilmot has even enlisted the players' help in the sponsor search. He's offered deals to the game's stars: Play this year to help spark sponsor interest and he won't lobby them to play in future years.

The lack of star power led to the Heritage's demise and is no doubt hurting the tourney's sponsorship hunt, just as it has several other lower-profile events across the country.

"I'll give them a pass," said Wilmot, who recently received a commitment from Vijay Singh for the first time since 2001.

The players have been the ones passing on the Heritage over the last decade. Once a "second-tier event" on the level of the Memorial Tournament, Pebble Beach and Bay Hill in terms of prestige to the players, the Heritage now constitutes a bye week for the stars.

Tiger Woods hasn't played since 1999. Phil Mickelson quit coming after 2001. The top Europeans, who once used the Heritage to decompress from the Masters, now go home or on vacation instead: Lee Westwood

hasn't played since 2005, Sergio Garcia since 2002 and Pdraig Harrington since 2001.

The lack of star power led to the Heritage's demise and is no doubt hurting the tourney's sponsorship hunt, just as it has several other lower-profile events across the country.

Purses have grown exponentially in the Woods era — the Heritage payout has gone from \$1.9 million in 1998 to \$5.7 million this year — and players no longer have any incentive to play 25 tournaments a year.

For example, Paul Casey made \$2.5 million in just 12 events last year. Even a no-name player like James

Driscoll earned \$807,578 for 17 weekends of work in 2009.

Hilton Head could soon feel the impact. Losing the Heritage won't turn the island back into what it was before the original swing bridge from the mainland opened in 1956. Its reputation is too well-established.

But the loss of exposure will gradually erode the island's image. The Heritage attracts TV viewers in spite of its field. It benefits from the spike in golf interest coming out of the Masters. Harbour Town lighthouse may not be as recognizable to casual golf fans as Amen Corner, but it's not far off.

Hilton Head without the Heritage is just hard to imagine.

Adam Van Brimmer is a business reporter for Savannah Morning News and Business in Savannah. You can contact him at 912-652-0362 or adam.vanbrimmer@savannahnow.com.