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Georgia Budget and Policy Institute

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## UPDATE: Adding Up the Fiscal Notes, 2007

### Final Tax Bills After Governor's Vetoes

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With the completion of the 2007 legislative session, the combined effect of tax exemptions passed by the House and Senate can be estimated through an analysis of Fiscal Notes. Each bill affecting state revenue collections contains a fiscal note, which estimates the revenue gain or loss associated with passage of the bill. The following discussion presents seven House bills, which have the combined potential to create a **\$51 million** decrease in state revenues in Fiscal Year (FY) 2008. While the House and Senate passed 12 tax bills with a fiscal consequence, the Governor vetoed 5 of the bills.

While some of these tax breaks are warranted perhaps, it is notable that Georgia currently ranks 43<sup>rd</sup> in state taxes as a percent of personal income and 40<sup>th</sup> in state and local taxes as a percent of income, according to the most recent Census figures. Continuing to provide special interest tax breaks in our low tax state will either shift the tax obligation onto other Georgians or keep the state from ever addressing the numerous unmet funding needs, such as:

- the hundreds of millions of dollars in austerity cuts to K-12 education and Board of Regents;
- the waiting lists of thousands of elderly and disabled Georgians in need of services; and,
- the \$1 billion needed to fully fund the reserve fund.

Certain improvements to the tax break process have been made, such as applying sunset dates for the majority of tax breaks and requiring fiscal notes. However, ongoing reform must include thorough evaluation of the tax break after its implementation and a comparison of the needs of the budget to the needs for another special interest tax break.

#### **7 Tax Bills with a Fiscal Impact Passed by the House and Senate**

(Note: All fiscal impacts are from the official Fiscal Note attached to the bill. Subsequent changes to legislation that would affect the fiscal impact may not be included. Unless otherwise noted, losses are for state revenues.)

##### **HB 128 – Sales tax holiday**

Summary: Provides the annual four-day sales tax holiday on clothing, school supplies, computer equipment, and energy efficient products.

Beneficiaries: Consumers of specified products

FY 2008 Revenue Loss: \$11.98 million (state); \$8.99 million (local).

##### **HB 169 – Sales and use tax exemption for donated food**

Summary: Provides a sales and use tax exemption from July 1, 2007 through June 30, 2009 for prepared food and beverages donated to nonprofit hunger relief organizations or disaster relief efforts.

Beneficiaries: Donors to food banks and disaster relief organizations

FY 2008 Revenue Loss: \$2.5 million (state); \$1.9 million (local).

### **HB 186 – Sales tax exemption for alternative fuel facilities**

Summary: Sales tax exemption for construction materials for new alternative fuel facilities. Revisions to the original bill expanded the exemption to apply from January 1, 2007 through June 30, 2012.

Beneficiaries: New alternative fuel producers

FY 2008 Revenue Loss: \$1.5 million (state); \$1.1 million (local). (Original bill and the corresponding fiscal note applied to facilities exclusively dedicated to the production of alternative fuels. The Rules Committee substitute changed the language to any facility primarily dedicated to such production. The \$1.5 million loss is based on estimates of “exclusively dedicated” rather than “primarily dedicated.”)

### **HB 193 – Sales tax exemption on jet fuel for qualifying airlines**

Summary: Originally, HB 193 provided an extension on the jet fuel sales tax exemption for qualified airlines until July 1, 2009. Under the current exemption and the original HB 193 extension, Delta was the only airline to qualify for the sales tax exemption. Revisions to the bill changed the language to include other airlines. HB 193 as passed provides a sales tax exemption on jet fuel for the first 1.80 percent of the 4 percent state sales tax. The remaining 2.20 percent of the 4 percent sales tax would still apply. According to the fiscal note, 1 percent of the local 3 percent sales tax would also be exempt.

Beneficiaries: Qualifying airlines at qualifying airports (i.e. airlines with regularly scheduled flights at airports with over 750,000 take-offs and landings a year, which only includes Hartsfield-Jackson)

FY 2008 Revenue Loss: \$28.2 million (state); \$15.7 million (local).

### **HB 225 – Income tax deduction for contributions to college savings plans**

Summary: Expands who can receive the deduction for contributions to a Georgia Higher Education Savings Plan. In the past, the deduction was limited to parents or guardians of the dependent, and the deduction phased out after \$100,000 of income. HB 225 expands the deduction to include any contributor, no matter the relation to the child or the income level of the contributor.

Beneficiaries: Contributors to college savings plans

FY 2008 Revenue Loss: \$2.8 million (rising to \$3.6 million in 2010).

### **HB 282 – Sales tax exemption on aircraft repair parts**

Summary: Provides a sales tax exemption on engines, parts, equipment, and other property used in the repair of aircrafts that are not registered in Georgia. The exemption applies from July 1, 2007 through June 30, 2009. Based on testimony, this exemption was tightly crafted to only assist Gulfstream, an aircraft manufacturer in Savannah.

Beneficiaries: Gulfstream customers

Revenue loss: \$6.6 million (state); \$5 million (local). (Bill sponsor claims the maximum loss would be \$3 million to \$4 million.)

### **HB 357 – Internal Revenue Code alignment**

Summary: Incorporates federal tax changes into the Georgia tax code for 2006. Congress extended certain tax cuts in the last days of the 2006 session.

Revenue Loss: \$10 million (2007); gain of \$3 million (2008)

## **Additional Tax Legislation with a Fiscal Impact**

### **HB 219 – Prepaid local motor fuel taxes**

Summary: HB 219 will likely result in a revenue gain for local governments. Under provisions in the bill, local motor fuel taxes would be “prepaid,” which means they will be collected at the distributor level rather than the retail level. When the state changed its collection method to the distributor level, it experienced a revenue increase of around \$6 million per month.

Revenue Gain: unknown