Georgia Budget & Policy Institute

Policy Report

Adding Up the Fiscal Notes 2012

Tax Bills Have High Short-Term Cost; Comprehensive Reform Still Needed

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Summary

Though far from ideal, Georgia's tax policy in 2012 was more sensible than recent years. On one hand, four bills signed into law by Governor Deal will create an approximately $85 million shortfall in the next two fiscal years. State leaders have already cut nearly $2 billion in spending since before the recession, a truly massive blow to the state's economic health. Georgia cannot afford more budget cuts. At the same time, the omnibus tax package, HB 386, revealed that at least some lawmakers have recognized the importance of revenues in maintaining a healthy state. Some of the policy changes enacted through the omnibus package appear likely to increase state revenues long-term, which could help shore up Georgia's finances and improve its economy in future years. But Georgia still faces a long road to repairing the damage from the Great Recession. Despite the small-scale "reforms" enacted this session, the state still needs comprehensive tax reform that includes new revenues.

Description of Revenue Bills Signed by the Governor

Below is a short summary of new tax laws that will affect state revenue.

Table 1 2012 Tax Bills Have High Short-Term Cost

Final Tax Bills	FY 2013 (in millions)	FY 2014 (in millions)	FY 2015 (in millions)	FY 2013-15 Total (in millions)
Revenue Losses				
HB 386: Omnibus Tax Package	-48.8	-36.7	22.7	-62.8
HB 743: Motor fuel tax exemption for public transit and campus vehicles	-2.7	-2.9	-3.1	-8.7
Revenue Gains				
HB 729: Annual Federal Conformity	1	0	0	1
HB 1027: Film Tax Credits	2	4	5	11
Total Impact	**-48.5**	**-35.6**	**24.6**	**-59.5**

Source: Official fiscal notes for the bills as presented by the Georgia Department of Audits and Accounts and produced by the Georgia State University Fiscal Research Center or University of Georgia Carl Vinson Institute of Government.

HB 386: Omnibus tax package

By far the largest tax bill passed this year, HB 386 contains a number of policy changes stemming from both the Special Council on Tax Reform and Fairness for Georgians and Governor Deal's Competitiveness Initiative. Inaccurately referred to as tax "reform," HB 386 simply combines a collection of disjointed policy options considered in various forms over recent years: an income tax cut for married couples; special exemptions for the manufacturing, agriculture, and airline industries; cuts or caps to credits and exclusions for film productions, conservation, and retirement income; and new revenues through taxing of e-commerce and revamping taxes collected on automobiles. As explained in GBPI's comprehensive report on HB 386, the package is a mix of good policy, bad policy, and unknowns. It will create an estimated shortfall of $63 million for the state over the next three budget years, though certain aspects of the bill (such as capping the retirement income exclusion) could lead to increased state revenues long-term. **FY 2013 – FY 2015 Total Revenue Impact: ($62.8 million) for the state; ($199.6 million) for localities.**

HB 743: Motor fuel tax exemption for public transit and campus vehicles

HB 743 extends exemptions on motor fuel taxes paid by public transit and campus transportation systems. Enacted in 1978, the exemptions were modified in 2010 so that they would expire on June 30, 2012. The Special Council on Tax Reform and Fairness for Georgians recommended the sunset remain in place; however, HB 743 extends it through June 2015. Before passage, the Senate amended HB 743 to also include a provision that shields major airlines from having to pay local SPLOST taxes – specifically those levied by Clayton County – on jet fuel purchased at Hartsfield-Jackson International Airport.
FY 2013 – FY 2015 Total Revenue Impact: ($8.7 million) for the state; unknown loss for Clayton County.

HB 729: Annual conformity to federal tax law and Streamlined Sales Tax Agreement

There was only one federal tax bill signed into legislation in 2011, which among other things reduced the social security tax rate for self-employed individuals to 10.4 from 12.4 percent. Because these employment taxes are deductible, the change actually increases the taxable income for the self-employed and results in a small revenue increase for the state. The bill also contains minor changes to sales tax definitions made necessary by Georgia's involvement in the Streamlined Sales Tax Agreement, as well as a provision which clarifies that insulin is exempt from sales taxes regardless of whether it is dispensed by prescription. **FY 2013 – FY 2015 Total Revenue Impact: $1 million.**

HB 1027: Revising film tax credits

HB 1027 closes some loopholes in the Georgia Entertainment Industry Investment Act, which provides tax credits for film, video, and other digital production developed in Georgia. Proponents claim the credits have helped drive Georgia's growing entertainment industry, which by one estimate now generates $1.2 billion compared to $240 million in 2006. The primary change is a new $25 million cap on the amount of credits available to "interactive entertainment" (i.e. gaming) companies, as well as a new restriction that only companies with annual revenues of $100 million or less can qualify. These improvements are a prime example of how tax-side spending can, and should, be periodically reviewed to maximize effectiveness.
FY 2013 – FY 2015 Total Revenue Impact: $11 million.

Other Fiscal Bills Signed by the Governor

- **HB 100:** Creates a special court within the Office of State Administrative Hearings – the "Georgia Tax Tribunal" – that will have jurisdiction over tax disputes traditionally resolved by the Department of Revenue. The legislation aims to provide faster responses on personal income tax liens and sales tax remittances for businesses.
- **HB 868:** Revises certain eligibility standards in Georgia's tax credits for job creation, research and development, and ports activity. Priced at $75 million per year as originally designed, the final version of HB 868 contains only a series of technical changes that appear unlikely to significantly alter revenues.

Local Sales and Property Tax Bills

- **HB 48:** Allows local governments to hold a referendum on offering exemptions of up to 100 percent on inventory taxes. These "freeport" exemptions would apply to levies that local governments in Georgia levy on businesses' inventories, or in other words on unsold merchandise. Similar legislation was vetoed in 2010 by Governor Sonny Perdue.
- **HB 916:** Revises the regulations regarding private land qualifying as "bona fide conservation" property, which is taxed at 40 percent of the normal rate. Among other changes, the bill extends eligibility to property of less than 25 acres in some cases.

Conclusions and Recommendations

Looking toward future sessions, Georgia's leaders face two very different paths. Their first option is to wrongly assume that tax reform is done and to return to the irresponsible tax habits of recent years. The track record from the last several sessions of tax- and budget-cutting is clear: state investment is down, economic growth is shaky, job growth is anemic, and the well-being for millions of Georgians – particular the poor – continues to fall. Further rate cuts or special interest tax breaks will only exacerbate the problem. By further draining the state of tax revenue, such a path would harm Georgia's economy by undermining investments in education, health care, and public safety.

The alternative path is to build upon the positive aspects of 2012 as a road to more balanced tax policy that can support Georgia's growing needs. This option will require returning to the table for more comprehensive tax reform in coming years. HB 386 enacted a variety of tax changes, but it fell well short of comprehensive reform. Georgia remains one of the lowest-taxing states in the country, and as a result it lacks the revenue for a strong education system or high quality of life—attributes that are far more important to a state's economy than taxes. Further slashing tax rates or creating new tax breaks would do little to spark the economy or create jobs, and would certainly undermine the foundations of future success like an educated workforce and functioning transportation network.

To ensure Georgia has the investments it needs to succeed, lawmakers should instead consider fundamental changes like modernizing the income tax, expanding the sales tax base to include services, and closing the myriad loopholes embedded in Georgia's tax code. Doing so would keep Georgia competitive on tax policy, while also generating the revenue to support a 21st century economy.

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