



Adding Up the Fiscal Notes 2010

The Impact of Revenue Bills Passed by the House of Representatives

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Summary

The House of Representatives took some positive steps to address the \$5 billion budget deficit, such as passing bills to raise almost \$300 million in new revenues and to improve tax collections. However, they continued to pass long-term tax cuts (\$380 million a year when fully implemented) and to disregard other tax options, such as reassessing existing tax exemptions. More than 40 tax breaks were passed or renewed between 2005 and 2009, causing a revenue loss in the current 2010 fiscal year of an estimated \$360 million to \$430 million.

Bills to raise the cigarette excise tax, temporarily restrict exemptions and credits, and impose a new top income tax rate, among others, failed to move beyond the House Ways and Means Committee.

If the Senate passes all of the tax bills passed by the House of Representatives in the remaining seven legislative days, state revenues will increase by an estimated \$291 million in FY 2011 and decrease by \$257 million annually after several years, according to Georgia State University Fiscal Research Center's official fiscal notes on the bills (Table 1).

Six of these bills offer tax breaks, ranging from a few thousand dollars for boat dealers to hundreds of millions of dollars for the wealthiest Georgians. Two of the tax break bills have an unknown fiscal impact. The most significant tax breaks are found in House Bill (HB) 1023, which will cause an annual revenue loss of \$380 million when the Revenue Shortfall Reserve fund reaches \$1 billion. The Senate passed HB 1023 on April 1, and the bill now goes to the governor for signature or veto. The governor vetoed similar legislation last year.

The Senate is also considering four revenue-raising bills passed by the House. These bills impose a provider fee on hospitals, update several user fees, and streamline Georgia's sales tax code. The largest revenue increase comes from HB 307, which places a 1.45 percent fee on hospitals and raises an estimated \$169 million in FY 2011 for the Indigent Care Trust Fund. The

Senate took early action on HB 307, passing it with modifications. The bill will now go to conference committee with the House.

Table 1 Fiscal Impact of Tax Legislation Passed by the House of Representatives

	FY 2011 (in millions)	FY 2012 (in millions)	FY 2013 (in millions)	When Reserves Reach \$1 Billion (millions)
Revenue Losses				
HB 347: Sales tax change for equipment rental	-\$0.4 to -\$1	-\$0.4 to -\$1	-\$0.4 to -\$1	-\$0.4 to -\$1
HB 1023: JOBS Act ^(a)	+\$3.7	-\$7.4	-\$36.6	-\$379.6
HB 1105: Property tax exemption for boat dealers	minimal	minimal	minimal	--
HB 1138: Omnibus Bill	-\$4	-\$5	+\$1	--
HB 1186: Property tax exemption for public-private transportation projects	unknown	unknown	unknown	unknown
HB 1251: Sales tax refund for tourism developments	unknown	unknown	unknown	unknown
Revenue Loss Subtotal	-\$1 million	-\$13 million	-\$36 million	-\$380 million
Revenue Gains				
HB 307: Hospital provider fee ^(b)	\$169	\$169	\$169	--
HB 1055: Update of user fees ^(c)	\$96	\$96	\$96	\$96
HB 1198: Income tax change for taxable nonresident	unknown	unknown	unknown	unknown
HB 1221: Streamlined Sales Tax Agreement	\$23.5 to \$30.9	\$23.5 to \$30.9	\$23.5 to \$30.9	\$23.5 to \$30.9
Revenue Gain Subtotal	\$292 million	\$292 million	\$292 million	\$123 million
TOTAL FISCAL IMPACT	\$291 million	\$279 million	\$256 million	-\$257 million

Source: Official fiscal note for bills, unless otherwise noted. (Fiscal notes may not reflect revisions to bills.)

Note: In certain fiscal notes, only one year of data is provided. In these cases, the author used that figure for all years. For subtotals and totals, the author used the midpoint of ranges.

(a) It is unknown when reserves will reach \$1 billion. The figure in the table uses the FY 2015 estimate of \$346 million for the capital gains tax cut and \$33.6 million for the corporate net worth tax. If the reserves reach \$1 billion later than FY 2015, then the cost likely will be higher than \$379.6 million.

(b) No fiscal note is available for HB 307. Testimony on the bill cited \$216 million as the FY 2011 estimate with approximately \$47 million being used to increase Medicaid reimbursements to hospitals. The net estimate is \$169 million. Senate changes to the bill could lower the \$169 million revenue gain by an unknown amount.

(c) No fiscal note available for HB 1055. The FY 2011 figure is derived from revenue statements by the governor.

Description of Revenue Bills Moving to the Senate

Revenue loss is calculated using the information in the fiscal note attached to the bill as of their final passage unless otherwise noted. Bills might have been revised without a corresponding revision to the fiscal note. Revenue losses or gains shown below are for the state and do not include the revenue losses to local governments that may be associated with bills.

HB 307: Hospital provider fee

Summary: Levies a three-year, 1.45 percent provider fee on hospitals to be deposited into the Indigent Care Trust Fund. The fee will fund Medicaid services and provider reimbursements. The Senate passed an amended version of HB 307 on April 1st, adding language to eliminate the insurance premium tax on health insurance premiums once the Revenue Shortfall Reserve reaches \$500 million. There was no fiscal note offered for the tax cut provision.

FY 2011 Revenue Gain: \$169 million (No fiscal note available. Figure from committee testimony and does not incorporate changes made by the Senate. The figure is net new revenue, as \$216 million in new revenue will be generated, \$47 million of which will be used to increase Medicaid reimbursements to hospitals.)

HB 347: Sales tax exemption for equipment rentals

Summary: Removes the sales tax from the portion of a lease price that is the property tax on rental equipment.

Beneficiaries: Equipment lessees

FY 2011 Revenue Loss: \$0.4 to \$1 million

HB 1023: J.O.B.S. Act

Summary: The Senate passed HB 1023 on April 1 without changes. The bill gives the following short- and long-term tax breaks:

- Hiring tax credit against unemployment insurance (UI) taxes, if approved by the federal government;
- Three-year angel investor tax credit;
- Cut in the capital gains tax from 6 percent to 3 percent for individuals and corporations, once the Revenue Shortfall Reserve reaches \$1 billion;
- Elimination of the corporate net worth tax.

Beneficiaries: Corporations, businesses hiring unemployed workers, Georgians primarily in the top five percent of incomes, angel investors

FY 2011 Revenue Gain: \$3.7 million if the federal government approves a waiver for the UI tax credit. Loss of \$7.4 million in FY 2012, \$36.6 million in FY 2013, and more than \$375 million a year when fully implemented. These gains and losses are for general revenues and do not include the effects of the UI tax credit on the UI Trust Fund.

HB 1055: User fee updates

Summary: Raises numerous fees, including special license plate fees, court fees, agricultural licensing fees, child care licensing fees, and mortgage lender fees, among others.

FY 2011 Revenue Gain: \$96 million (No fiscal note available. Figure from governor's statements.)

HB 1105: Property tax exemption for boat dealers

Summary: Renews the exemption for watercraft inventory from state and local property taxes.

Beneficiaries: Boat dealers

FY 2011 Revenue Loss: minimal

HB 1138: Omnibus bill

Summary: Annual legislation to conform the state tax code to the federal tax code. The state did not fully conform to federal provisions, as certain provisions would have meant a significant loss of state revenue.

FY 2011 Revenue Loss: \$4 million

HB 1186: Property tax exemption for public-private transportation projects

Summary: Gives a property tax exemption for road projects undertaken by a public-private partnership. The bill does not carry a fiscal note. The sponsor of the legislation stated that public transportation projects are already exempt, thus there would not be a revenue loss when projects become public-private initiatives.

Beneficiaries: Companies in public-private transportation projects

FY 2011 Revenue Loss: Unknown

HB 1198: Taxable nonresident

Summary: Refines the income tax laws regarding nonresidents who have deferred compensation.

FY 2011 Revenue Gain: Unknown

HB 1221: Streamlined Sales Tax Agreement

Summary: Enables Georgia to join the national Streamlined Sales Tax Agreement by aligning definitions in Georgia's sales tax code to definitions of other participating states. The Streamlined Sales Tax Agreement seeks to improve uniformity across states' sales tax codes to encourage sales tax collection by remote sellers (such as online retailers).

FY 2011 Revenue Gain: \$23.5 to \$30.9 million

HB 1251: Tourism Development Act

Summary: Enacts a tax increment financing mechanism for new tourist attractions that have investments exceeding \$100 million, among other qualifications. The development, upon approval by the Department of Economic Development and the county or city, can receive a refund for the incremental sales tax generated on site up to 25 percent of the cost of development.

Beneficiaries: Major tourism developments (specifically, a proposed outlet mall in Camden County, according to committee testimony)

FY 2011 Revenue Loss: Unknown

Tax Reform

HB 1405: 2010 Special Council on Tax Reform and Fairness for Georgians

Summary: Creates an 11-member council to perform a "systematic study" of Georgia's revenue structure and report recommendations to the General Assembly in January 2011. The legislation also creates a special joint committee in the legislature to receive recommendations from the council and to propose legislation to the General Assembly.

Additional Revenue Bills Passed by the House and Senate

HB 1069: Tax credit for energy and water efficiency equipment

Summary: Provides a tax credit for installing equipment that reduces energy and water usage. The credits will only take effect if the federal government provides funds to the state for water and energy conservation, which can be used to pay for the tax credits.

Beneficiaries: Businesses and individuals installing energy and water efficiency equipment

SB 409: Economic incentives for raw forest products

Summary: Provides intent language for any economic incentive directed toward the purchase of raw forest products to be extended to all users of such products.

SR 277: Trauma care fee

Summary: Levies an annual \$10 fee on passenger vehicles to fund the trauma care network. The fee goes to a trauma trust fund, rather than the General Fund. The resolution passed the Senate and the House Ways and Means Committee, and now awaits approval by the House.

FY 2011 Revenue Gain: \$87.1 to \$90.5 million (The figure is from the 2009 fiscal note to HB 148)

Bills to Improve Tax Administration, Collection, and Transparency

- HB 982: Provides the Department of Revenue with alternative methods for administrative garnishments.
- HB 1093: Requires counties and cities to provide information to the Department of Revenue on businesses paying local occupation taxes. The information will include the business's sales tax identification number, thus allowing DOR to determine whether businesses paying local occupation taxes are also collecting and remitting sales taxes.
- HB 1188: Allows the DOR to appoint law enforcement officers as special agents for enforcement purposes.
- HB 1284: Directs each state agency to provide annual data on user fees, including the amount collected and the cost of associated services.
- SB 206 and SB 381: Create tax expenditure and user fee reports. SB 206 passed the House on April 1, and SB 381 awaits approval by the House Budget & Fiscal Affairs Oversight Committee.

Local Sales and Property Tax Bills

- HB 903: Allows Fulton County to extend the hotel/motel tax used to fund the Georgia Dome from its current expiration date of 2020 to a new expiration of 2050.
- HB 1082: Allows local governments to provide freeport exemptions on inventory taxation, if approved by voters, in the amount of 20 percent, 40 percent, 60 percent, 80 percent, or full exemption.
- HB 1393: Provides a funding mechanism for the Clayton County transit system. HB 1393, as passed by the House, allows Clayton County to join MARTA by levying a one percent sales tax for public transportation, but exempts car sales and jet fuel for airlines at Hartsfield-Jackson Airport from the additional sales tax.
- HR 1203/HB 1020: Allows school districts to use the existing one percent sales tax for education on maintenance and operations, rather than only capital projects.
- SB 346: Revises property tax procedures, including appeals and valuation processes.

Tax Exemption Sunsets

Several tax exemptions are set to expire in the coming fiscal year unless the General Assembly extends their sunset dates, including sales tax exemptions for nonprofit health centers, volunteer health clinics, fuel used for pig farming, energy used in manufacturing, Goodwill Industries, food and beverages to hunger relief organizations, annual sales tax holiday, and materials used by government contractors. The motor fuel tax exemption for public transit and campus transit systems will also expire.

In the past, the General Assembly has routinely extended sunset dates for existing exemptions; however, in light of the fiscal crisis, legislators are likely to let those exemptions expire. HB 1105, which extends the sunset date for the property tax exemption for boat dealers, was the only extension passed by the House by Crossover Day.

Conclusion and Recommendation

The House of Representatives took some positive steps to address the \$5 billion budget deficit, such as passing bills to raise temporarily almost \$300 million and improve tax collections. However, they continued to pass long-term tax cuts (\$380 million a year when fully implemented) and to disregard other tax options, such as reassessing existing tax exemptions to determine if they are fiscally responsible.

Bills to raise the cigarette excise tax, temporarily restrict exemptions and credits, and impose a new top income tax rate, among others, failed to move beyond the House Ways and Means Committee.

More than 40 tax breaks were passed or renewed between 2005 and 2009 and will cause a revenue loss in the current fiscal year of an estimated \$360 million to \$430 million, according to the original fiscal notes for those bills (Appendix I). The legislature passed these tax breaks on top of the more than 100 tax exemptions and credits enacted prior to 2005.

The General Assembly should examine these tax breaks and judge them against the proposed cuts to services, prioritizing the state's actions on both the revenue and appropriations sides.

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Appendix I Estimated State Revenue Loss from Tax Cuts Passed between 2005 – 2009

	FY 2010 (millions)
Alternative tax credit for base year port traffic	minimal
Extension of sales tax exemption for Atlanta Symphony Hall	minimal
Sales tax exemption for airplane flight simulation devices	minimal
Property tax exemption for veterans organizations	minimal
Sales tax exemption for Atlanta Zoo construction	minimal
Sales tax exemption for biomass material	minimal
Sales tax exemption for donated prepared food to hunger relief organizations	minimal
Sales tax exemption for sales of eligible food to a food bank	\$0.2
Sales tax exemption for fuel used for swine raising purposes	\$0.3
Sales tax exemption for civil rights museum construction	\$0.6
Revisions to MEGA Tax Credit	\$1
Revisions to credits for donations of conservation land	\$1
State inventory tax elimination	(\$1 to \$2 million, begins in 2011)
Revisions to Jobs Tax Credit for Less Developed Areas	\$1.4
Sales tax exemption for Goodwill and Health Clinics	Under \$1.5
Sales tax exemption for alternative fuel facilities	\$1.5
Income tax deduction for school supplies for educators	\$1.9
Teleworking tax credit	\$2.5
Film production tax credit	\$2.4
Income tax credit for wood residuals and clean energy equipment	\$2.5
Income tax deduction for college saving plan contributions	\$3.6
Additional job tax credit	\$4.8
Income tax credit for rehabilitation of historic structures	\$2.7 to \$10
Sales tax exemption for aircraft repair parts	\$7
Conservation income tax credit	\$8.8 to \$9.7
Senior property tax exemption	\$7.3
Sales tax exemption for energy used in manufacturing	Negligible to \$12.5
Revisions to film production tax credit	\$10
Forest Land Conservation Act	\$10 (actual state cost)
Sales tax exemption for manufacturing machinery	\$11.3
Sales tax holidays	\$13.2
Sales tax exemption for materials used by government contractors	\$14.5 to \$16
Revisions to BEST tax credits	\$16 to \$42.5
Income tax credit for child and dependent care expenses	\$21.5
Sales tax exemption for jet fuel	\$24.4
Tax incentives for High Deductible Health Plans	\$24.9
Income tax credit for student scholarship organization donations	\$50
Homebuyers Tax Credit*	\$54.3
Single sales factor apportionment	\$57.9 to \$77.6
Tax credit for insurance companies; tax credit for adopting a child; tax exemption for surviving spouses of peace officers and firefighters; tax credit for National Guard	No fiscal notes
TOTAL ESTIMATED STATE REVENUE LOSS	\$359 million to \$427 million

Source: Official fiscal note for bills. Forest land exemption did not contain fiscal note, so cost is actual for FY 2010.

Notes: 1) The figures in this table are estimates of likely costs, rather than actual costs. Some estimates were made by the Fiscal Research Center several years prior to FY 2010. 2) Omnibus bills, which align state tax code with federal tax code, are not included.

* Author's calculation based on original fiscal note and the revised tax credit from a maximum of \$3,600 to \$1,800.