



Adding Up the Fiscal Notes 2010

House and Senate Improve Short-Term Finances, but Pass Revenue Drains on Future Budgets

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Summary

The Georgia House of Representatives and Senate took some positive steps to address the \$5 billion budget deficit, such as passing bills to raise almost \$375 million in new revenues and to improve tax collections and transparency. They also reached final agreement on a regional sales tax for transportation.

However, the General Assembly continued its pattern of passing long-term tax cuts during this Great Recession (\$624 million a year when fully implemented), disregard other revenue options, and shift the cost of government services onto middle- and low- income Georgians.

If the governor vetoes House Bills 1023 and 1069, he will prevent revenue drains on future budgets and prevent shifting taxes onto Georgians earning the lowest 20 percent of incomes.

If the governor signs all of the tax bills passed by the House of Representatives and Senate, these laws will increase state revenues by an estimated \$375 million in fiscal year 2011, but decrease revenues by \$479 million annually after several years, primarily by reducing taxes on the wealthiest Georgians (see Table 1).

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 (RSR) fund reaches \$1 billion and thus triggers the tax cuts. The reserves are an important component in maintaining Georgia's AAA bond rating, making this trigger mechanism a troubling fiscal management practice. The governor vetoed similar legislation last year.

Two other significant tax bills include a combination of cuts and increases:

- HB 1055 imposes a temporary 1.45 percent hospital fee and raises numerous user fees to assist in closing the budget deficit. However, it also phases in two permanent tax cuts by eliminating the state quarter-mill property tax and providing wealthy seniors with a full exclusion for retirement income. The governor signed HB 1055 on May 12th.

- HB 1069 eliminates the refundable portion of the Low Income Tax Credit, but creates a new angel investor tax credit, among other changes. Ironically, the bill does away with the ability of families earning under \$20,000 to use excess tax credits, while giving investors the opportunity to carry-forward unused tax credits to use in future years. For more information on the refundability of the Low Income Tax Credit, see the Georgia Budget Policy Institute analysis [here](#).

In addition to these revenue measures, several bills improve tax collection and transparency. Senate Bill (SB) 206 and HB 1284 require annual reports describing the cost of tax breaks and the level of fees, respectively. HB 1221 revises the sales tax code to align with other states' codes as part of the Streamlined Sales Tax Agreement.

Table 1 House and Senate Pass Short-term Revenue Raisers, Long-term Drains

	FY 2011 (in millions)	FY 2012 (in millions)	FY 2013 (in millions)	FY 2014 (in millions)	When Reserves Reach \$1 Billion (in millions)
State Revenue Losses					
HB 1023: JOBS Act ^(a)	+\$3.7	-\$7.4	-\$33.6	-\$33.6	-\$379.6
HB 1055: State property tax elimination; Retirement income exclusion ^(b)	--	-\$31.7	-\$63.2	-\$138.1	-\$244
HB 1069: Angel investor tax credit	--	--	-\$10	-\$10	--
HB 1105: Property tax exemption for boat dealers	minimal	minimal	minimal	--	--
HB 1138: Omnibus Bill	-\$4	-\$5	+\$1	--	--
Revenue Loss Subtotal	-\$0.3	-\$44	-\$106	-\$182	-\$624
State Revenue Gains					
HB 1055: Update of user fees; Hospital provider fee ^(b)	\$325	\$325	\$325	\$96	\$96
HB 1069: Low Income Tax Credit reduction	\$21.8	\$21.8	\$21.8	\$21.8	\$21.8
HB 1221: Streamlined Sales Tax Agreement	\$23.5 to \$30.9				
Revenue Gain Subtotal	\$374	\$374	\$374	\$145	\$145
TOTAL IMPACT	\$374 million	\$330 million	\$268 million	-\$37 million	-\$479 million

Source: Official fiscal note for bills, unless otherwise noted. (Fiscal notes may not reflect late 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. One bill carried a fiscal note with an "unknown" impact (HB 1198). HB 1186 and 1251 did not carry a fiscal note.

(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. The Angel Investor Tax Credit is not included in this calculation, since it is also in HB 1069.

(b) No official fiscal note is available for HB 1055. The figure for revenue losses are from analyses by Georgia State University's Fiscal Research Center on April 14, 2010 provided to the author. The FY 2011 figure for state revenue gain is taken from revenue statements by the governor.

Description of Revenue Bills Going to the Governor for Signature or Veto

Below is a short summary of tax bills passed by the House and Senate that will affect state revenue. 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 and passed 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 1023: J.O.B.S. Act

Summary: 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 providing a credit of 20 percent of the investment, with aggregate tax credits limited to \$3 million;
- Cut in the capital gains tax from 6 percent to 3 percent for individuals and corporations once the RSR reaches \$1 billion;
- Elimination of the corporate net worth tax.

FY 2011 Revenue Gain: \$3.7 million *if* the federal government approves a waiver for the UI tax credit.

Loss: \$7.4 million in FY 2012, \$36.6 million in FY 2013, and more than \$375 million when fully implemented. (Note: 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, hospital provider fee, retirement income tax break, and state property tax repeal

Summary: Gives the following short- and long-term fee increases and tax breaks:

- Raises \$96 million by increasing numerous fees, including special license plate fees, court fees, agricultural licensing fees, child care licensing fees, and mortgage lender fees, among others.
- 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 and raises \$229 million per year for three years.
- Eliminates income tax for all retirement income for taxpayers age 65 and over, costing the state \$150 million annually when fully phased-in in 2016.
- Repeals the quarter-mill state property tax, costing \$95 million annually when fully phased-in in 2016.

FY 2011 Revenue Gain: \$325 million.

Loss: The revenue gain turns to an annual loss of \$150 million by 2016. (No fiscal note available. Figure from governor's statements and analyses by Georgia State University Fiscal Research Center.)

HB 1069: Low Income Tax Credit reduction, angel investor tax credit, tax credit for energy and water efficiency equipment, and extension of Atlanta M.O.S.T.

Summary: Prior to the final legislative day, the bill authorized federally-funded tax credits for installation of energy and water efficiency equipment. Unrelated provisions were attached to the bill in the final hours of the legislative session. As passed by the House and Senate, the bill now:

- Eliminates the refundable portion of the Low Income Tax Credit, which provides up to \$104 for a low-income family of four. This \$22 million revenue gain is not part of the General Assembly's budget for FY 2011. Furthermore, the bill strikes the 1980s intent language in Georgia statute regarding the Low Income Tax Credit, which states:
 - "...The General Assembly further finds and declares that, because of the overall tax burden and particularly the tax burden on food and other items of necessity, it is both appropriate and advisable to afford tax relief to the low-income residents and the working poor. It is not practical, however, to provide tax relief targeted to these groups through the implementation of a specific measure of relief addressed to each of the several state taxes, and therefore it is necessary and proper to utilize the income tax procedures of this state as the mechanism for providing tax relief to low-income residents and the working poor with respect to their overall tax burden and particularly the burden of taxation on food and other items of necessity."
- Gives an angel investor tax credit for up to 35 percent of their investment in start-up companies, with the ability to carry unused credits forward against future tax liability. The aggregate credits are capped at \$10 million annually for three years, beginning in 2013.
- Gives individuals and businesses 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.
- Allows the City of Atlanta Municipal Option Sales Tax, which funds water and sewer projects, to be renewed a third time upon voter approval in 2016.
- Allows taxpayers who qualify for the clean energy tax credit in a year in which the aggregate cap for tax credits has been met to be at the front of line for tax credits the following year.

FY 2011 Revenue Gain: \$22 million. Beginning in FY 2013, the gain falls to \$12 million.

HB 1105: Property tax exemption for boat dealers

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

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.

FY 2011 Revenue Loss: Unknown

HB 1198: Taxable nonresident definitions

Summary: Refines the income tax laws regarding nonresidents who have deferred compensation. The bill ensures nonresidents who earn deferred compensation from Georgia events, such as entertainers or athletes, are liable for income taxation.

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.

FY 2011 Revenue Loss: Unknown

HB 1272: Income tax return donations

Summary: Inserts new donation options onto Georgia income tax returns for lupus and kidney disease research, multiple sclerosis research, and the general welfare of the state. Donations to the final category, "general welfare," flow directly to the state treasury.

FY 2011 Revenue Gain: 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 propose comprehensive legislation to the General Assembly.

Additional Revenue Bills Passed by the House and Senate

HB 277: Regional sales tax for transportation

Summary: Provides a regional one percent sales tax for transportation projects upon approval by voters in 2012. Regional Transportation Roundtables comprised of local government officials can

provide a project list in each region to voters, who will decide by referendum whether to approve the regional one percent sales tax in 2012.

The new one percent sales tax would apply to groceries, but would not apply to motor fuel, energy used in manufacturing, or commercial airline jet fuel, among other exemptions. The bill also eases restrictions on MARTA funds, allowing the agency to use its capital reserves on operations for the next three years.

FY 2011 Revenue Gain: none (additional tax would begin in 2013)

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 if approved by voters in the 2010 general election. The fee goes to a trauma trust fund, rather than the general fund.

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 1093: Upon approval by local governing bodies, counties and cities will 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 1284: Directs each state agency to provide annual data on user fees, including the amount collected and the cost of associated services.
- SB 206: Creates an annual tax expenditure report, with a listing of tax credits, exemptions, and other tax preferences with associated costs.

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 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.
- SB 346: Changes property tax procedures by providing additional opportunities for taxpayers to appeal and by revising valuation processes.

Tax Exemption Sunsets

Several tax exemptions are set to expire in the coming fiscal year, 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.

In the past, the General Assembly has routinely extended sunset dates for existing exemptions; however, in light of the fiscal crisis, legislators allowed those exemptions to expire, renewing only the property tax exemption for boat dealers and motor fuel tax exemption for public and campus transit systems. The revenue gain will be more than \$30 million.

Conclusion and Recommendations

The House of Representatives and Senate took some positive steps to address the \$5 billion budget deficit, such as passing bills to raise temporarily almost \$375 million and improve tax collections. However, the General Assembly continued its pattern of passing long-term tax cuts in this Great Recession (\$624 million a year when fully implemented), disregarding other revenue options, and shifting tax obligations onto middle and low income Georgians.

1. To prevent further revenue drains on future budgets, the governor should veto HB 1023, which holds the most costly and inequitable tax breaks. In addition, to prevent a shift of taxes onto those Georgians earning in the lowest 20 percent of incomes, the governor should veto HB 1069, thereby protecting the Low Income Tax Credit.
2. The 2010 Tax Reform Council should undertake a thorough study of the hundreds of tax breaks already in law, and provide an evaluation component to the tax expenditure report required in Senate Bill 206. More than 40 tax breaks were passed or renewed between 2005 and 2009, causing a revenue loss in the current fiscal year of an estimated \$360 million to \$430 million (see Appendix I). These tax breaks were passed on top of the more than 100 tax exemptions and credits enacted prior to 2005.

The upcoming Tax Reform Council should examine these tax breaks and judge them against the demands for services and projected rise in those demands, prioritizing the state's actions on both revenue and appropriations with a focus on adequacy of state funds for services and equity among taxpayers.

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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	\$1.0
Revisions to credits for donations of conservation land	\$1.0
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 \$10.0
Sales tax exemption for aircraft repair parts	\$7.0
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	\$10.0
Forest Land Conservation Act	\$10.0 (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 \$16.0
Revisions to BEST tax credits	\$16.0 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	\$50.0
Homebuyers Tax Credit*	\$54.3
Single sales factor apportionment	\$57.9 to \$77.6
Tax credit for insurance companies; tax credit for the 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.