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Adding Up the Fiscal Notes 2010

Governor Vetoes Revenue Drains on Future Budgets, but Signs Bill That Reduces Low Income Tax Credit

By Sarah Beth Gehl, M.U.P.P., Deputy Director

Summary

The House of Representatives and Senate took some positive steps to address the $5 billion budget deficit for 2011 during the recent legislative session, such as passing bills to raise temporarily $438 million and improve tax collections. However, the General Assembly continued its pattern of passing long-term tax cuts in this Great Recession, disregarded other revenue options, and shifted tax obligations onto middle- and low-income Georgians.

The governor vetoed House Bill (HB) 1023, which held the most costly and inequitable tax breaks, thus preventing further revenue drains in future years. However, the governor signed HB 1069 to reduce the Low Income Tax Credit, thereby shifting taxes onto those Georgians earning the lowest 20 percent of incomes.

Tax bills signed by the governor will increase state revenues by an estimated $438 million in fiscal year 2011, but those gains will erode by FY 2015 as additional tax breaks for wealthy seniors fully phase-in (see Table 1).

The governor avoided additional revenue losses by vetoing House Bill (HB) 1023, which would have caused an annual revenue loss of $380 million when the Revenue Shortfall Reserve (RSR) fund reached $1 billion and thus triggered certain tax cuts. The main tax cut in HB 1023 was to cut the capital gains tax by half, providing hundreds of millions of dollars in tax preferences overwhelmingly to those with the top 5 percent of incomes.

The governor also vetoed:

- HB 1082, a bill offering new inventory tax exemptions.
- HB 1251, a bill implementing a tax-increment financing mechanism using the sales tax rather than property taxes for major tourist attractions.
- HB 1272, a bill adding new donation options onto Georgia income tax returns for lupus and kidney disease research, multiple sclerosis research, and the general welfare of the state.

Table 1 **Revenue Bills Signed by the Governor Improve Short-term Finances**

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
State Revenue Losses (in millions)						
HB 1055: State property tax elimination; Retirement income exclusion[(a)]	--	-$31.7	-$63.2	-$138.1	-$183.1	-$244
HB 1069: Angel investor tax credit	--	--	-$10	-$10	-$10	--
HB 1105: Property tax exemption for boat dealers	minimal	minimal	minimal	--	--	--
HB 1138: Omnibus Bill	-$4	-$5	+$1	--	--	--
Revenue Loss Subtotal	**- $4**	**- $37**	**- $72**	**- $148**	**- $193.1**	**-$244**
State Revenue Gains (in millions)						
HB 1055: Update of user fees; Hospital provider fee[(a)]	$325	$325	$325	$96	$96	$96
HB 1069: Low Income Tax Credit reduction	$21.8	$21.8	$21.8	$21.8	$21.8	$21.8
HB 1170: Elimination of exemption for HMOs	$68	$68	$68	$68	$68	$68
HB 1221: Streamlined Sales Tax Agreement	$27.2	$27.2	$27.2	$27.2	$27.2	$27.2
Revenue Gain Subtotal	**$442**	**$442**	**$442**	**$213**	**$213**	**$213**
TOTAL IMPACT	**$438 million**	**$405 million**	**$370 million**	**$65 million**	**$20 million**	**-$31 million**

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

Note: For those fiscal notes that contain only one year of data, the author uses that figure for all years. The author uses the midpoint of ranges.

(a) No official fiscal note is available for HB 1055, however, 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 revenue gain is from the governor's revenue statements.

Description of Revenue Bills Signed by the Governor

Below is a brief summary of tax bills passed by the House and Senate and signed by the governor 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 may 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 1055: User fee updates, hospital provider fee, retirement income tax break, and state property tax repeal

Summary: This law 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 funds Medicaid services and provider reimbursements. It raises $229 million per year for three years.
- Increases the retirement income exclusion from $35,000 to full exclusion, 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 into an annual loss of almost $150 million by 2016.
(No fiscal note is available for HB 1055, however, this figure is from the 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. Lawmakers attached unrelated provisions to the bill in the final hours of the legislative session. The law:

- Eliminates the refundable portion of the Low Income Tax Credit, which had previously provided up to $104 for a low-income family of four to offset sales taxes. This $22 million revenue gain is not included in the FY 2011 budget. 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…"
- 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 those taxpayers who qualify for the clean energy tax credit in a year in which the aggregate cap for tax credits has been met by the state, to be at the front of the 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 1170: HMO premium tax exemption elimination
Summary: Removes the premium tax exemption currently available to Health Management Organizations (HMOs).
FY 2011 Revenue Gain: $68 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 posits 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 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

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 Become Law

HB 277: Regional sales tax for transportation
Summary: Provides a regional one percent sales tax for transportation projects upon approval by voters during the 2012 election. 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.

The new one percent sales tax would apply to groceries, but not 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 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 to fund 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 their assessments 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 the 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 $438 million and improve tax collections. However, the General Assembly continued its pattern of passing long-term tax cuts in this Great Recession, disregarded other revenue generating bills, and shifted tax obligations onto middle-and low-income Georgians.

The governor vetoed HB 1023, which held the most costly and inequitable tax breaks passed by the General Assembly, thus preventing further revenue drains on future budgets. However, the governor signed HB 1069 to reduce the Low Income Tax Credit, thereby shifting taxes onto those Georgians whose earnings are among the lowest 20 percent of incomes.

More than 40 tax breaks were passed or renewed between 2005 and 2009, causing a revenue loss in FY 2010 of an estimated $360 million to $430 million (see Appendix 1). These tax breaks were passed on top of the *more than 100* tax exemptions and credits enacted prior to 2005.

In light of the numerous existing and new tax breaks, 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.

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

Contact: Sarah Beth Gehl, sbgehl@GBPI.org; 404.420.1324

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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 a fiscal note, so the figure is the actual FY 2010 cost.
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.