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Policy Report

Adding Up the Fiscal Notes

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Summary

In recent years, tax bills moving from the House have had a price tag of more than $300 million in lost revenue; however, this year's tax package, at Crossover Day, would slightly increase state funding by nearly $5 million over three years (Table 1). If in the remaining legislative days the Senate passes six tax bills passed by the House, this would be the first time in years that Georgia avoids a significant revenue hit. House leaders deserve significant credit for their responsibility on tax policy so far this session.

Most observers expect Governor Deal and legislative leadersto introduce an omnibus tax package in the Special Joint Committee on Georgia Revenue Structure. Specially-created for the current two-year session as a venue for tax reform, the joint committee is comprised of members from both chambers and is not held to the same 30-day rule as normal legislation. Although details are still unknown, the expected tax package might include the sales tax exemption on energy for manufacturers, reforms to Georgia's existing jobs tax credits, and various revenue-enhancers designed to keep the bill revenue neutral. Whatever emerges from the joint committee could drastically alter the fiscal landscape.

Revenue Bills Passed By the House

Table 1 House Tax Package at Crossover is More or Less Revenue Neutral

Crossover Tax Bills	FY 2013 (in millions)	FY 2014 (in millions)	FY 2015 (in millions)	FY 2013-15 Total (in millions)
Revenue Losses				
HB 318: Sales tax exemption, prepared food donated to charity *, †	-0.05	-0.06	-0.03	-0.14
HB 334: Sales tax exemption, food purchases by food banks *	-0.37	-0.39	-0.20	-0.96
HB 743: Motor fuel tax exemption for public transit and campus vehicles	-2.74	-2.91	-3.08	-8.73
Revenue Gains				
HB 729: Annual Federal Conformity	1	0	0	1.00
HB 818: Clean Energy Property Tax Credit ‡	0	1.25	1.25	2.50
HB 1027: Film Tax Credits	2	4	5	11.00
Total Impact	**-0.16 million**	**1.90 million**	**2.94 million**	**4.67 million**

Source: Official fiscal notes for 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. Some bills might have been revised and passed without a corresponding revision to the fiscal note.

* Revenue impact was described in the official note for HB 319, which was an omnibus package of related tax exemptions later broken into component parts.

† Fiscal note provides a range of estimates ($28,000-$57,000 for FY 2014)

‡ Final version of bill was a committee substitute with no corresponding fiscal note. Increase in revenue calculated by author as described in the following section.

HB 318: Sales and use tax exemption for prepared food donated to charities
HB 318 revives the sales and use tax exemption for foods that restaurants or grocery stores donate to qualified nonprofits for hunger relief, which expired in June 2011. Without the exemption, establishments that donate such food are technically supposed to remit the use tax to the state. However, few are likely aware of the requirement, so the revenue impact is minimal. **FY 2013 – FY 2015 Total Revenue Impact: ($70,000 - $141,000)**

HB 338: Sales and use tax exemption for groceries purchased by qualified food banks
HB 338 revives the sales and use tax exemption for foods that are purchased by qualified food banks, which expired in June 2010. There are currently seven food banks in Georgia, the largest being the Atlanta Community Food Bank. Georgia State University's Fiscal Research Center estimates these food banks spent about $8.4 million in 2011 on food that would qualify for this exemption. **FY 2013 – FY 2015 Total Revenue Impact: ($957,000) for the state; ($718,000) 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. In law since 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.
FY 2013 – FY 2015 Total Revenue Impact: ($8.73 million)

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 being dispensed by prescription. **FY 2013 – FY 2015 Total Revenue Impact: $1 million**

HB 818: Clean energy property income tax credit
The original version of this legislation was merely a small technical change to the state's Clean Energy Property Credit, which annually provides $5 million of income tax credits on Energy Star© purchases. However the final version of the bill was a committee substitute that reduced the cap to $2.5 million in *calendar* year 2014. There was not an official fiscal note incorporating this later change, but it is reasonable to estimate this $2.5 million in savings will be divided roughly in half between the 2014 and 2015 *fiscal* years. **FY 2013 – FY 2015 Total Revenue Impact: $2.5 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 bill makes several small changes in eligibility, most important being a new cap on the amount of credits for "interactive entertainment" (i.e. gaming) companies with annual revenues of $100 million or less. These improvements to Georgia's film tax credits are a prime example of how tax expenditures can, and should, be periodically reviewed to maximize effectiveness.
FY 2013 – FY 2015 Total Revenue Gain: $11 million

Other Revenue Bills Passed By the House or Senate

- **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 811:** Would require legislators to appropriate the revenue from special purpose fees (e.g. hazardous waste removal, police training) as intended rather than redirecting it to the General Fund. If the fees are not appropriated for their statutorily-intended purposes, then those fees will be reduced or eliminated, proportionate to the amount that is redirected. The bill would establish a five-year phase-in to minimize impact to the state's budget.
- **HB 868:** Revises certain eligibility standards in Georgia's tax credits for job creation, research and development, and ports activity. Originally costing up to $75 million per year, the final version of HB 868 contained only a series of technical changes that are unlikely to significantly alter revenues.
- **SR 20:** Known nationally as the Taxpayer Bill of Rights, or TABOR, drastically limits state spending through the use of an arbitrary funding formula. SR 20 passed the Senate in 2011 but has not progressed in the House.

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. The bill extends eligibility to property of less than 25 acres in some cases.
- **HB 994:** Extends the time for brownfield redevelopment projects to get preferential tax treatment. Developers are already eligible for 10 years' worth of tax benefit, but some projects lost their value due to delayed construction caused by the Great Recession. This bill allows brownfield developers to "pause" their tax benefit until construction resumes. They will have up to 15 years to claim 10 years' worth of preferential treatment.
- **SB 395:** Allows local governments to levy SPLOST taxes of less than one percent, as long as the combination of such levies do not exceed one percent.

Conclusions and Recommendations

Unlike in other policy areas where the 2012 session has been discouraging, the House's responsible actions on tax policy are admirable. The expenditures were small, the big-ticket items (such as a proposed $120 million tax break for natural gas companies) did not proceed, and there was a good-faith effort to offset any reductions in revenue. House leaders deserve credit for their sound fiscal management so far.

The landscape could still change drastically during the final 10 days of session. While details are unknown, the omnibus tax package anticipated in the special committee on revenue could include several high-priced items articulated as part of Governor Deal's Competitiveness Initiative. The proposed exemption on energy used in manufacturing would cost the state an estimated $137 million per year, while the revisions to Georgia's jobs tax credits (originally housed in HB 868) would cost up to $75 million per year. If the package includes a two-year renewal of the sales tax holiday, as unwisely proposed earlier this session, the package's cost would rise another $50 million annually in both FY 2014 and 2015. In other words,the omnibus bill could conceivably cost around a quarter billion dollars per year.

While certain aspects of these initiatives might have some value, they are problematic in several ways. Chiefly they rest on a flawed belief that what ails Georgia's economy is a mix of high tax rates and a bad environment for business. But by essentially any measure, Georgia is one of the lowest-taxing and most business-friendly states in the country. Lawmakers have worked for decades to keep Georgia's business costs low via relatively-low income tax rates and an assortment of business tax credits and deductions. The state has the 4th best business environment overall according to CNBC, and a recent report by the nonpartisan Tax Foundation found Georgia companies to have some of the lowest tax costs nationwide (i.e. 3rd lowest for mature firms and 6th lowest for new ones).[1] Improving Georgia's business tax climate would thus provide marginal benefits at best, rather than addressing the state's real weakness—poor investment in education, infrastructure, and other essential building blocks of growth.

The potential tax package has other problems as well. Eliminating the tax on energy, for example, may sound like a reasonable move to strengthen Georgia's manufacturing industry, but manufacturers in the state already enjoy the second lowest tax costs for "labor-intensive" operations and the eighth lowest for "capital-intensive" ones.[2] Adopting new sales tax holidays, meanwhile, goes against a virtually-unanimous consensus that they are poor tax policy, and expanding Georgia's jobs tax credits is troublesome as well. The research strongly suggests that state tax credits are an ineffective tool for strengthening the economy, and they also drain state coffers of desperately-needed revenue. Every dollar the state gives away through tax credits is a dollar it cannot invest in Georgia's future success.

Further, all decisions to create, expand, or eliminate tax expenditures would ideally be based on a cost-benefit analysis, but Georgia currently lacks a tool for doing so. Without one, state lawmakers are unable to periodically review whether the benefits of tax credits outweigh the costs of lost revenue. HB 920, proposed this year, would have addressed this need by giving legislators more information about whether tax-side spending is working. While it failed to pass the House before Crossover Day, options are still available to bring this needed reform in to law, which policymakers should closely consider in the coming days.

In the meantime, members of the special committee on revenue should follow the good example set by this year's House. They must ask themselves not only if the proposed tax expenditures are good policy but whether the state can afford them. Georgia has cut nearly $2 billion in spending since before the recession and projects a deficit of nearly $320 million in FY 2014. Many essential investments have been cut back drastically, which contributes to Georgia now trailing the nation in economic growth and jobs. Although Georgia desperately needs new revenues, the coming omnibus package must at the very least be revenue neutral. Otherwise it will undermine Georgia's ability to invest in the foundations of a strong economy, such as an educated workforce and world-class transportation network, which are far more critical to competitiveness than taxes.

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