Policy Report

Adding Up the Fiscal Notes: Tax Plans Nearly Complete

Crossover Day Report: Tax Revisions Worsen Georgia's Short-Term Finances

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Overview

Georgia revenues are expected to drop by about $80 million during the current and upcoming budget years and that number could grow if legislators act on bills that are still pending as the 2013 session of the General Assembly nears an end. Most of the revenue loss is due to legislation already signed into law as of Crossover Day, or day 30 of the legislative session, the cut-off point for legislation to move from one chamber to the other. Three additional bills also survived and retain the potential to become law this year. Should the three pending bills become law, total lost revenue in fiscal years 2013 and 2014 will grow to an estimated $93 million.

Since the General Assembly completed work on the budget for the remainder of the 2013 fiscal year, reduced revenues will not affect spending that is already scheduled for this year. But it will leave less money available for Georgia's "rainy day fund," which is supposed to carry the state through tough economic times. In the 2014 fiscal year that begins July 1, 2013, however, the lost revenue will further constrain lawmakers' ability to invest in areas such as education and health care, which are essential for maintaining Georgia's quality of life. Due to this acute short-term impact, lawmakers should resist adding any new, costly measures in the final days of session. That holds especially true for expensive tax breaks that previously stalled in the Georgia House of Representatives.

2013 Tax Bills Drop Revenues in Short-Term; Impact Less Clear in Later Years

Fiscal Years, in Millions	2013	2014	Short-term (2013-2014)	Long-term (tentative) (2015-2017)	Total (tentative) (2013-2017)
Bill Already Signed by Governor					
HB 266 (Part 1): Car Tax Revisions*	-33.0	40.0	7.0	45.0	52.0
HB 266 (Part 2): Annual Internal Revenue Code Update	-26.0	-61.3	-87.3	8.3	-79.0
Locked-In Revenue Impact	-59.0	-21.3	-80.3	53.3	-27.0
Bills Still Pending in Legislature					
HB 164: Sales tax exemption for repair of certain aircraft	0	-5.1	-5.1	-5.4	-10.5
HB 193: Sales tax exemption for certain charitable	0	-2.2	-2.2	-2.4	-4.6
HB 211: Motor fuel tax exemption for public school buses	0	-5.7	-5.7	-5.9	-11.6
Pending Revenue Impact	0	-13.1	-13.1	-13.6	-26.7
TOTAL POTENTIAL REVENUE IMPACT	-59.0	-34.4	-93.4	39.7	-53.7

Source: Official fiscal notes as presented by the Georgia Department of Audits and Accounts and produced by the Georgia State University Fiscal Research Center and University of Georgia Carl Vinson Institute of Government. *No offical fiscal note was generated for the final version of HB 266 agreed to by the conference committee and signed by the governor. Revenue estimate for the final law is author's calculation based on fiscal note from a prior version of the bill (LC 28 6655S). These estimates do not include the potentially higher administrative costs of the final package, in particular new operating costs for the Department of Revenue to regulate "buy here pay here" lenders.

Largest 2013 Tax Legislation Already Signed into Law

As of Crossover Day, Gov. Nathan Deal signed one piece of tax legislation into law: House Bill 266 (HB 266). The new legislation consists of two unrelated tax bills that lawmakers combined into a single package before passage. As enacted, it will decrease state revenues considerably in the 2013 and 2014 budget years. It holds the potential to increase revenues starting in fiscal year 2015, though that depends on future policy choices by the U.S. Congress, the Georgia General Assembly and Department of Revenue. Due to the long-term uncertainty, HB 266's revenue impact beyond fiscal year 2014 is subject to change.

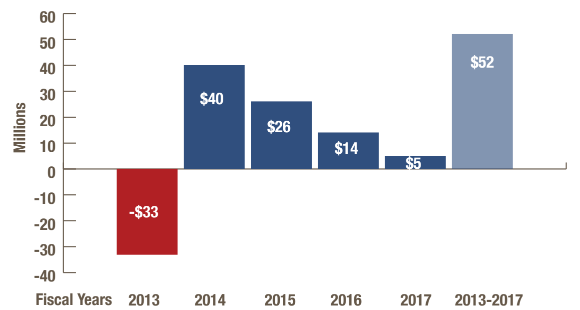
The revenue implications of HB 266 can be broken into two parts.

Part 1: Revisions to motor vehicle taxes

The first portion of HB 266, originally contained in HB 80, is a series of fairly technical changes to Georgia's new system of taxing cars. The bill eliminates a double-tax on Georgians who lease vehicles, changes the way the state values vehicles for taxes and changes how and when the new system is implemented. The state's experts estimate the revisions will decrease revenues this fiscal year, but increase them starting in 2014.

Lawmakers revised the bill several times during the session and some versions would have created a much steeper drop in revenues than the final product does.[1] The final version will cause an estimated $33 million decrease in revenues for the 2013 fiscal year, due largely to some changes to how it is implemented.[2] The car tax changes should increase revenue beginning in the 2014 budget year. However, because a final compromise gives the Department of Revenue the new authority to lower the car taxes owed from certain types of dealers, the long-term impact could change depending on how often the department uses that power.[3]

Car Tax Changes Drop 2013 Revenues, Increase Them Afterwards (in millions)



Source: Official fiscal note for House Bill 266 Substitute (LC 28 6655S). Estimates manually revised to reflect elimination of "buy here pay here" tax break in final version of bill signed into law.

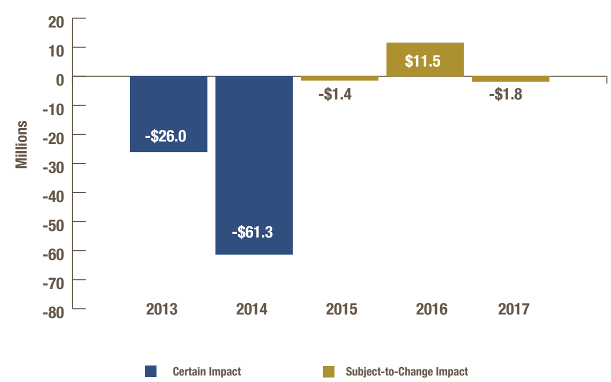
Short Term Revenue Impact (2013 and 2014 fiscal years):	$7 million
Long Term Revenue Impact (2015 through 2017 fiscal years):	$45 million
Total Revenue Impact (2013 through 2017 fiscal years):	$52 million

Part 2: Annual alignment to Internal Revenue Code

The second half of HB 266 is this year's Internal Revenue Code update, legislation the General Assembly must pass each year to align Georgia's tax code with changes enacted on the federal level. Because state and federal tax laws are closely linked, many national tax revisions directly affect the size of Georgians' state tax bills. Each year, through the tax code update, lawmakers can adopt all of the federal adjustments or disconnect from federal tax law in certain cases.

This year, the "fiscal cliff" agreement in January and other congressional action altered dozens of national tax laws that could have caused Georgia to lose more than $460 million in the 2013 and 2014 fiscal years.[4] But members of Georgia's tax-writing committee modified it in a way designed to limit the lost revenue to about $87 million during those two years.

Federal Update Will Lower Revenues Short-Term; Unclear Long-Term



Source: Official fiscal note for House Bill 266 Substitute (LC 28 6655S)

State budget experts also project that this year's federal alignment could potentially increase revenues slightly starting in 2015. However, because several of the federal changes are short-term fixes scheduled to expire after two years, revenues might decrease if Congress extends those provisions later. This means the revenues generated through this year's federal alignment beyond the 2014 fiscal year are subject to change.

Short Term Revenue Impact (2013 and 2014 fiscal years):	($87.3 million)
Long Term Revenue Impact (2015 through 2017 fiscal years):	$8.3 million
Total Revenue Impact (2013 through 2017 fiscal years):	($79 million)

Three Small Tax Breaks Pending in the Legislature

In addition to HB 266, three other revenue bills passed the House and are awaiting action by the Senate. Together, they would decrease state revenues by an estimated $27 million over five years. That total would increase if Georgia lawmakers choose to extend the provisions once they expire in 2015.

HB 164: Sales tax exemption for repair of certain aircraft
House Bill 164 extends until 2015 the sales tax exemption for engines and parts used in the maintenance of aircraft not registered in Georgia. Created in 2007, the exemption allows companies that have out-of-state airplanes serviced in Georgia to avoid paying sales taxes on the parts involved in that repair. Savannah-based Gulfstream and a few smaller aerospace companies will benefit if the bill becomes law.

Total Revenue Impact (2013 through 2017 fiscal years): ($10.5 million)

HB 193: Sales tax exemption for certain charitable causes
House Bill 193 revives several small sales tax breaks that expired in June 2010. These include exemptions for food purchased by qualified food banks, food donated for disaster relief, purchases by certain nonprofit health clinics, and purchases by Goodwill Industries Inc. The bill would revive the exemptions through 2015, when lawmakers would have to revisit them.

Total Revenue Impact (2013 through 2017 fiscal years): ($4.6 million)

HB 211: Motor fuel tax exemption for public school buses
House Bill 211 exempts public school systems from Georgia's motor fuel taxes from July 2013 through June 2015. Georgia would collect nearly $12 million less over two years from this tax, which is dedicated to transportation funding. The exemption would boost local school budgets by lowering transportation expenses at a cost of $5 million to $6 million in state revenues per year. For some schools, this could free up funds for other educational needs.

Total Revenue Impact (2013 through 2017 fiscal years): ($11.6 million)

Three Other Bills Could Affect Revenues Indirectly

HB 127: Phase-out of revenue diversions
House Bill 127 proposes to phase-out the ability of legislators to divert revenue from special fees to the General Fund. It would apply to fees such as hazardous waste removal and police training, which were created for specific purposes and are supposed to go into dedicated set-aside funds. Lawmakers often use these funds for other purposes.

HB 318: Revisions to tourism tax break
House Bill 318 makes several changes to a previously enacted but stalled tax break for tourism. Lawmakers created the sales tax exemption in 2011 to encourage the construction of large new tourist attractions, such as aquariums or stadiums. But agencies never implemented the program due to technical problems in the original bill.[5] If HB 318 succeeds in getting the program off the ground, it could potentially have a sizable, though unknown, impact on revenues in the future. The original fiscal note from 2011 did not include an estimate of future costs, due to the vagueness of the proposal at that time.[6]

HB 454: Expansion of annual tax expenditure report
House Bill 454 refines the state's tax expenditure report, which shows the annual cost for each of Georgia's many tax breaks. The new proposals would improve transparency and accountability in Georgia's tax break programs by allowing for one or two specific tax breaks to receive an in-depth analysis each year to determine if they are achieving their goals, such as creating jobs. This could enhance revenues long-term by helping lawmakers identify opportunities for revising or eliminating certain breaks.

Policy Considerations: Short-Term Shortfall Weakens Georgia's Financial Position

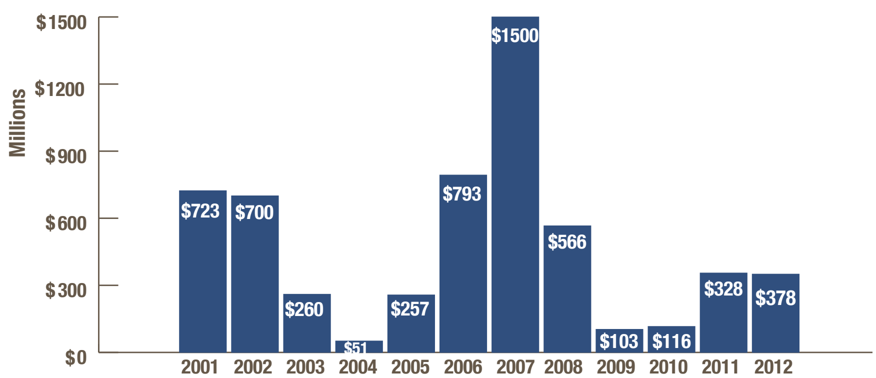
The revenue forecast on Crossover Day this year was clearer than in the past. The governor already signed the primary piece of tax legislation into law and the remaining proposals are relatively minor. Since the unsettled details of these bills make their long-term financial impact unclear, the legislation's most certain result will be the estimated $80 million or more revenue loss during the current and upcoming budget years.

For fiscal year 2013, the revenue shortfall will not affect funding for specific state agencies or services, since lawmakers are finished with the budget for the remainder of this year. But it will lower the amount of supplemental money available for Georgia's Revenue Shortfall Reserve (RSR), or "rainy day fund," which acts as a savings account for the state. Maintaining an adequate balance helps secure Georgia's AAA bond rating, which saves the state millions of dollars in interest payments.

The reserves are automatically funded through surplus revenue, rather than from direct appropriations by the Legislature. After peaking at $1.5 billion in 2007, lawmakers drained almost all the funds to lessen the blow from the Great Recession. Since then, an underperforming economy and mediocre revenue growth continue to make it difficult to restore the savings account to a responsible level. Georgia desperately needs to rebuild the fund before the next recession, or lawmakers will not have reserves to fall back on. Losing nearly $60 million in surplus 2013 revenue postpones the day when the reserve fund is restored to an appropriate level.

Rainy Day Fund Needs to be Rebuilt

Revenue Shortfall Reserve, fiscal years



Source: Governor's Budget Reports, Preliminary Official Bond Statement Dated June 13, 2012 and Selected Summary Financial Information for FY 2012.

In the 2014 fiscal year, the estimated revenue loss of up to $34 million will further constrain lawmakers' ability to pay for things the public expects from the state, including education, health care and transportation. Public investments help lay the foundation for a strong economy that creates jobs and is essential to Georgia's quality of life. Georgia's finances remain battered from the Great Recession and education and other vital services cannot continue to come out on the short end of tough spending choices. Budgets for several state agencies are down by as much as 20 to 30 percent since before recession began, which in some cases compromises the basic administration of state government – like having enough employees to process tax returns or drivers' licenses. The short-term revenue loss from the 2013 tax bills will exacerbate this problem.

Due to this immediate fallout, lawmakers should avoid approving any costly new tax breaks during the final days of legislative session. The cumulative projected impact on revenue of the three smaller tax exemptions already passed in the House is fairly minimal. The larger risk is more expensive tax proposals might pass the Legislature during the hectic final days of the session – when new items often get attached to bills that are already progressing. Several expensive tax proposals that failed to pass the House before Crossover Day, such as tax benefits for downtown developers, private school parents and insurance companies, could potentially reemerge in another form. Totaling tens of millions in lost revenue each year, these are costly proposals that Georgia simply cannot afford.

Endnotes

[1] As it originally passed the House, the car tax revisions would have raised an estimated $141 million in new state revenue from 2013 to 2017. Lawmakers then made several changes when the bill arrived in the Senate, including a massive tax break for so-called “buy here pay here” dealers, who largely cater to people with bad credit. Those revisions would have swung the revenue impact in the other direction – creating an estimated $99 million revenue loss during the same five year span. The House and Senate eventually worked out a compromise that protected state revenues by mostly eliminating the costly tax break. Sources: Official fiscal notes for House Bill 80 Substitute (LC 28 6557S) and House Bill 266 Substitute (LC 28 6655S).

[2]Ibid. The bulk of the revenue loss in the 2013 fiscal year is due to lawmakers pushing back the start date for certain aspects of the law, which was previously scheduled to fully go into effect March 1, 2013. Additionally, the revenue estimates for the final version of House Bill 266 may underestimate the final provisions’ costs because the last fiscal note did not include an estimate of potentially higher administrative costs for the Department of Revenue (DOR) to regulate “buy here pay here” dealers, a task it has not previously performed.

[3]Specifically, DOR will now have the authority to lower the title fee paid by “buy here pay here” dealers by up to 2.5 percent in certain cases – for example, 4.5 percent compared to 7 percent for other dealers once the law is fully phased-in. Because it is impossible to know how often DOR will choose to execute this authority, the long-term impact on state revenues is unknowable.

[4]Official fiscal note for House Bill 266 Substitute (LC 34 3746S). The potential revenue loss from adopting all federal revisions was an estimated $462 million combined during the 2013 and 2014 fiscal years combined.

[5]“Georgia lawmakers hope to revive tourism tax break,” AP News. 2/26/2013. http://www.businessweek.com/ap/2013-02-26/ga-dot-lawmakers-hope-to-revive-tourism-tax-break

[6]Official fiscal note for House Bill 234 Substitute (LC 14 0540S) in 2011.