Georgia Budget & Policy Institute

Policy Report

Tax Revisions Keep Georgia on the Wrong Path

Adding Up the Fiscal Notes: Closing the Books on 2013

by Wesley Tharpe, Policy Analyst

Overview

Tax revisions passed by the Georgia Legislature and signed into law by Gov. Nathan Deal this year will cost an estimated $168 million over five years, draining more scarce resources on top of years of damaging cuts to schools, job training, health care and other services that bolster Georgia's economy.

Most of the short-term cost, $125 million in 2013-2014, is due to tax changes enacted on the national level, which trickle down to Georgia because state and federal tax laws are closely linked. Almost all of the longer-term costs, $43 million in 2015-2017, are attributable to a new tax break for Georgians who buy and register used cars under the state's new system for taxing automobiles. The remaining revenue loss is caused by four bills that revise various tax breaks and credits for tourism promotion, business investors and other specific purposes.

Table 1 **2013 Tax Laws Cause Revenue Loss Over the Next Five Years**

Fiscal Years, In Millions	2013	2014	Short-term (2013-14)	Long-term (preliminary) (2015-17)	Total (preliminary) 2013-2017
Revenue Losses					
HB 463: Tax break for used cars	-5.5	-23.5	-29.0	-71.5	-100.5
HB 266: (Part 1): Internal Revenue Code Update	-26.0	-61.3	-87.3	8.3	-79.0
HB 266: (Part 2): Car tax revisions*	-33.0	40.0	7.0	45.0	52.0
HB 283: Increased credit for private school scholarship donations**	0	-4.9	-4.9	-8.5	-13.4
HB 211: Fuel tax exemption for public school buses	0	-5.7	-5.7	-5.9	-11.6
HB 164: Sales tax exemptionfor certain aircraft repair	0	-5.1	-5.1	-5.4	-10.5
HB 318: Tourism tax break; "Angel Investor" credit extension; Invest Georgia and Atlanta Zoo subsidy***	0	-0.1	-0.1	-5.1	-5.2
Total Revenue Impact	**-64.5**	**-60.7**	**-125.2**	**-43.1**	**-168.3**

Sources: 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 official 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.

**No official fiscal note. Estimates generated from author's calculations based on text of the bill.

***No official fiscal note for the final HB 318 package. Estimates generated from fiscal note for HB 200 (LC 40 0263) and author's calculations based on the text of the bill. As later explained in more detail, the true impact ofor HB 318 as a whole will almost certainly be quite larger.

In the short-term, the fewer dollars expected for the current fiscal year will not affect spending that the state has already committed to. But it will leave less surplus available for Georgia's "rainy day fund," which is supposed to carry the state through tough economic times. Beginning in the 2014 budget year, the lost revenue will make it even more difficult to support such core state services as education and health care at levels required to meet needs. These are services vital to Georgia having a skilled workforce, a sound transportation system and other resources that help businesses and families thrive.

Taking a wider view, the new tax laws keep Georgia on a trajectory away from economic growth. Many state services are still reeling from bone-deep cuts during the recession and Georgia's outdated tax system is unable to collect enough revenue for Georgia to meet its growing needs. While legislators and the governor rejected this year's most reckless tax proposals, they will need to continue that trend into next year. They still need to hold the line against irresponsible cuts, such as those proposed to the state income tax, while also exploring prudent ways for raising new revenues. Otherwise Georgia will remain on a road toward mediocrity.

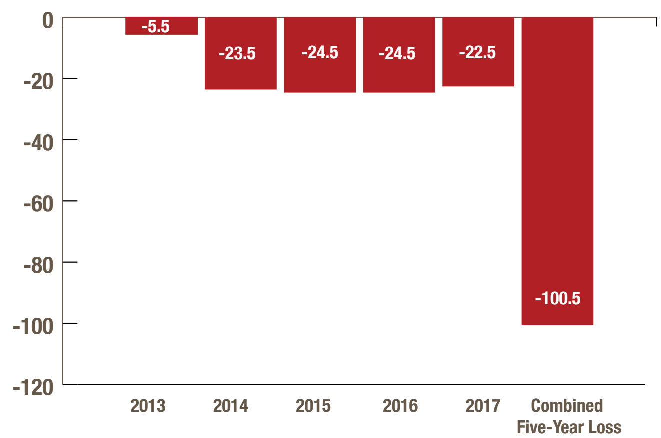
Two Large Tax Breaks Do the Most Damage

The bulk of the cost for this year's tax legislation comes from a new tax break for used cars (House Bill 463) and legislation that combined other changes in car taxes with tax revisions required by changes in federal law (House Bill 266). The cost of HB 266 is primarily short-term (fiscal years 2013 and 2014), while the cost of HB 463 is mostly long-term (fiscal years 2015-2017). Together, they are projected to cost $109 million over the next two fiscal years and $128 million over the next five.

HB 463: Tax Break for Used Cars a Revenue Lemon
The most expensive tax bill, HB 463, creates a new tax break for used cars under Georgia's new system for taxing automobiles. Passed with little debate in the hectic final moments of the 2013 session, the tax change will cause a sizable drop in state revenue over the next five years.

The legislation gives local officials the power to reduce the value of used cars for the purposes of calculating the new one-time title fee, based on a car's mileage and condition. State experts expect this provision will lower the tax value of about half of all used cars in Georgia. Because the law's eventual impact will depend on how often local officials choose to use this new authority, however, the $100 million cost over five years is a relatively rough estimate. The state projects the new law could cost as little as $57 million or as much as $144 million over that five-year span.[1]

Used Car Tax Break Drops Revenues Sizably Over Five Years (in Millions)



Source: Official fiscal note for HB 463 (LC 34 3886S)

HB 463 also includes a second provision that reduces the property taxes owed for interstate trucking companies registered in Georgia. Its estimated impact on state revenues is negligible.[2]

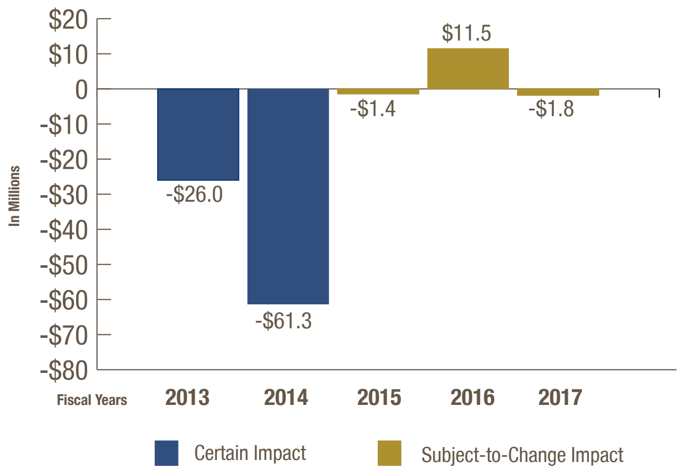
Short Term Revenue Impact (2013 and 2014 fiscal years)	($29 million)
Long Term Revenue Impact (2015 through 2017 fiscal years)	($71.5 million)
Total Revenue Impact (2013 through 2017 fiscal years)	($100.5 million)

HB 266: Car tax revisions and annual alignment to Internal Revenue Code take another bite
The second major tax bill passed this year consists of two unrelated tax changes combined into a single package. The legislation (HB 266) will decrease state revenues considerably in the 2013 and 2014 budget years. It could potentially increase revenues starting in fiscal year 2015, though that could change based on future decisions by Congress, the state General Assembly and the Georgia Department of Revenue. Due to this long-term uncertainty, the revenue impact beyond fiscal year 2014 is hard to predict.

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

Part 1: Annual alignment to Internal Revenue Code
The first half of the bill 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 Georgia's tax laws are closely linked

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



Source: Official fiscal note for HB 266 (LC 28 6655S)

with federal tax laws, 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 changes or disconnect from federal tax law in certain cases.

This year, Congress altered dozens of national tax laws that could have cost Georgia more than $460 million in revenue for the 2013 and 2014 fiscal years.[3] But members of Georgia's tax-writing committee modified it to limit the lost revenue to about $87 million during those two years.

State fiscal experts also project that the impact of this year's federal alignment will become negligible starting in 2015. However, because several of the federal changes are short-term fixes scheduled to expire after two years, these numbers could change drastically if Congress extends those provisions later.

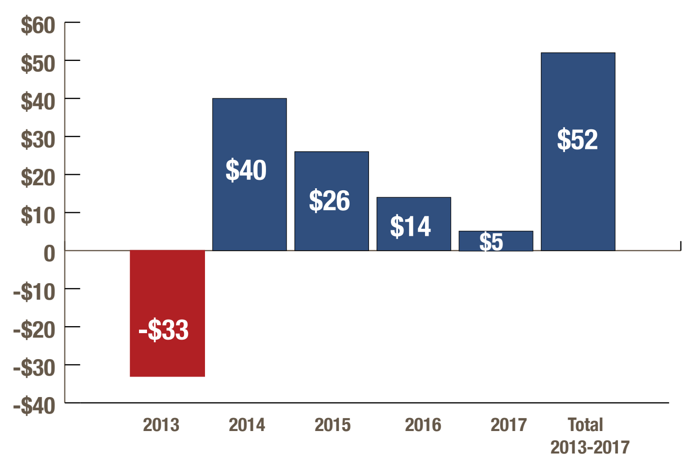
Short Term Revenue Impact (2013 and 2014 fiscal years)	($87.3 million)
Long Term Revenue Impact (2015 through 2017 fiscal years)	$8.3 million
Total Revenue Impact (2013 through 2017 fiscal years)	($79 million)

Part 2: Revisions to motor vehicle taxes

The second portion of HB 266 is a series of technical changes to Georgia's new system of taxing cars, completely separate from the used car tax break enacted in the prior bill. The legislation eliminates a "double tax" on Georgians who lease vehicles, changes the way the state calculates the taxes due on new cars, and alters some aspects of how 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 session and some versions would have altered revenues more starkly than the final product does. As it originally passed the House, the fixes 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 state 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.[4] Georgia's House and Senate eventually worked out a compromise that mostly eliminated the costly tax break.[5]

Car Tax Changes Drop 2013 Revenues, Increases Them in Later Years (in Millions)



Source: Official fiscal note for HB 266 (LC 28 6655S)

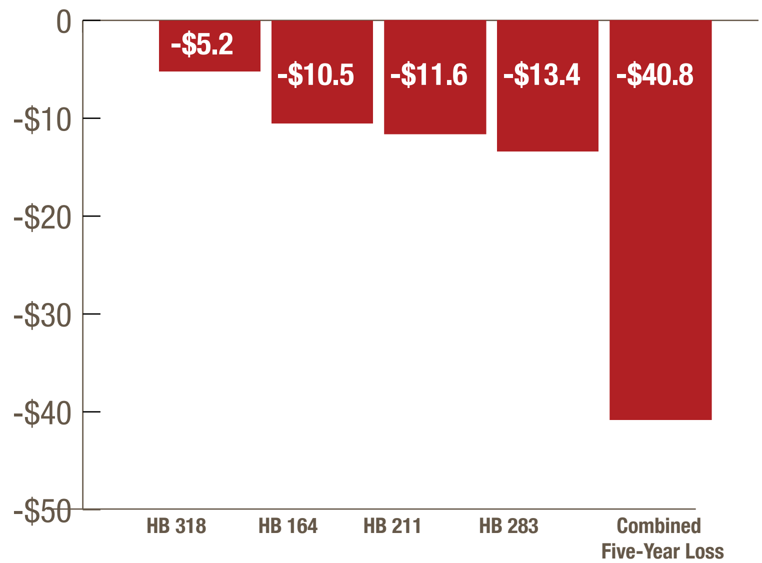
The final version will lower revenues by an estimated $33 million in the 2013 budget year before increasing them by an estimated $40 million in 2014 and $45 million over the following three years – equaling a five-year revenue gain of $52 million.[6] Importantly though, because the legislation gives the Georgia Department of Revenue new authority to lower the car taxes owed by certain types of dealers, the long-term revenue gain may fail to materialize if the agency chooses to use that power.[7]

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

Four Smaller Bills Add Additional Costs

Beyond the two largest bills, four other tax bills that the governor signed into law this year will cost Georgia $16 million in revenue over the next two fiscal years and $41 million over the next five fiscal years. Because some of these tax changes will expire in 2015, the long-term revenue loss could grow if Georgia lawmakers extend the provisions later.

Four Smaller Tax Changes Add Additional Cost
Estimated Revenue Loss over Five Years (in Millions)



Source: Official fiscal note for HB 266 (LC 28 6655S)

HB 283: Increased credit for private school scholarship donations

House Bill 283 expands Georgia's private school scholarship tax credit by increasing its annual cap to $58 million from approximately $52 million, while at the same time eliminating the yearly inflation adjustment for the credit. The legislation also improves the program's accountability to the public by enacting some new reporting requirements for participating schools and organizations.

Total Revenue Impact (2013 through 2017 fiscal years): ($13.4 million)

HB 211: Motor fuel tax exemption for public school buses

House Bill 211 exempts Georgia public schools from paying the state motor fuel tax until June 2015. Georgia will collect nearly $12 million less over two years from this tax, which is dedicated to transportation funding. The new exemption will boost local school budgets by lowering transportation expenses, which in some schools may free up funds for other educational needs.

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

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 benefit from the renewed exemption.

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

HB 318: Tourism tax break, "angel investor" credit extension, Invest Georgia, and Atlanta Zoo subsidy

House Bill 318 includes several unrelated measures, most importantly some changes to a previously enacted but never implemented sales 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 it due to technical and constitutional problems in the original bill. That legislation did not include an estimate of costs, due to the vagueness of the proposal at the time.[8] But if HB 318 succeeds in getting the program off the ground, the new tourism tax break could prove costly. Since applicants for the benefit will be approved on a case-by-case basis, however, the scope of that future cost is unknown.

Also included in HB 318 is an extension of Georgia's "angel investor" tax credit, which allows businesses and individuals to reduce their income tax liability in exchange for investing in Georgia-based startup companies. Previously scheduled to expire at the close of 2013, the new bill extends the credit through 2015 while reducing its maximum annual cost to $5 million from $10 million.[9]

HB 318 contains two additional items: the new "Invest Georgia" program and a small new subsidy for the Atlanta Zoo. Because it will not be funded through tax credits, Invest Georgia will not cause an annual loss in revenue unless funds are allocated through the budget, as explained by GBPI in "If Tax Money is used for Venture Capital, Invest Georgia is the Right Way." The new sales tax break for the Atlanta Zoo will cost the state around $100,000 a year for two years.

Total Revenue Impact (2013 through 2017 fiscal years): ($5.2 million)

Policy Considerations: Most Irresponsible Tax Cuts Rejected

There are two important takeaways from Georgia's 2013 tax legislation.

First, the actions taken will weaken Georgia's ability to save resources for a downturn or other emergency and to finance public services, especially during the current and upcoming budget years. For fiscal year 2013, the lost revenue will lower the amount of money available for Georgia's Revenue Shortfall Reserve Fund (RSR), or "rainy day fund," which acts as a savings account for the state. The reserve is at a dangerously low level after lawmakers rightly used nearly all the funds to lessen the blow from the Great Recession. Losing nearly $65 million in potential surplus for the fund in 2013 will make rebuilding it more difficult. Starting in the 2014 fiscal year, the lost revenue will further constrain lawmakers' ability to pay for things the public expects from the state, including education and health care. Georgia's finances remain battered from the recession and the new revenue loss from 2013 tax legislation makes a continuation of the budget-cutting status quo more likely.

Second, the revenue loss could have been far worse had state leaders not rejected several other irresponsible tax proposals on the table. For example, the annual alignment with the federal tax code would have cost nearly $400 million more over two years had the House's tax writing committee not modified it. The state Senate's revisions to Georgia's car taxes would have given a $151 million tax break over five years to a small subset of car dealers had state leaders not insisted it be removed from the final compromise. And Georgia would have lost tens – and maybe hundreds of millions of dollars – in revenue per year had the House allowed costly tax subsidies for downtown developers and insurance companies to proceed.

The rejection of these irresponsible tax cuts suggests that the governor and legislative leadership are at least aware of the problem Georgia continues to face when it comes to raising the resources it takes to meet growing public needs. But at the same time lawmakers have resisted increasing revenue to necessary levels. As one of the lowest taxed states, Georgia collects less revenue per person than any other state.[10] This lack of revenue deprives Georgia of the money needed for vital services and investments that lay the foundation for growth. The end result is a bare-bones approach to government that fails to support the level of services that Georgians once considered standard.

This trend can be reversed and Georgia put back on the path to progress, if the governor and General Assembly will adopt some prudent tax strategies for bringing in more revenue starting next year. There are numerous ways to do so without overburdening state residents or businesses, as explained in GBPI's "Menu of Revenue Options to Pave Way for Georgia's Rebound." It is also crucial that lawmakers stand firm against irresponsible tax cuts, such as a proposal to abolish or drastically reduce Georgia's income tax. That change would greatly reduce the state's ability to meet today's needs and make the investments needed for a prosperous future.

Endnotes

[1]Official fiscal note for HB 463 Substitute (LC 34 3886S).

[2]This aspect of HB 463 is estimated to cost only about $100,000 in state revenue per year, meaning almost all of the bill's total costs are due to the used car tax break.

[3]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.

[4]Sources: Official fiscal notes for House Bill 80 Substitute (LC 28 6557S) and House Bill 266 Substitute (LC 28 6655S).

[5]"Fix Found for New Car Tax," Atlanta Journal Constitution. 3/5/2013. http://www.ajc.com/news/news/state-regional-govt-politics/fix-found-for-new-car-tax/nWhmJ/

[6] The revenue estimates for the final version of House Bill 266 may also 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.

[7]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

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

[9]Because this particular program includes a three-year delay between the calendar year when the investment is made and the fiscal year when the credit can be claimed, the additional $5 million cost will not hit the state treasury until fiscal year 2017.

[10]Georgia ranked 50th in state revenue per capita in 2011, the most recent year of data available. U.S. Federation of Tax Administrators.

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