

## Adding Up the Fiscal Notes: Crossover Day 2014

### Grab-bag of Tax Measures on the Table

By Wesley Tharpe, Policy Analyst

### Overview

A slew of bills with revenue implications for Georgia's state and local governments are in the hands of state senators, after House members passed them before Crossover Day, March 3, 2014. The House passed nine relevant tax bills before the day when legislation must move from one chamber to the other to be eligible for final passage this year. Seven of the bills would cost the state revenue, while the other two would increase revenues. The two most expensive of these are House Bill 958, which extends four separate tax breaks for two years, and House Bill 729, a complex collection of adjustments to Georgia's new "title ad valorem tax" on automobiles.

If the Senate approves all nine bills, Georgia's state treasury will lose as much as an estimated \$335 million over the next five fiscal years. Potential losses in a given year range from a low of \$32 million to a high of \$129 million. The bills would also cost Georgia's local governments up to an estimated \$312 million over the same span. However, these estimates could slightly overstate the lost revenue because two bills that would raise revenues were not accompanied by official state fiscal notes.

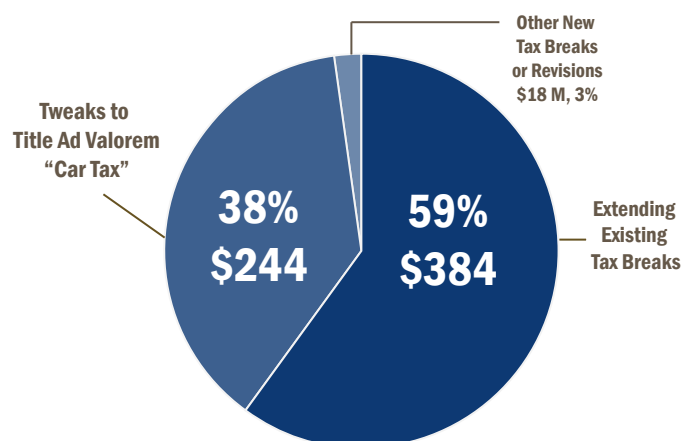
The potential lost revenue is significant and would create one more hurdle for state and local lawmakers trying to meet the needs of Georgians struggling from years of cuts to key state services. Education, human services and other state functions are still reeling from deep declines in funding since the recent recession, and these bills provide nothing to shore up revenues and reverse course.

At the same time, about 59 percent of the loss in state and local revenue is due to the extension of current tax breaks, as opposed to new tax revisions that permanently erode Georgia's tax base.<sup>1</sup> Extending exemptions technically counts as a revenue loss because Georgia would otherwise begin collecting those revenues once the exemptions expire, or "sunset," at times specified in current law. In most cases, the exemptions are set to expire this summer.

While Georgia would be well-served if lawmakers more closely reviewed tax breaks to determine which ones generate a sound return on investment, extending current exemptions is not as detrimental to state finances as bills that eat further into existing revenues, such as large new tax credits or income tax cuts. So, this year's proposals are more akin to business-as-usual for state tax policy than a drastic new direction.

### Extending Current Tax Breaks Comprise Majority of Costs

Combined State and Local Revenue Loss, FYs 2015-2019, millions



Source: GBPI calculations of fiscal notes produced by Georgia State University Fiscal Research Center or Carl Vinson Institute of the University of Georgia.  
Note: See endnote #1 for breakdown of categories.

## Tax Bills That Survived Crossover Day Would Subtract Significant Revenues

The following chart presents the estimated revenue changes of this year's pending tax bills on *state* revenues. If all seven bills with an official fiscal note become law, Georgia's state treasury will lose out on an estimated \$210 million over the next two fiscal years and \$335 million over the next five fiscal years. The remaining two bills would mitigate these costs to a small extent if approved.

### Potential STATE Revenue Changes of Pending Legislation

Fiscal Years, in Millions	2015	2016	2017	2018	2019	Short-term Total (2015-2016)	Overall Total (2015-2019)
HB 958: Governor's Tax Break Package	-\$75.4	-\$76.0	\$0	\$0	\$0	-\$151.4	-\$151.4
HB 729: Adjustments to New Car Tax System	-\$3.0	-\$28.0	-\$29.0	-\$18.0	-\$11.0	-\$31.0	-\$89.0
HB 933: Eliminate Sunset Tax for Aircraft Repair	\$0	-\$19.8	-\$20.2	-\$20.6	-\$21.0	-\$19.8	-\$81.5
HB 248: New Natural Gas Vehicle Tax Credit	\$0	-\$2.5	-\$2.5	\$0	\$0	-\$2.5	-\$5.0
HB 969: Exemptions for nonprofit clinics	-\$1.5	-\$1.6	-\$1.7	\$0	\$0	-\$3.0	-\$4.7
HB 823: Exemptions for wood pellets used in fuel	-\$0.8	-\$0.8	\$0	\$0	\$0	-\$1.6	-\$1.6
HB 922: New deduction for medical clerkships	-\$0.3	-\$0.3	-\$0.3	-\$0.3	-\$0.3	-\$0.5	-\$1.3
HB 983: GATE agricultural sales tax revisions	No fiscal note; Likely modest revenue gain for both state and local governments					N/A	N/A
HB 257: Repeal Low- Emission-Car Credit	No fiscal note; Likely \$15-\$25 million annual revenue gain for state					N/A	N/A
<b>Total State Revenue Impact</b>	<b>-\$80.9</b>	<b>-\$128.9</b>	<b>-\$53.6</b>	<b>-\$38.8</b>	<b>-\$32.3</b>	<b>-\$209.8</b>	<b>-\$334.5</b>

Sources: Official fiscal notes from the Georgia Department of Audits and Accounts as produced by the Georgia State University Fiscal Research Center or University of Georgia Carl Vinson Institute of Government. Notes: No fiscal notes for HB 348 - estimate derived from text or bill; No fiscal note for HB 969 - estimate taken from 2013 fiscal note for HB 193, which contained the same provisions; No official fiscal note for the final version of HB 729 - estimates are preliminary, unofficial figures presented to Ways and Means committee members on 2/26/2014; Estimate range for HB 257 derived from Georgia Tax Expenditure Report for FY 2015.

The following chart presents the estimated change in *local* revenues of the pending tax bills. Income tax proposals, which don't change local government revenues, are excluded in this chart. If all relevant bills become law, Georgia's local governments will lose an estimated \$149 million over the next two fiscal years and \$312 million over the next five fiscal years. House Bill 983 would likely counter some of these costs, especially in rural counties.

### Potential LOCAL Revenue Changes of Pending Legislation

Fiscal Years, in Millions	2015	2016	2017	2018	2019	Short-term Total (2015-2016)	Overall Total (2015-2019)
HB 729: Adjustments to New Car Tax System	-\$13.0	-\$26.0	-\$31.0	-\$39.0	-\$46.0	-\$39.0	-\$155.0
HB 958: Governor's Tax Break Package	-\$46.1	-\$46.5	\$0	\$0	\$0	-\$92.6	-\$92.6
HB 933: Eliminate Sunset for Aircraft Repair	\$0	-\$14.8	-\$15.1	-\$15.5	-\$15.8	-\$14.8	-\$61.1
HB 969: Exemptions for nonprofit Health Clinics	-\$0.6	-\$0.6	-\$0.7	\$0	\$0	-\$1.2	-\$1.9
HB 823: Exemption for wood pellets used in fuel	-\$0.6	-\$0.6	\$0	\$0	\$0	-\$1.2	-\$1.2
HB 983: GATE agricultural sales tax revisions	No fiscal note; Likely modest revenue gain for both state and local governments					N/A	N/A
<b>Total State Revenue Impact</b>	<b>-\$60.3</b>	<b>-\$88.6</b>	<b>-\$46.8</b>	<b>-\$54.5</b>	<b>-\$61.8</b>	<b>-\$148.9</b>	<b>-\$311.8</b>

Sources: Official fiscal notes from the Georgia Department of Audits and Accounts as produced by the Georgia State University Fiscal Research Center or University of Georgia Carl Vinson Institute of Government. Notes: No fiscal notes for HB 348 - estimate derived from text or bill; No fiscal note for HB 969 - estimate taken from 2013 fiscal note for HB 193, which contained the same provisions; No official fiscal note for the final version of HB 729 - estimates are preliminary, unofficial figures presented to Ways and Means committee members on 2/26/2014.

### Three Bills Account for Almost All of Lost Revenue

Ninety-six percent of the combined estimated revenue loss for Georgia's state and local governments during the 2015 to 2019 budget years comes from three bills:

#### House Bill 958 – Governor's Tax Break Package

House Bill 958 is a package of four unrelated tax changes stemming from recommendations of Georgia's "Competitiveness Council," which Gov. Nathan Deal first convened in 2011. It renews a previously expired sales tax break for food banks and extends three other tax breaks by two years: sales tax holidays for back-to-school items and energy efficient appliances; income tax credits for the gaming industry; and sales tax exemptions for construction materials used in new manufacturing plants and other "projects of regional significance." The extension of Georgia's sales tax holidays is probably the proposal least likely to generate a good economic return for the revenue the state gives up, [as a GBPI blog explains](#).

#### House Bill 933 – Eliminate Sunset for Aircraft Repair Exemption

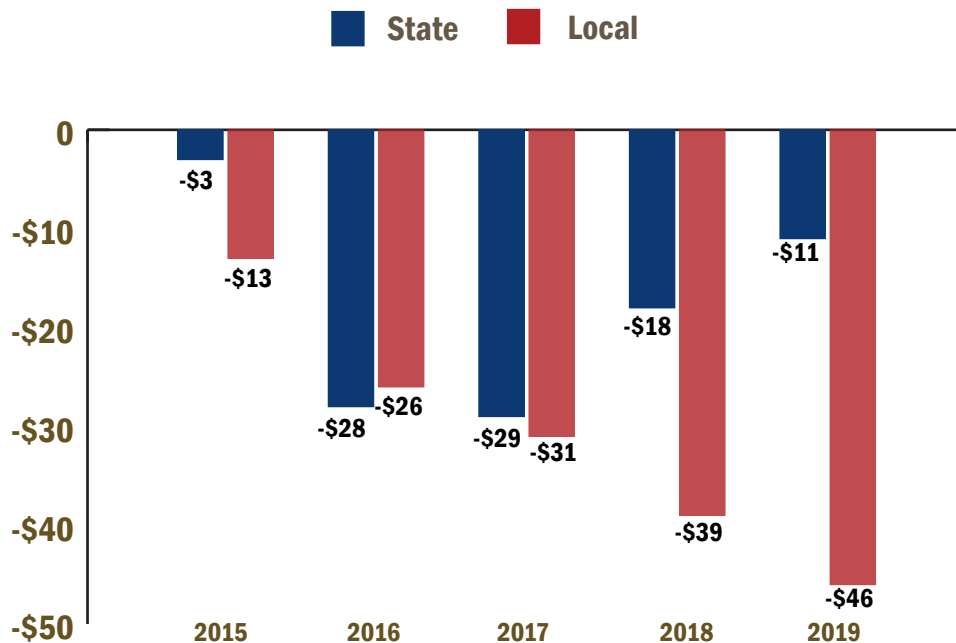
This legislation eliminates the sunset for the sales tax exemption on purchases of engines and parts used to repair aircraft not registered in Georgia. Now scheduled to expire in 2015, the exemption allows companies with out-of-state airplanes serviced in Georgia to avoid paying sales taxes on repair parts. Savannah-based Gulfstream and several other aerospace companies would continue to benefit, if approved.

### House Bill 729 – Adjustments to New Car Tax System

State lawmakers overhauled vehicle taxes in Georgia in 2012, replacing the annual “birthday tax” with a one-time title ad valorem tax of 7 percent after a purchase.<sup>2</sup> Although reviews of the new system are mostly positive, lawmakers are still sorting through some minor consequences of the change, such as “double-taxing” those who lease vehicles. House Bill 729 contains several technical revisions, including a new allowance for trade-ins of leased vehicles and a reduction in the tax charged to people bringing vehicles to Georgia from other states. While continued erosion of title ad valorem tax revenues is risky, it is understandable that lawmakers need time to make modest changes to fix the system’s initial kinks.

### Car Tax Tweaks Have Varying Effect on State and Localities

Estimated revenue loss by fiscal year, millions



Source: Preliminary, unofficial estimates provided by the Georgia State University Fiscal Research Center to House Ways & Means Committee members on 2/26/2014

### Four Bills Would Carry Minor Revenue Losses

The remaining four percent of combined estimated revenue loss for Georgia’s state and local governments during the 2015 to 2019 budget years comes from four modest measures:

#### House Bill 348 – New Natural Gas Vehicle Tax Credit

This bill creates a new income tax credit for companies purchasing large fleets of alternative-fuel vehicles, such as delivery companies or garbage collectors. Its cost would be capped at \$2.5 million annually for 2016 and 2017, at which time it would expire.

#### House Bill 969 – Sales Tax Exemptions for Nonprofit & Volunteer Health Clinics

HB 969 renews a previously expired sales tax break for some purchases by nonprofit and volunteer health clinics in Georgia. From 2008 to 2010, free health clinics were exempt from Georgia sales taxes on medical and office supplies and other purchases. If passed, HB 969 would return the exemption for fiscal years 2015-2017.

### **House Bill 823 – Sales Tax Exemptions for Wood Pellets Used in Alternative Fuel**

Until 2012, Georgia offered a sales tax exemption on purchases of construction materials used in building new alternative fuel facilities, including biodiesel or ethanol plants. This bill renews the exemption for two fiscal years and qualifies wood pellets as an alternative fuel.

### **House Bill 922 – New Income Tax Deduction for Medical Clerkships**

This legislation would create a new \$1,000 annual income tax deduction for medical students who practice at least three medical clerkships, or rotations, in a year. The legislation is designed to provide future doctors and nurses an incentive to attend medical school in Georgia. It does not include an expiration date.

### **Remaining Two Bills Would Increase Revenues**

#### **House Bill 983 – Revisions to Georgia Agricultural Sales Tax Exemptions (GATE)**

HB 983 would tighten some regulations of the GATE system of agricultural sales tax exemptions, which lawmakers created in 2012. The system came under scrutiny after reports that some rural landowners who are not agricultural producers were able to secure GATE cards and improperly purchase a wide range of items tax-free. The extent of such fraud is unknown, but any abuse of the system makes it more costly for state and local governments, especially those in rural areas. Tightening enforcement to limit abuses would likely raise state and local revenues somewhat.

#### **House Bill 257 – Repeal Income Tax Credit for Electric Cars**

Georgia created a state income tax credit of \$5,000 in 1998 as an incentive for people to buy low or zero emission cars. Reports suggest it went mostly unused until the last few years, when cars such as the Nissan Leaf became more popular and affordable. In turn, the cost of the credit has grown to an estimated \$14 million in the 2014 fiscal year and \$18 million in 2015.<sup>3</sup> This legislation would repeal the credit, effective April 1, 2014.

## **Endnotes**

<sup>1</sup>Items included as extensions of current tax breaks: Three of four provisions in HB 958 (income tax credits for game developers; sales tax holidays; and sales tax exemptions for projects of regional significance); and HB 933 (air repair exemption). Items counted as 'Other New Tax Breaks or Revisions' are: Re-enactment of previously expired exemptions (HB 969 – free health clinics; one component of HB 958 – food banks); HB 348 (natural gas credit); HB 823 (wood pellets used in fuel); HB 922 (deduction for medical clerkships); and HB 729 – tweaks to TAVT car taxes.

<sup>2</sup>Sales taxes on car purchases and the annual ad valorem “birthday tax” were eliminated for new car buyers and phased-out for existing car owners. In their place, Georgia now has a fairly unique “title ad valorem tax (TAVT)” system, which levies a one-time fee of 7 percent when owners first register their car. Revenues are divided by formula between state and local governments.

<sup>3</sup>Georgia Tax Expenditure Report for FY2015. December 2013, Pg. 73.