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Policy Report

Adding Up the Fiscal Notes: 2014 Session Recap

Tax Measures Further Whittle Away Revenues

By Wesley Tharpe, Policy Analyst

Overview

A collection of tax measures that could drain up to $286 million from Georgia's state treasury and $207 million from its local governments over the next five years gained the approval of the General Assembly this year. Although not as large as some past tax packages, the foregone revenue creates more hurdles for state and local lawmakers to clear to meet the needs of Georgians struggling from years of budget cuts. This is especially true given the Legislature's approval of Senate Resolution 415, which could tie Georgia's hands for the future by capping the state's income tax through constitutional amendment.

A few proposals account for most of the lost revenue over the next five years. A two-year extension of Georgia's semi-annual sales tax holidays is the most expensive policy, followed by the decision to make permanent a previously temporary exemption for parts used in the repair of some types of aircraft. At the same time, the costs of these various measures differ over time. Some items, such as the governor's "competitiveness" package, have a front-loaded price over the next two fiscal years. The costs for other items are more staggered.

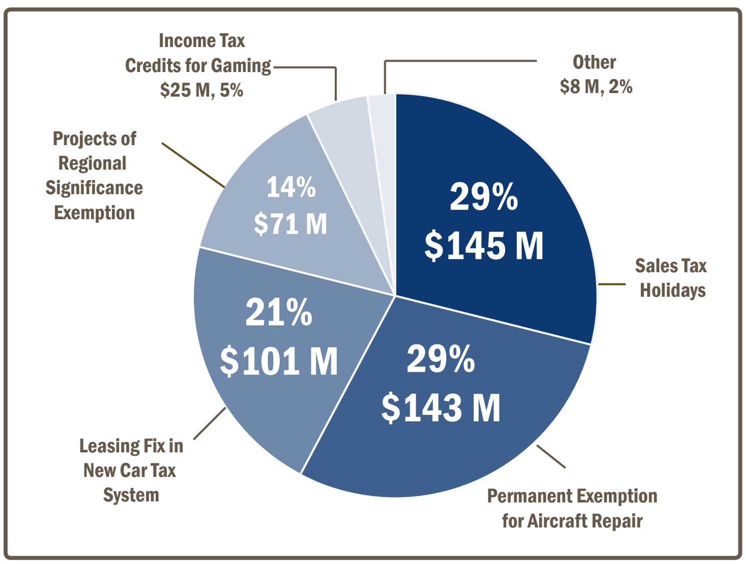
Aside from the "tax cap" amendment, SR 415, none of this year's revenue items appear likely to change the state's trajectory long-term. Lawmakers extended some unproven business tax breaks, enacted some popular election-year tax gimmicks and otherwise made some small revisions to the tax code.

Each item carries noteworthy pros and cons, but together they amount to a business-as-usual approach to tax policy. Georgia lawmakers have whittled away state and local revenues for years, which is partly why core state services such as education were so deeply battered by the Great Recession. This year's legislation mostly stays the course.

A better approach is to meet the challenge of sagging revenues head-on by shoring up Georgia's outdated tax code through comprehensive reform. Georgia's revenue system is largely a relic from the 1930s and is simply ill-equipped to meet the needs of a rapidly growing state. For Georgia to compete in the 21st century, lawmakers will need to bolster the system with new revenues so they can invest more in the building blocks of growth, including quality schools, world-class transportation and an adequate safety net.

Disconnected Tax Changes Drive Five-Year Costs

$493 million estimated state & local revenue loss, FYs 2015-2019



Source: GBPI calculations of fiscal notes produced by Georgia State University Fiscal Research Center or Carl Vinson Institute of the University of Georgia.

Tax Bills Passed by Legislature Will Erode Revenues

The chart below shows estimated revenue costs of this year's tax bills to *state* revenues. The General Assembly passed five tax bills that could affect Georgia revenues in a meaningful way: HBs 348, 729, 933, 958 and 983. Because one of the bills, House Bill 958, was a legislative package containing several different measures, its provisions are itemized separately in the chart below. Note: at publication time, HB 348 is the only one of these signed into law by the governor.

Estimated costs are only available for four of the five bills (HBs 348, 729, 933 and 958). They will cost Georgia's state treasury an estimated $195 million over the next two fiscal years from July 2014 through June 2016 and $286 million over the full five-year window estimated by state experts. The fifth bill, HB 983, was not accompanied by an official fiscal note but is designed to raise some revenues likely to mitigate a portion of these costs.

Projected STATE Revenue Changes Due to Passed Legislation

Fiscal Years, in Millions	2015	2016	2017	2018	2019	Short-term Total (2015-2016)	Overall Total (2015-2019)
Sales Tax Holiday Two-Year Extension (HB 958)	-$41.2	-$41.7	$0	$0	$0	-$82.9	-$82.9
Eliminate Sunset for Aircraft Repair Exemption (HB 933)	$0	-$19.8	-$20.2	-$20.6	-$21.0	-$19.8	-$81.5
Leasing Fix in New Car Tax System (HB 729)	-$10.0	-$11.0	-$10.0	-$9.0	-$8.0	-$21.0	-$48.0
Regional Significance Exemption Two-Year Extension (HB 958)	-$21.0	-$21.0	$0	$0	$0	-$42.0	-$42.0
Gaming Tax Credits Two Year Extension (HB 958)	-$12.5	-$12.5	$0	$0	$0	-$25.0	-$25.0
New Natural Gas Vehicle Tax Credit (HB 348)	$0	-$2.5	-$2.5	$0	$0	-$2.5	-$5.0
Food Bank Exemption Two Year Extension (HB 958)	-$0.7	-$0.8	$0	$0	$0	-$1.5	-$1.5
Agricultural sales tax revisions (HB 983)	No fiscal note; Likely modest revenue gain for both state and local governments					N/A	N/A
Total State Revenue Impact	**-$85.4**	**-$109.2**	**-$32.7**	**-$29.6**	**-$29**	**-$194.6**	**-$285.8**

Sources: 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 Goverment. Notes: No fiscal notes for HB 348 - estimate derived from text or bill; No official fiscal note for the final version of HB 729 - Figures are author's calculations based on comparison of the text of the final legistlation with the preliminary, unofficial figures presented to Ways and Means committee members on 2/26/2014.

The chart below shows the estimated costs to *local* revenues from this year's tax bills. The tax bills listed below would cost Georgia's local governments about $125 million during the two fiscal years from July 2014 through June 2016 and $207 million over the full five-year timespan. The proposal to revise agricultural sales taxes, HB 983, could counter some of these costs by shoring up the sales tax, especially in rural counties.

Projected LOCAL Revenue Changes Due to Passed Legislation

Fiscal Years, in Millions	2015	2016	2017	2018	2019	Short-term Total (2015-2016)	Overall Total (2015-2019)
Sales Tax Holiday Two-Year Extension (HB 958)	-$30.9	-$31.2	$0	$0	$0	-$62.1	-$62.1
Elimiate Sunset for Aircraft Repair Exemption (HB 933)	$0	-$14.8	-$15.1	-$15.5	-$15.8	-$14.8	-$61.1
Leasing Fix in New Car Tax System (HB 729)	-$9.0	-$9.0	-$10.0	-$12.0	-$13.0	-$18.0	-$53.0
Regional Significance Exemption Two-Year Extension (HB 958)	-$14.7	-$14.7	$0	$0	$0	-$29.4	-$29.4
Food Bank Exemption Two Year Extension (HB 958)	-$0.5	-$0.6	$0	$0	$0	-$1.1	-$1.1
Agricultural Sales Tax Revisions (HB 983)	No fiscal note; Likely modest revenue gain for both state and local governments					N/A	N/A
Total State Revenue Impact	**-$55.1**	**-$70.3**	**-$25.1**	**-$27.5**	**-$28.8**	**-$125.4**	**-$206.7**

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 Goverment. Notes: No fiscal note for the final version of HB 729 Figures are author's calculations based on comparison of the text of the final legistlation (LC 28 7220S) with the preliminary, unofficial figures presented to Ways and Means committee members on 2/26/2014.

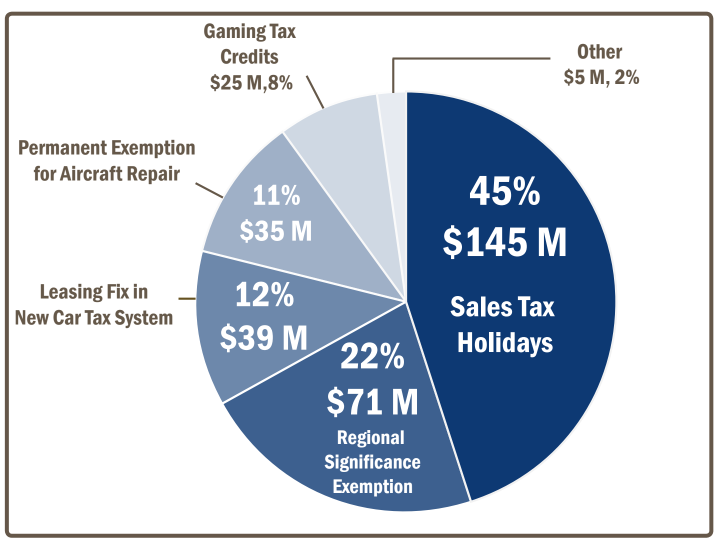
Some Cost More Now, Others Later

Georgia's state and local treasuries will forego an estimated $493 million in revenue over the five-year period covered in the state's official estimates. But because of how the bills were structured, the sources of these costs differ between the short- and long-term.

The governor's "competitiveness" package, HB 958, is one of the proposals designed to only affect revenues during the 2015 and 2016 fiscal years. It extends four different tax provisions for two years, after which they will expire unless lawmakers renew them. The proposal to extend Georgia's sales tax holidays is the most expensive part of that package. The 2014 General Assembly's proposed holidays would cost a combined $145 million in state and local revenue, or 45 percent of the lost revenue in 2015 and 2016.

Sales Tax Holidays Swell Short-term Costs

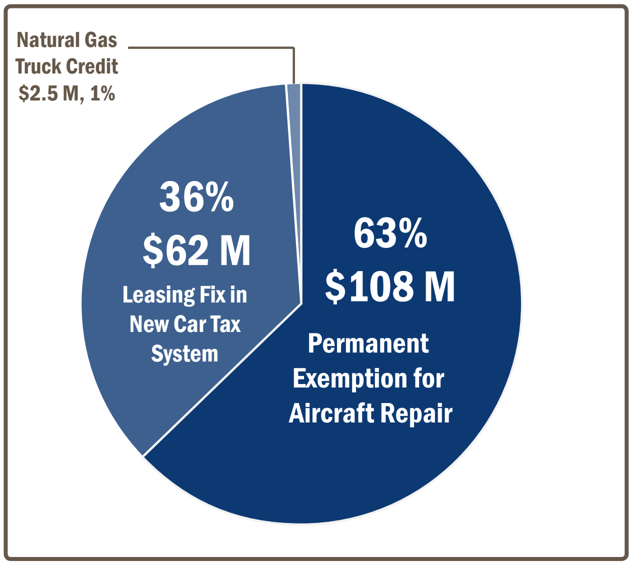
$320 million estimated state & local revenue loss, FYs 2015-2016



Source: GBPI calculations of fiscal notes produced by Georgia State University Fiscal Research Center or Carl Vinson Institute of the University of Georgia.

Aircraft Exemption and Car Revisions Drive Long-Term Costs

$173 million estimated state & local revenue loss, FY 2017-2019



Source: GBPI calculations of fiscal notes produced by Georgia State University Fiscal Research Center or Carl Vinson Institute of the University of Georgia.

Income tax credits for game developers and a sales tax exemption for construction projects of "regional significance," such as large company expansions, are the other costly parts of the governor's package. These two business tax breaks would expire at the end of two years and amount to about 30 percent of the total lost revenue this year's legislation will cause by then. A sales tax exemption for food banks, the other provision on the governor's wish list, would comprise less than 1 percent of the total 2015-2016 revenue loss.

The cost for other tax changes would come further in the future. In the 2017 through 2019 fiscal years, the cost of 2014's tax legislation is attributable to a small change in Georgia's new system for taxing cars and making permanent a previously temporary exemption for parts used in aircraft repair. These long-term costs total $173 million to state and local governments.

Tax Measures Passed in 2014 are Disconnected, With Some Noteworthy Implications

The General Assembly's approach to tax policy this year lacked cohesion. Lawmakers extended some unproven business tax breaks, enacted some popular election-year tax gimmicks including the sales tax holiday extension, and made some miscellaneous revisions around the edges. Other than the reckless constitutional amendment, none of this year's proposals appear likely to change the state's trajectory long-term.

Below are some important tax policy issues to keep an eye on in the aftermath of the 2014 General Assembly.

Reckless Tax Cap Amendment Tarnishes 2014 Session

The most important tax measure passed in 2014 will not shrink revenues right away but could cause trouble down the road. Senate Resolution 415, approved by two-thirds of lawmakers in both chambers, places a constitutional amendment on this November's ballot asking voters if Georgia's income tax should be permanently capped at its present rate of 6 percent. That may look harmless to many Georgia voters, but the amendment could deliver several unintended consequences if voters approve it. The potential problems are fully detailed in the recent Georgia Budget and Policy Institute fact sheet, "Tax Resolution Could Put Georgia Lawmakers in a Bind."

Renewing Georgia's Sales Tax Holidays Ignores Evidence

The decision to extend Georgia's sales tax holidays for another two years is based on the faulty premise that the event generates economic activity and helps families. But experts concur the tax break delivers few benefits at a significant cost to the state. As GBPI recently explained, the tax break provides little benefit to consumers, overburdens businesses and does nothing to boost the economy. People tend to time spending to take advantage of tax holidays, rather than buying more than they otherwise would have. And Georgians who cannot shift their spending very easily, such as workers who live paycheck to paycheck, often miss out on the holidays entirely. Meanwhile, the huge loss in state and local revenue is money that could be better spent filling some of the budget holes dug in recent years.

Extending Business Tax Breaks Points to Need for More Review

Much of the cost for this year's tax legislation comes from business tax break extensions. Those include sales tax exemptions for large construction projects and purchases of engines and parts used to repair out-of-state aircraft. Lawmakers say these exemptions help keep Georgia competitive with other states.

It is at least possible that Georgia gets a good bang for the buck from these exemptions in terms of jobs and economic investment gained for revenue lost. But lawmakers cannot know for sure because Georgia lacks a thorough review system to determine if a tax break program achieves its goals. The Pew Center on the States, a leader in this policy area, says Georgia is one of 26 states "trailing behind" in measuring whether exemptions are a good value to taxpayers.

There are better ways. In Oregon all tax breaks are scheduled to expire every six years, which gives the Legislature a chance to evaluate the track record of each one. Sometimes Oregon lawmakers keep the tax break, other times they decide the money would be better spent on something else, like schools or roads. Rhode Island is required to look at tax breaks every three years to ensure to justify the lost revenue. Georgia would be well served by adopting a similar review process.

Modest Update to Car Tax System Reveals Need for Caution

Georgia lawmakers overhauled the state's approach to vehicle taxes in 2012, replacing the so-called annual "birthday tax" with a one-time "title ad valorem tax" of 7 percent after a purchase. Although reviews of the new system are mostly positive, lawmakers are still sorting through some minor unintended consequences of the change. House Bill 729 provides for a new allowance for trade-ins of leased vehicles, which should alleviate a problem of "double-taxing" leased vehicles under the 2012 law.

It is understandable that lawmakers sometimes need to revisit legislation to make modest corrections. But eroding ad valorem revenues too far is risky, and earlier drafts of HB 729 were far more expensive, especially for local governments that are vulnerable to sales and ad valorem tax changes. Georgia's finances are finally starting to recover from the Great Recession and new car tax revenues are a big part of that growth. Lawmakers should consider giving the new system a few years to work before making more changes.

Revisions to Georgia Agricultural Sales Tax Exemptions (GATE) Should Mitigate Costs

HB 983 is designed to tighten regulation of the GATE system, which lawmakers created in 2012. The new agricultural exemptions came under scrutiny after reports that some rural landowners who are not agricultural producers were able to secure GATE's tax-free benefits. The unquantified abuse of the system makes it more costly for state and local governments, especially in rural areas. Tightening enforcement to limit abuses could modestly raise state and local revenues, although this bill lacked an official fiscal note to estimate potential savings.

Conclusion

Aside from the reckless "tax cap" amendment, this year's revenue bills are probably best characterized as Georgia's typical approach to tax policy. They promise to continue to shrink state and local revenues, while leaving the fundamental challenges facing Georgia's tax system unaddressed.

One of the most pressing obstacles facing Georgia today is a tax system that is ill-equipped to meet the needs of a rapidly growing state. School district budgets are strained, traffic gridlock is worsening and rural hospitals are closing. All of this is caused by a lack of money to pay for adequate public services. Georgia is one of the lowest-taxed states in the country, and its revenue system, in many ways, is unchanged since the 1930s.

Georgia needs to compete in the 21st century economy, so lawmakers need a change in strategy from the one pursued over the past few years. Passing tax changes that whittle away revenues for little or nothing in return is not helping Georgians prosper. Lawmakers should change course and identify ways to shore up Georgia's fragile finances through a more balanced approach to tax policy. Investments in the building blocks of growth, such as quality schools, world class transportation and an adequate safety net are critical to improving Georgia's future. Nickel and diming state revenues every year sets Georgia a little more behind that goal.