Policy Report

Adding Up the Fiscal Notes: 2014 Session Recap

Tax Measures Further Whittle Away Revenues

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Overview

A collection of tax measures that will drain up to $238 million from Georgia's state treasury and $154 million from its local governments over the next five years were signed into law by Gov. Nathan Deal 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. Most of these items have a front-loaded price over the next two fiscal years, although one item will have a staggered cost over many years.

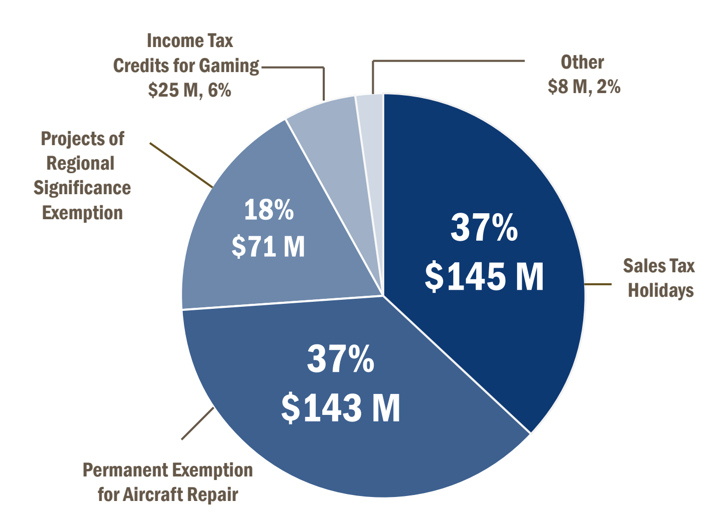
Aside from the "tax cap" amendment, SR 415, none of this year's revenue items appear likely to change the state's trajectory long-term. Lawmakers extended some unproven business tax breaks, enacted some popular election-year tax gimmicks and otherwise made some small revisions to the tax code.

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A better approach is to meet the challenge of sagging revenues head-on by shoring up Georgia's outdated tax code through comprehensive reform.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

$392 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. Gov. Nathan Deal signed four tax bills that could affect Georgia revenues in a meaningful way: House Bills 348, 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. These figures do not include the potential costs of House Bill 729 – a revision to Georgia's new title ad valorem (TAVT) system for taxing cars – which Gov. Deal vetoed.

Estimated costs are only available for three of the four bills (HBs 348, 933 and 958). They will cost Georgia's state treasury an estimated $174 million over the next two fiscal years from July 2014 through June 2016 and $238 million over the full five-year window estimated by state experts. The fourth 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
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	**-$75.4**	**-$98.2**	**-$22.7**	**-$20.6**	**-$21.0**	**-$173.6**	**-$237.8**

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;

The chart below shows the estimated costs to *local* revenues from this year's tax bills. The tax bills listed below will cost Georgia's local governments about $107 million during the two fiscal years from July 2014 through June 2016 and $154 million over the full five-year time span. The proposal to revise agricultural sales taxes, HB 983, will likely 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
Eliminate Sunset for Aircraft Repair Exemption (HB 933)	$0	-$14.8	-$15.1	-$15.5	-$15.8	-$14.8	-$61.1
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	**-$46.1**	**-$61.3**	**-$15.1**	**-$15.5**	**-$15.8**	**-$107.4**	**-$153.7**

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.

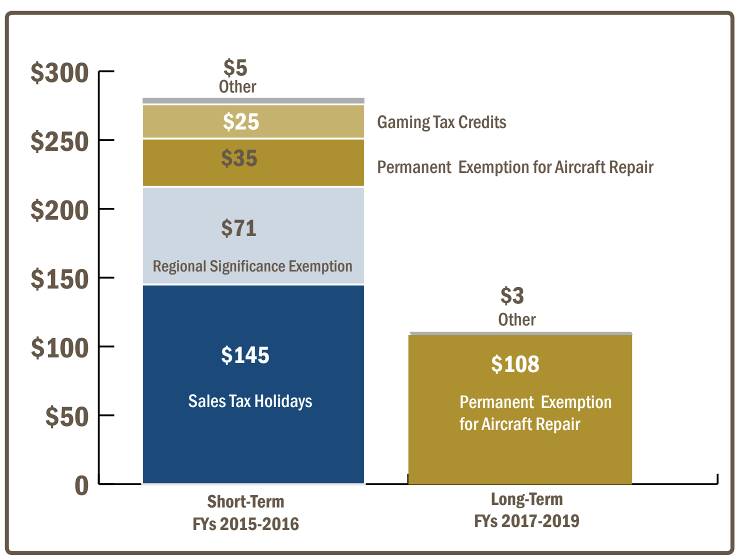
Some Cost More Now, Others Later

Georgia's state and local treasuries will forego an estimated $392 million in revenue over the five-year period covered in the state's official estimates. 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, drives the short-term costs. It 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 renewed holidays will cost a combined $145 million in state and local revenue, or 52 percent of all lost revenue in 2015 and 2016.

Sales Tax Holidays, Aircraft Exemption Dominate Costs

Estimated state and local revenue loss, millions



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

A sales tax exemption for construction projects of "regional significance," such as large company expansions, and income tax credits for game developers are next on the most-costly list. These two business tax breaks will expire at the end of two years and amount to about 34 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, comprises less than 1 percent of the total 2015-2016 revenue loss.

The cost of making permanent what was a temporary exemption for parts used in aircraft repair is more back-loaded. That change will cost Georgia's treasury about $20 million a year and cost local governments about $15 million a year. The price will naturally rise with inflation over time. Through the 2017 to 2019 fiscal years, the permanent exemption will cost Georgia an estimated $108 million in lost state and local revenue.

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. 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. Businesses must cope with complex regulations about which products qualify. 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 they justify the lost revenue. Georgia would be well served by adopting a similar review process.

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

Governor's Veto of Car Tax Revision is a Victory for Caution
Gov. Nathan Deal vetoed one revenue bill this year, House Bill 729. The legislation aimed to make corrections to Georgia's new title ad valorem (TAVT) automobile tax, which lawmakers introduced in 2012. Supporters of the legislation sought to remedy what they say are a few unintended consequences to the 2012 change, such as "double-taxing" of leased vehicles. This year's bill included a few potential fixes that came with a fairly steep price for state and local governments. The bill would have cost $48 million in lost state revenue and $53 million in lost local revenue over the next five fiscal years.

It is understandable that lawmakers sometimes need to revisit legislation to make modest corrections. But Georgia's finances are just starting to recover from the Great Recession and new car tax revenues are a big part of that recovery. Giving the existing system a few years to work before making more changes seems like a prudent decision.

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.