

Tax Breaks, Income Tax Cuts Could Harm Georgia Finances

Adding Up the Fiscal Notes: Crossover Day 2016

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A variety of tax bills await further consideration by state legislators as the Georgia General Assembly enters its final few weeks of the 2016 session. There are 11 tax bills affecting state revenues still alive after Crossover Day, the point where bills must clear at least one legislative chamber to have a good chance at becoming law. Nine could reduce revenues by \$686 million over five years through direct tax breaks. The remaining two would cut income taxes at an estimated five-year price of more than \$2 billion in lost revenue. Lawmakers who want to protect Georgia's ability to fund education and other core services while also saving for rainy days need to pump the brakes on revenue-draining proposals before March 24, 2016, when the Legislature concludes its business for the year. Through Crossover Day, here are the things to know about tax legislation in Georgia:

*Each year, the Georgia Budget and Policy Institute examines all tax bills considered by the state Legislature and tallies potential costs as part of our two-part **Adding Up the Fiscal Notes** series. This report's analysis reflects the legislative state of affairs as of March 9, 2016. Look out for part-two of the series after Gov. Deal's May deadline for signing or vetoing bills enacted by the Legislature this year.*

- **State senators are considering a collection of tax breaks at an estimated cost of \$686 million over the next five years.** House members passed nine pieces of legislation before Crossover Day that could reduce state revenues to varying degrees. They include a laundry list of tax breaks for large economic projects, land conservation, Super Bowl tickets and other causes. *More than half of the total costs* of these tax breaks are due to House Bill 919, which calls for \$400 million in tax credits over four years to fund a flawed plan intended to help rural hospitals.
- **Both chambers are eyeing a pair of income tax proposals that could cost Georgia hundreds of millions in lost revenue, while jeopardizing the state's long-term finances and AAA bond rating.** Two bills designed to slash Georgia's income tax pose a considerable threat to Georgia's future finances if they become law. House Bill 238 (originally Senate Bill 280), could cost at least \$1.2 billion in lost revenue over the next five years, possibly a lot more. A companion constitutional amendment proposal, Senate Resolution 756, already cleared the state senate and at this writing awaits consideration by state house members. It carries its own substantial price of hundreds of millions of dollars and, due to its ambiguous wording, could put Georgia on a long-term trajectory toward elimination of the income tax. Locking tax and budget changes into the state constitution ties the hands of future lawmakers and causes alarm among national bond rating agencies.

Tax Bills Surviving Crossover Day Could Subtract \$686 Million Over Five Years

The nine tax break bills included in the first section below could cost a combined \$686 million over five years. The income tax cut bills, HB 238 and SR 756, would multiply the potential loss and are accounted for separately.

Tax Breaks, Income Tax Cuts Could Deliver Big Blow to Georgia's Finances								
	Bill	Purpose	Estimated State Revenue Effect, fiscal years, in millions					Five-Year Total (2017-2021)
			2017	2018	2019	2020	2021	
Tax Breaks	HB 763	Extends sales tax exemptions for food banks	-\$0.7	-\$0.7	-\$0.8	-\$0.8	-\$4.0	-\$7
	HB 802	Raises deduction for GA Higher Education Savings	-\$2.1	-\$2.3	-\$2.3	-\$2.3	-\$2.4	-\$11
	HB 828	New income tax credit for employers to hire parolees	\$0	-\$0.8	-\$3.4	-\$3.4	\$0	-\$8
	HB 919	New income tax credit for donations to rural hospitals	\$0	-\$100	-\$100	-\$100	-\$100	-\$400
	HB 922	Expands eligibility for Quality Jobs Tax Credit	No precise estimate but potentially substantial					
	HB 924	Renews sales tax exemption for Goodwill Industries	\$0	\$0.7	\$0.8	\$0.9	\$0	\$2
	HB 937	Renews sales tax exemption for "projects of regional significance"	-\$21	-\$21	-\$21	\$0	\$0	-\$63
	HB 951	Creates sales tax break for Super Bowl tickets, renews sales tax holidays	-\$42.9	-\$2.6	-\$0.9	-\$2.7	-\$1.0	-\$50
	HB 1014	Extends income tax credit for land conservation	-\$30	-\$30	-\$30	-\$30	-\$30	-\$150
Tax Break Bills Total			-\$97	-\$157	-\$158	-\$138	-\$137	-\$686
Income Tax Cuts	HB 238	Income tax cut package (<i>low estimate</i> *)	-\$109	-\$263	-\$274	-\$286	-\$299	-\$1,231
	SR 756	Constitutional amendment instating tax cut formula**	\$0	-\$89	-\$177	-\$266	-\$355	-\$887
Income Tax Cuts Total			Up to hundreds of millions a year and more than \$2 billion over five years; combined total would vary due to factors explained below***					
<p>Sources: Whenever available estimates are taken from official fiscal notes as presented by the Department of Audits and Accounts. Other sources include bill text, Georgia's Official Tax Expenditure Report for FY 2017 and, for HB 238 and SR 756, custom analysis by the Institute on Taxation and Economic Policy in Washington, D.C.</p> <p>Notes: *HB 238 could cost as much as \$442 million a year once fully phased-in according to the Institute on Taxation and Economic Policy. **Estimate assumes SR 756 is passed as a standalone, as opposed to alongside HB 238 (see next note). ***The two income tax measures, HB 238 and SR 756, cannot be simply added together for a combined revenue loss. If passed together, there would be considerable interplay between different aspects of the bills that would affect their combined impact. In particular, because HB 238 would significantly expand the income tax base by limiting itemized deductions, the additional rate cuts required by SR 756 would be more expensive than if the amendment were enacted by itself.</p>								

Income Tax Measures Pose Major Threat to State's Financial Health

The two income tax proposals, HB 238 and SR 756, could create both short- and long-term hindrances to state lawmakers' ability to responsibly manage Georgia's finances. Soon, the proposals could make it difficult for lawmakers to fully fund key public investments, including education and health care. Over the long-haul, the measures could strain Georgia's ability to pay for the rising needs of a growing population or to borrow at the best interest rates through the state's AAA credit rating.

- **House Bill 238**, calls for a series of immediate changes to Georgia's personal income tax rules that together could cost Georgia at least \$1.2 billion in lost revenue over the next five years. That projection could underestimate the potential revenue loss caused by HB 238. The annual cost of the bill could reach as high as \$442 million according to a separate estimate from the nonpartisan Institute on Taxation and Economic Policy in Washington, D.C. The details and drawbacks of HB 238 are detailed in GBPI's recent brief "[Slashing Income Tax Delivers Meager Benefit to Most, Jeopardizes Public Services.](#)"
- **Senate Resolution 756** calls for a constitutional amendment to force automatic income tax cuts if certain revenue targets are met. Under one interpretation of the resolution, Georgia's income tax rate drops over a two-step process to 5.8 percent from its current 6 percent. That tax revision would cost an estimated \$355 million per year to the state treasury once phased in, according to the Washington tax group. However, another interpretation of the bill's ambiguous wording is it could inadvertently lock Georgia into a rigid formula of never-ending income tax cuts of 0.1 percentage point each year. The risks of the proposal are further detailed in "[Senate Resolution 756 threatens to disrupt Georgia's long-term finances.](#)"

High Cost of Tax Breaks Built on Flawed Credit for Rural Hospitals

Legislators are also reviewing nine pieces of legislation in addition to the tax cut plans that provide an estimated \$686 million worth of tax breaks over five years for causes that include large economic projects, land conservation and Super Bowl tickets. *More than half of the total costs* of these tax breaks are due to House Bill 919, which calls for \$400 million in tax credits over four years to fund a flawed scheme intended to help rural hospitals. Here are details about the nine tax break bills awaiting consideration in the state senate at this writing.

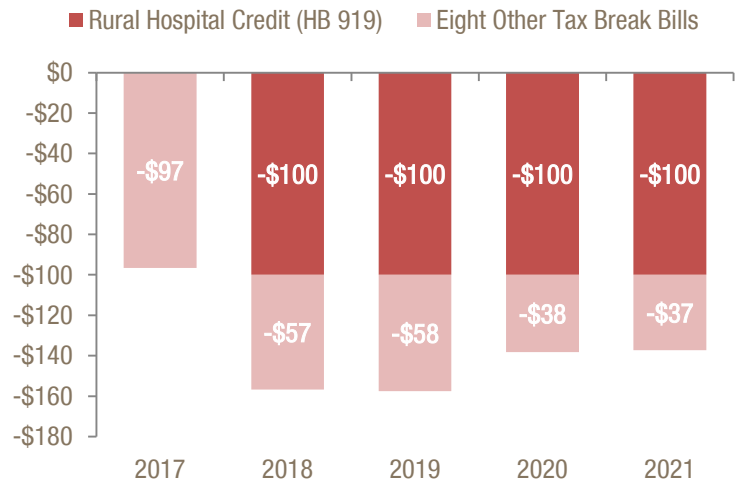
House Bill 763 renews a sales tax exemption for **food banks**. Georgia food banks are now exempt from paying sales taxes on bulk purchases of food they distribute to the hungry. HB 763 extends that exemption through 2021. The bill also extends the sunset on a related exemption that allows grocery stores and other companies to donate leftover food without remitting sales tax on the value of the donation.

House Bill 802 raises the income tax deduction married couples can claim for depositing money into **Georgia Higher Education Savings Accounts**, widely known as 529 plans, to \$4,000 per beneficiary from \$2,000.

House Bill 828 creates a new income tax credit for **companies who hire recent parolees**. To claim the credit, employers must meet wage and hour requirements for each qualifying worker.

Flawed Rural Hospital Credit Dwarfs Cost of Other Tax Breaks

Estimated annual state revenue loss, by fiscal year



Source: Bill text of House Bill 919/CSFA and fiscal notes as presented by the Georgia Department of Audits and Accounts

House Bill 919 creates a new income tax credit for taxpayers who contribute to rural health care organizations, a new kind of conduit to direct funds to Georgia's **rural hospitals**.

Designed to operate like Georgia's income tax credit for contributing to private school scholarship organizations, the credit carries a cost of \$100 million a year for four years. That \$400 million price accounts for 58 percent of the total amount of tax breaks approved by state representatives so far in 2016. The measure includes [several potential policy flaws](#), including a lack of safeguards to track where new investment flows or ensure the money is spent on improving patients' access to health care services rather than on unnecessary building expansions or executive compensation.

House Bill 922 expands the eligibility for Georgia's **Quality Jobs Tax Credit** to include single-person businesses operating as limited liability companies (LLCs). The state's fiscal experts did not provide a precise revenue loss for the bill due to data constraints but noted that the pool of companies eligible for the expanded credit is large. The quality jobs credit as currently structured cost an estimated \$35 million in the 2016 budget year.

House Bill 924 renews for three years an expired sales tax exemption for purchases made by **Goodwill Industries**.

House Bill 937 renews for three years the sales tax exemption for "projects of regional significance," a term used to describe some large corporate investments identified by the Department of Economic Development. Originally enacted in 2012, the subsidy is scheduled to expire this year and costs an estimated \$21 million annually.

House Bill 951 creates a new sales tax break and extends an old one. It offers a new sales tax exemption for people who buy tickets to large, one-time sporting events in Georgia, including a potential Atlanta **Super Bowl** sometime later this decade. It also extends for one year Georgia's **sales tax holidays** for back to school purchases and energy efficient appliances. That's a regrettable choice since experts agree [tax holidays are bad policy](#).

House Bill 1014 adds another five years to Georgia's income tax credit for **land conservation**. The credit's now scheduled to expire this year.

Annual Housekeeping Bill Adds Extra Hit to Treasury

One additional tax bill, already approved by the Legislature and signed by Gov. Nathan Deal, will also affect state revenues. House Bill 742 is this year's Internal Revenue Code Update, a housekeeping bill lawmakers pass each year to align Georgia's tax code to federal tax changes enacted over the prior year. This year's version will reduce state revenue by \$80 million or more each year through the 2020 budget. Most of the costs are due to some federal corporate tax breaks Congress made permanent this year. Because Georgia piggybacks off many aspects of federal income tax law, as most states do, these changes trickle down to reduce state revenues too.