

Lawmakers Debating Big Bucks after Several Tax Bills Pass House

Updated March 14, 2017 with data from revised fiscal note for House Bill 340 (“car tax makeover”)

Adding Up the Fiscal Notes: Crossover Day 2017

By Wesley Tharpe, Research Director

State legislators are set to consider many changes to tax policy big and small as the Georgia General Assembly winds down its 2017 session. At least 18 tax bills affecting state revenues remain after Crossover Day March 3, 2017, the day when bills must clear at least one legislative chamber to stand a good chance at becoming law. Twelve of them provide direct tax breaks to advance particular policy goals or businesses interests at a total estimated cost of \$445 million over the next five years. Another four bills are designed to restructure various aspects of Georgia’s underlying tax system at a price that appears modest in the short-term but might prove more costly in the long run. Two additional bills pose some nuanced revenue implications for both state and local lawmakers. State senators can weigh in before March 30, 2017, when the Legislature is scheduled to adjourn for the year.

*Each year, the Georgia Budget and Policy Institute examines tax bills considered by the state Legislature and tallies potential costs as part of our two-part **Adding Up the Fiscal Notes** series. This analysis is a snapshot of the legislative state of affairs as of March 14, 2017. Watch for our part-two of the series after Gov. Nathan Deal’s May deadline for signing or vetoing bills passed by the 2017 Legislature.*

Lawmakers committed to protecting Georgia’s ability to fund education and other core services while also setting aside money for rainy days can still scale back the most generous proposals still up for debate, as well as prioritize which measures most merit passage this year. A skeptical approach is appropriate, considering state revenue collections in February 2017 came in 5.6 percent lower than in the same period last year—an unusual large drop for months in non-recession years.

Tax Bills Alive after Crossover Day Carry Sizable Cost, Some Uncertainty

The table that follows details 18 tax bills with state revenue implications if passed by both legislative chambers and signed into law by Gov. Nathan Deal. The first 12 listed are direct tax breaks meant to advance specific policy goals or business interests. Notable examples include tax credits to encourage rehabilitation of historic commercial properties, new or expanded incentives for film and music productions and an increase to Georgia’s tax credit for private school scholarships. The tax break bills combine for a total estimated cost of \$445 million in lost revenue over the next five budget years, ranging from a low of \$16 million in 2018 and to \$134 million by 2022.

The four tax restructuring bills combine to cost \$20 million over the next five years. That figure might underestimate the true price because it assumes the low-cost estimate for a large income tax package, House Bill 329. That annual cost of that bill in the short term ranges from a low of \$20 million to a high of \$154 million and could grow in scope over time.¹ The final two bills, House Bill 61 and House Bill 340, include considerable nuance detailed on page 3. The table lists them separately.

Breakdown of Tax Measures Alive after Crossover Day that Could Affect Georgia Revenues

	Bill	Purpose	<i>Estimated State Revenue Effect, fiscal years, in millions</i>					Five-Year Total
			2018	2019	2020	2021	2022	
Tax Breaks	HB 59	Expands income tax credit for commercial historic rehabs	-	-	(53.5)	(54.7)	(55.9)	(164.1)
	HB 73	New income tax credit for Main Street revitalization	-	(1.2)	(2.5)	(3.7)	(4.9)	(12.3)
	HB 125	Partial sales tax exemption for yachts	(0.6)	(1.3)	(1.3)	(1.3)	(1.4)	(5.9)
	HB 155	New income tax credit for music biz	-	(5.0)	(10.0)	(15.0)	(15.0)	(45.0)
	HB 196	New income tax exemption for music royalties	(4.8)	(5.0)	(5.3)	(5.6)	-	(20.7)
	HB 199	Expands income tax credit for film and gaming companies	(5.0)	(10.0)	(27.5)	(27.5)	(27.5)	(97.5)
	HB 217	Expands income tax credit for private school scholarships	-	(7.0)	(6.5)	(7.2)	(7.9)	(28.5)
	HB 237	New income tax credit for donations to public schools	-	(7.0)	(7.0)	(7.0)	(7.0)	(28.0)
	HB 247	Adds concrete companies to sales tax exemption for manufacturers	(1.2)	(1.2)	(1.2)	-	-	(3.6)
	HB 265	Expands Quality Jobs income tax credit, enacts sales tax break for Woodruff Arts Center	(1.9)	(1.8)	(1.6)	(1.7)	(1.7)	(8.5)
	HB 301	Turns income tax deduction for volunteer medical personnel into a credit	(2.8)	(2.8)	(2.8)	(2.9)	(2.9)	(14.2)
	HB 314	New credit for financial intermediaries that invest in rural businesses	-	-	(1.9)	(5.6)	(9.4)	(16.9)
Tax Break Bills Total			(16.1)	(42.3)	(121.1)	(132.1)	(133.5)	(445.1)
Tax Restructuring	HB 118	Regulate, tax fantasy sports biz	0.9	0.6	0.6	0.6	0.7	3.2
	SB 133	Cut corporate net worth tax	(1.2)	(4.3)	(4.3)	(4.4)	(4.5)	(18.7)
	HB 225	Apply sales tax to Uber, Lyft	6.1	6.5	6.9	7.2	7.6	34.3
	HB 329	Income tax revisions (<i>low estimate</i> *)	39.0	(18.0)	(19.0)	(20.0)	(21.0)	(39.0)
Tax Restructuring Total			44.8	(15.3)	(15.9)	(16.6)	(17.3)	(20.2)
Local Shift	HB 340	Car tax reworking (See table on following page**)	7.1	(21.5)	(94.3)	(142.9)	(152.1)	(403.6)
Unlikely to Collect	HB 61	Expand sales tax to out-of-state online retailers (<i>very high estimate</i> ***)	126.0	274.0	299.0	326.0	355.0	1,380.0

Sources: All estimates are taken from either the text of bills or from official fiscal notes as presented by the Department of Audits and Accounts.

Notes: *HB 329 as it passed the House could cost as much as \$154 million a year starting in the 2019 budget year according to an independent estimate from the nonpartisan Institute on Taxation and Economic Policy.

**HB 340 would increase revenues for Georgia's local governments by an estimated \$418 million over the same five-year span that it would reduce state revenues by the estimated \$404 million.

***The official fiscal note stresses that Georgia is highly unlikely to actually collect this revenue soon, due to several challenges states face in taxing online sales. Specifically the bill expands the definition of whether sales by out of state retailers are subject to Georgia taxes--a legal concept known as "nexus"--in ways that could conflict with federal law. Even if the bill survives likely legal challenge, Georgia faces steep practical hurdles to collecting much of the revenue owed. Therefore, this analysis lists the potential revenue gain from HB 61 separately and suggests readers view the numbers a hypothetical ceiling on potential revenue gain rather than a likelihood in the next five years.

Car Tax Makeover a Sizable Revenue Shift from State to Local Governments

State lawmakers overhauled Georgia's system for taxing vehicles in 2012, eliminating sales and property taxes on cars in favor of a new 7 percent fee. Revenue from the new title ad valorem tax is split between Georgia's state treasury and local governments through a complex formula. State revenues from the revised system generally outpaced expectations, while some city and county governments point to declines versus the past. House Bill 340 alters the underlying revenue formula in ways that could lower the state's take significantly over the next five years, while leading to higher collections on the local level. The bill also changes tax calculations for used car dealers, leased vehicles and vehicles purchased out of state.

Car Tax Revision Lowers State Revenue, Boosts Local Collections						
House Bill 340	Estimated Revenue Effect, fiscal years, in millions					Five-Year Total
	2018	2019	2020	2021	2022	
Change in <i>state</i> revenues	7.1	(21.5)	(94.3)	(142.9)	(152.1)	(403.6)
Change in <i>local</i> revenues	2.6	45.8	103.4	139.9	126.7	418.3
Net effect on Georgia	9.7	24.3	9.0	(3.0)	(25.4)	14.7
<i>Sources: Revised fiscal note for House Bill 340 (LC 28 8373S) dated March 2, 2017, as presented by the Department of Audits and Accounts.</i>						

Online Sales Tax Bill Carries High Estimate Not Likely to Materialize Soon

House members also approved a sales tax expansion that at first glance seems to provide a revenue windfall. In reality it appears unlikely to alter state or local finances anytime soon. House Bill 61 requires online retailers doing significant business in Georgia to either collect sales taxes on purchases or send tax-due notices to customers who buy a set amount of online goods. The impetus of the bill is Georgia's inability to apply sales taxes to the fast-growing market of online purchases, which is a contributing factor to the state's declining sales tax base.

A state fiscal analysis says the change might generate as much as \$1.4 billion in new state revenue over five years and another \$1 billion in local revenue. Consensus opinion is Georgia is unlikely to collect this revenue in the near future due to legal and practical hurdles. A key question is whether sales by out of state retailers are subject to Georgia taxes, since the measure appears to conflict with federal law governing taxation across state lines.

Income Tax Package Might Prove More Costly than Expected Long-Term

State senators also stand poised to debate a substantial package of changes to the state's personal income tax that carries larger long-term revenue implications than immediate projections suggest. House Bill 329 is a layered tax reform package that includes positive ideas including a state Earned Income Tax Credit. It also is saddled with a flawed replacement of Georgia's graduated tax structure, which tops out at 6 percent, with a new flat tax of 5.4 percent. The state's official fiscal note pegs the annual cost of the bill at about \$20 million in lost revenue a year.

But the true cost of the measure could reach as high as \$154 million in the first year according to a separate analysis from the nonpartisan Institute on Taxation and Economic Policy.² Indexing various exemptions to inflation, an element of the package added after the original cost estimates, could add another \$34 million a year in lost revenue.³ Taking that much money out of the treasury jeopardizes key services like education as revenue losses mount over time.

More Detail on Remaining Tax Bills

The list below briefly lists active legislation ranging from a historic rehab tax credit to new incentives for music.

House Bill 59 expands Georgia's income tax credit for large historical rehabilitation projects at an annual state cost of at least \$54 million starting in 2020. The bill also extends the credit's expiration date through 2027.

House Bill 73 creates a new income tax credit for business investments or real estate development in areas designated by the Department of Community Affairs as in need of economic revitalization.

House Bill 118 creates a new regulatory and tax structure for online fantasy sports sites such as DraftKings.

House Bill 125 exempts from sales tax purchases in excess of \$500,000 used to repair large yachts.

Senate Bill 133 exempts companies below \$100,000 in net worth from the state's corporate net worth tax.

House Bill 155 creates a new income tax credit for large music productions in the state such as concerts. A companion measure, **House Bill 196**, exempts from income taxes royalties earned by Georgia musicians.

House Bill 199 makes permanent a \$12.5 million a year credit for videogame companies and also extends the state's generous tax credit for film companies to include post-production spending, such as video editing.

House Bill 217 raises the cap on Georgia's income tax credit for private school scholarships.

House Bill 225 clarifies that ride-sharing services such as Uber are subject to state and local sales taxes.

House Bill 237 creates a new income tax credit designed to boost investment in public education. Taxpayers would gain the credit in exchange for donating to a nonprofit set up to invest those funds in K-12 schools.

House Bill 247 adds concrete-mixing companies to Georgia's broad sales tax exemption for manufacturers.

House Bill 265 expands Georgia's Quality Jobs Tax Credit available to companies that add higher-wage jobs. It also includes a sales tax break that appears tailored to support expansion of Atlanta's Woodruff Arts Center.

House Bill 301 changes Georgia's income tax deduction for physicians and nurses who mentor medical students into a credit. The revised tax benefit is designed to strengthen the incentive for performing the service.

House Bill 314 creates a new tax break for financial firms that invest in rural businesses. Dubbed the Rural Jobs Act, the bill shares some similarities with troubling previous proposals that lack sufficient transparency and accountability or a proven record of job-creation.⁴

¹ Low estimate from Department of Audits and Accounts fiscal note. High estimate from nonpartisan Institute on Taxation and Economic Policy in Washington, D.C.

² Institute on Taxation and Economic Policy. Custom analysis provided to GBPI by email on February 13, 2017.

³ Institute on Taxation and Economic Policy. Custom analysis provided to GBPI by email on March 3, 2017.

⁴ "New Markets Tax Credit is a Bad Investment," March 2015. "CAPCO: Trading Your 401K for Nothing," January 2012.