Legislators Approve Isolated Tax Breaks, Defer Broad Tax Changes

Adding Up the Fiscal Notes: Sine Die 2017

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*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. We include all relevant tax bills regardless of our views on their individual merits.*

This report details bills approved by both the House and Senate and now awaiting action by Gov. Nathan Deal before his early May deadline to sign or veto legislation.

Gov. Nathan Deal is set to consider a grab bag of tax revisions approved by state legislators before the end of the 2017 legislative session. At least 10 tax bills with potential to reduce state revenues cleared both the House and Senate and now await action by the governor before his May deadline to sign or veto legislation. The approved measures include a laundry list of tax breaks for interests varied as financial companies, rural hospitals, large music productions and yacht owners. At the same time, legislators failed to reach agreement on a trio of sweeping proposals that carried larger long-term implications.

The tax measures awaiting action by the governor combine to cost an estimated $483 million in lost state revenue over the next five years, ranging from a $42 million loss in the 2018 budget year to a $129 million reduction in 2021. Each measure's potential impact on Georgia's state treasury is listed in table on the following page.

Two of the weightier tax bills awaiting action by the governor are a reduction in car taxes for Georgians who lease vehicles and a questionable new business tax break aimed at rural development modeled on similar efforts that fared poorly in other states.

The car tax revision, originally part of a much larger package, accounts for nearly half of the potential lost revenue approved by legislators this year. The new business tax break, approved in the final hectic moments of session, creates a complicated $60 million lending scheme that independent auditors and investigators widely panned in other states. **The governor vetoed a similar proposal in 2015.**

Legislators did not agree to three other proposals to enact sweeping changes to Georgia's state revenue system. House Bill 61 proposed to extend Georgia's sales tax to out-of-state online retailers that under current law are allowed to undercut brick-and-mortar businesses by selling items tax-free. House Bill 329 included a mix of good and bad changes to Georgia's personal income tax system that combined could have raised taxes on some low-wage workers while jeopardizing the state's long-term finances. Lawmakers also approved a scaled-back version of House Bill 340, which originally included an expensive shift of car tax revenues from the state treasury to local governments. Lawmakers are likely to revisit these issues, maybe as soon as 2018.

Ten Approved Pieces of Legislation Could Cost Nearly Half a Billion Over Five Years

House and Senate members approved a wide variety of tax breaks for interests including financial companies, rural hospitals, large music productions and yacht owners. The 10 approved bills are detailed below.

Breakdown of Tax Measures Approved by Georgia Legislature

Bill	Purpose	*State Revenue Effect, fiscal years, in millions*					
		2018	2019	2020	2021	2022	Five-Year Total
HB 73	New income tax credit for Main Street revitalization	-	(1.2)	(2.5)	(3.7)	(4.9)	(12.3)
HB 125	New sales tax exemption for yachts	(0.6)	(1.3)	(1.3)	(1.3)	(1.4)	(5.9)
SB 133	Part 1--Cuts corporate net worth tax	(1.2)	(4.3)	(4.3)	(4.4)	(4.5)	(18.7)
	Part 2--Creates new credit for financiers that invest in rural businesses* (originally HB 314)	-	-	(15.0)	(15.0)	(15.0)	(45.0)
HB 155	New income tax credit for large musical productions	(1.1)	(5.0)	(12.2)	(16.4)	(15.6)	(50.3)
SB 180	Part 1--Tweaks rural hospital credit	(10.0)	-	10.0	-	-	-
	Part 2--Turns income tax deduction for volunteer medical personnel into credit (orig. HB 301)	(2.8)	(2.8)	(2.8)	(2.9)	(2.9)	(14.2)
HB 199	Expands income tax credit for film and gaming companies	-	(5.0)	(22.5)	(27.5)	(27.5)	(82.5)
HB 237	New income tax credit for donations to public schools	-	(5.0)	(5.0)	(5.0)	-	(15.0)
HB 247	Adds concrete-mixing companies to sales tax exemption for manufacturers	(1.2)	(1.2)	(1.2)	-	-	(3.6)
HB 265	Expands Quality Jobs income tax credit; Enacts new sales tax break for Woodruff Arts Center	(1.9)	(1.8)	(1.6)	(1.7)	(1.7)	(8.5)
HB 340	Reduces car tax on leases	(23.3)	(55.4)	(54.0)	(51.4)	(42.8)	(226.9)
	Total State Revenue Effect	**(42.0)**	**(83.0)**	**(112.4)**	**(129.3)**	**(116.3)**	**(482.9)**

*Sources: All estimates taken from either text of bills or from official fiscal notes as presented by the Department of Audits and Accounts. Adjustments are made when possible to reflect evolution of bills during the legislative process, such as revisions lawmakers made to HB 340 in the span between the fiscal note and the final version. *The fiscal note for HB 314 estimates a smaller cost of about $17 million over five years. However, a plain text reading of the bill along with GBPI analysis of similar proposals both in Georgia and other states indicates a likelier cost of $60 million over the next six budget years.*

Complex Lending Scheme for Financial Companies Burdened by Checkered Past

Among the larger items under the governor's review is Senate Bill 133, which includes a pair of tax revisions. One is a minor change to Georgia's corporate net worth tax. The other is a controversial tax break that promises a windfall to out-of-state financial companies. The so-called Rural Jobs Act is similar to previous proposals in Georgia and programs in other states that lack sufficient transparency and accountability or a proven record of job-creation.[1] It risks an estimated $60 million in lost revenue over six years.

As detailed in a recent investigation by the Pew Charitable Trusts, the program outlined in Senate Bill 133 is "the latest iteration of an approach that at least 20 states and Washington, D.C., have turned to in the last three decades. But states that have evaluated the multilayered subsidized lending programs—originally CAPCO (certified capital companies) programs and later New Markets Tax Credit programs—have found that they failed to deliver promised jobs and tax revenue."[2] The governor vetoed a similar bill in 2015, when it went by the New Markets name. He can take a close look again to ensure Georgians' tax dollars are not wasted on ill-conceived schemes.[3]

Reduced Tax on Leased Vehicles Carries Sizable Cost Statewide

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. One result of that restructuring is Georgians who lease vehicles are taxed at higher levels than before, due to technicalities in the way the state calculates the taxable value of leased cars. House Bill 340 alters that calculation in an attempt to tax leased car users at a similar rate as Georgians who own. The new leased car tax break could lower Georgia's state revenues by an estimated $227 million over five years, on top of $161 million in lost revenue for local governments, as detailed below. The House bill originally included higher taxes on used car dealers and an expensive shift of car tax dollars from the state treasury to local governments among its provisions. Those things didn't survive final negotiation between the chambers.

Changing Tax Treatment of Car Leases Lowers Revenues

	Estimated Revenue Effect, fiscal years, in millions					
House Bill 340	**2018**	**2019**	**2020**	**2021**	**2022**	**Five-Year Total**
Change in *state* revenues	(23.3)	(55.4)	(54.0)	(51.4)	(42.8)	(226.9)
Change in *local* revenues	(7.0)	(18.7)	(29.3)	(42.3)	(64.0)	(161.3)
Net effect on Georgia	(30.3)	(74.1)	(83.3)	(93.7)	(106.8)	(388.2)

Sources: GBPI analysis of conference committee report for HB 340 (LC 34 5246S) and fiscal note for House Bill 340 (LC 28 8462S) dated March 17, 2017, as presented by the Department of Audits and Accounts.

A Few Details on Other Approved Tax Bills

The list below explains eight other pending tax break bills aimed at a variety of policy goals.

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

House Bill 155 creates a new income tax credit for large music productions in the state such as concerts.

Senate Bill 180 enacts some minor changes to Georgia's year-old tax credit for rural hospitals. It also changes Georgia's income tax deduction for physicians and nurses who mentor medical students into a credit.

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 237 creates a new income tax credit designed to boost investment in public education. Taxpayers would gain the credit in exchange for contributing to a nonprofit set up to invest that money to 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.

Legislators Delay More Sweeping Tax Changes Until at Least Next Year

Three other proposals to enact more sweeping changes to Georgia's state revenue system stalled in the 2017 legislative session. This year is the first of a two-year legislative session, so it seems likely the proposals will appear in some fashion next year.

House Bill 61 proposed to apply sales taxes to out-of-state online retailers that under current law are not required to charge or collect sales tax on purchases made in Georgia. This loophole allows online retailers to undercut brick-and-mortar businesses by selling items tax-free. A state fiscal analysis estimates the House proposal could generate as much as $1.4 billion in new state revenue over five years and another $1 billion in local revenue. In reality Georgia probably wouldn't collect much revenue anytime soon due to a combination of legal and practical hurdles. The bill was approved by state senators after they attached it to another bill, HB 329. But House and Senate members failed to reach agreement on the combined package before the session concluded.

House Bill 329 offered several revisions to Georgia's personal income tax system. The bill evolved over the course of session and the two chambers advanced significantly different versions. The initial House proposal included three positive reforms alongside a regressive and costly new flat tax. Despite including some worthwhile pieces, taken as a whole the House plan threatened to raise taxes on many working class taxpayers and alter the state's longstanding, proven revenue structure.[4] It carried an estimated cost of ranging from $20 million to $154 million a year in lost revenue according to two reliable estimates.[5]

The Senate revised the plan to make it fairer by swapping out the 5.4 percent flat tax for a top rate cut to 5.65 percent within Georgia's current graduated system. But the scope of the rate cut, along with some other changes like larger personal exemptions, also made the package more costly. A state fiscal analysis estimates the 5.65 percent plan could drain as much as $292 million from the 2019 budget and $526 million a year by 2022.

GBPI proposed a possible fix to the proposal as it evolved over the course of debate. Our solution offered to keep the three positive pieces of the House proposal and swap out the regressive flat tax for a 5.75 percent rate cut within today's graduated system.[6] The 5.75 percent solution promised a modest yet fiscally responsible tax reduction for Georgians overall, including a better deal for most middle-class families and low-wage workers.

House Bill 340 is the bill that decreases taxes on leased vehicles. The legislation originated as a much larger package of car tax changes. The version passed by the House included a controversial tax hike on used car dealers,[7] a cap on taxes owed for vehicles purchased out of state and an expensive shift of car revenues from the state treasury to local governments. The original package of car tax changes would have caused state revenues to *fall* by an estimated $404 million over five years and local collections to *rise* by $418 million in that same span.

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1 "New Markets Tax Credit is a Bad Investment," March 2015. "CAPCO: Trading Your 401K for Nothing," January 2012.
2 "In Search of Rural Jobs, States Weigh Strategy with Checkered Past," Stateline, Pew Charitable Trusts. 3/30/2017.
3 "How Savvy Financiers Pitch Complex Investment Programs," Stateline, Pew Charitable Trusts. 4/3/2017.
4 "Flat tax a big flaw in otherwise promising tax package," GBPI, 2/28/2017.
5 Low estimate from the Department of Audits and Accounts fiscal note for unnumbered House Bill LC 43 0512 dated 2/1/2017. High estimate from the Institute on Taxation and Economic Policy, provided by request to GBPI on 2/13/2017.
6 "Targeted Fix to Income Tax Package Can Deliver Georgians a Win," GBPI, 3/8/2017.
7 "Bill could mean $200 million tax hike for used-car dealers," Atlanta Journal Constitution. 3/9/2017.