

Update: Adding Up the Fiscal Impact

2005 and 2006 Legislative Session Tax Bills

Introduction

With the completion of the 2006 legislative session, the combined effect of tax exemptions passed by the House and Senate can be estimated through an analysis of Fiscal Notes. Most bills affecting state revenue collections contain a fiscal note, which estimates the revenue gain or loss associated with passage of the bill. The following discussion presents sixteen such bills from the 2006 legislative session, which have the combined potential to create a \$42.2 million decrease in state revenues and an \$11.6 million decrease in local revenues in Fiscal Year (FY) 2007. While a majority of the bills have one-time impacts or a two-year sunset provision, the fiscal impact of certain bills grows more significant over time. For example, the cost of HB 1080's childcare tax credit increases from a revenue loss of \$11.8 million in FY 2007 to a loss of \$22.6 million in 2009.

In addition, the revenue loss associated with these bills is compounded upon revenue loss from bills from previous sessions, as demonstrated in Table 1. Combining the major tax bills from 2005 and 2006, the state revenue loss grows to an estimated \$117 million in FY 2007. This estimate does not include the cost of several bills, which either did not carry a Fiscal Note or changed significantly after the Fiscal Note was issued.

While last year's tax bills heavily favored businesses, the 2006 tax bills are more equally weighted between individual and corporate taxpayers. The bills also extend several new tax breaks to nonprofit entities, such as Goodwill Industries and veterans organizations. While some of these tax breaks are warranted perhaps, it is notable that Georgia currently has the 43rd lowest state taxes as a percent of personal income and the 50th lowest state taxes per capita, according to recent Census figures.

Table 1: Estimated State Revenue Loss

Fiscal Year	Bills from 2005 Session	Bills from 2006 Session	Combined Impact
<i>FY 2006</i>	\$39 million	\$21 million	\$60 million
<i>FY 2007</i>	\$74 million	\$42 million	\$117 million

Note: The above estimates are from Fiscal Notes attached to bills. For Fiscal Notes giving a range of estimates, the above calculations use the midpoint of the range. All tax bills are not included, only those with a sufficient revenue loss.

Summary of 2006 House Bills

(Note: All fiscal impacts below are from the official Fiscal Note attached to the bill. Thus, subsequent changes to legislation that would affect the fiscal impact may not be included. Unless otherwise noted, FY 2007 Revenue Loss indicates state revenue loss.)

HB 81 – Property Tax Exemption for Surviving Spouses

Summary: HB 81 provides a property tax exemption for the full amount of property taxes owed by unremarried surviving spouses of peace officers and firefighters.

Beneficiaries: Specified homeowners

FY 2007 Revenue Loss: unknown

HB 173 – Property Tax Exemption for Veterans Organizations

Summary: HB 173 expands the existing property tax exemption for veterans organizations to include additional nonprofit veterans organizations which refurbish and operate historic military aircraft for educational purposes.

Beneficiaries: Certain nonprofit veterans org.

FY 2007 Revenue Loss: minimal

HB 194 – Teleworking Income Tax Credits and Entertainment Industry Tax Credit Revision

Summary: HB 194 began as a telework tax credit, but was amended in conference committee to also revise last year's entertainment industry tax credit (see HB 539). For teleworking, HB 194 provides an income tax credit for eligible telework expenses, with an annual \$2 million cap on the aggregate cost of the credits. The telework credit varies based on location within an air-quality nonattainment area and number of days employees telework per month. The other portion of HB 194 revises the entertainment industry tax credit to ensure tier designation changes do not affect production companies working for multiple years.

Beneficiaries: Businesses with employees who telework; Production companies

FY 2007 Revenue Loss: \$2 million (teleworking)

HB 834 – Fuel Sales Tax Exemption for Swine Raising Purposes

Summary: HB 834 provides a sales tax exemption for liquefied petroleum gas or other fuel used for certain swine raising purposes.

Beneficiaries: Swine raising businesses

FY 2007 Revenue Loss: minimal

HB 841 – Goodwill Industries Tax Exemption

Summary: HB 841 exempts qualified job training organizations from state sales tax for purchases. Qualified organizations are nonprofit, job trainers who specialize in retail sale of donated items.

Beneficiaries: Qualified nonprofit job training organizations, namely Goodwill Industries

FY 2007 Revenue Loss: \$150,000 to \$300,000

HB 848 – Senior Citizen and Charitable Organization Property Tax Exemption

Summary: HB 848 eliminates the state property tax for residents 65 years of age and older. The tax cut is not based on income, only on age. HB 848 was amended by attaching language from HB 1388 to provide a property tax exemption for certain charitable organizations. Both proposals will go before voters as a referendum in November.

Beneficiaries: Homeowners 65 years old and above; Certain charitable organizations

FY 2007 Revenue Loss: none; \$6.8 million (2008, senior citizens)

HB 970 – Temporary Natural Gas and Liquid Propane Tax Exemption

Summary: In response to sharply increasing home heating prices, HB 970 reduces the states sales tax on residential natural gas and liquid propane from 4% to 2% for January through March 2006 (propane) and January through April 2006 (natural gas).

Beneficiaries: Georgia residents using natural gas or liquid propane

FY 2007 Revenue Loss: none; \$15 million (2006)

HB 1018 – Biomass Sales Tax Exemption

Summary: HB 1018 provides an exemption regarding the sale or use of biomass material utilized in the production of electrical power or the coproduction or cogeneration of electrical and steam power which is subsequently sold.

FY 2007 Revenue Loss: minimal

HB 1080 – Childcare Income Tax Credit

Summary: HB 1080 provides a childcare tax credit against income taxes for qualified childcare expenses. The credit is a percentage of the federal childcare credit and will be phased in over three years.

Beneficiaries: Georgia residents with qualified childcare expenses

FY 2007 Revenue Loss: \$11.8 million

HB 1107 – Conservation Income Tax Credit

Summary: HB 1107 provides an income tax credit for individuals and corporations donating property for conservation use. The credit is limited to the lesser of \$250,000 or 25% of the fair market value for individuals and the lesser of \$500,000 or 25% of fair market value for corporations.

Beneficiaries: Individuals and corporations donating land for conservation purposes

FY 2007 Revenue Loss: \$1.48 to \$2.43 million

HB 1121 – National Infantry Museum and Heritage Park Sales Tax Exemption

Summary: HB 1121 provides a sales and use tax exemption for construction materials associated with the proposed museum project at Fort Benning.

Beneficiaries: National Infantry Museum

FY 2007 Revenue Loss: \$960,000 to \$1.6 million (state); \$675,000 to \$1.125 million (local)

HB 1219 – Sales Tax Holiday

Summary: HB 1219 continues the annual sales tax holiday, which exempts specific items from the sales tax during the back-to-school shopping period. HB 1219 combines two sales tax holidays into one: back-to-school items and energy efficient appliances.

Beneficiaries: Georgia residents making qualified purchases

FY 2007 Revenue Loss: \$11.284 million (state), \$8.463 million (local)

HB 1249 – Watercraft Inventory Ad Valorem Tax Exemption

Summary: HB 1249 provides an ad valorem tax exemption to watercraft inventory that is being held for resale.

Beneficiaries: Boat retailers

FY 2007 Revenue Loss: minimal (state); \$226,000 (local)

HB 1272 – Nonprofit Volunteer Health Clinics Sales Tax Exemption

Summary: HB 1272 provides a sales tax exemption for equipment and materials purchased by nonprofit volunteer health clinics.

Beneficiaries: Nonprofit volunteer health clinics

FY 2007 Revenue Loss: \$1.648 to \$3.296 million (state); \$1.236 to \$2.472 million (local)

HB 1301 – Food Bank Sales Tax Exemption

Summary: HB 1301 provides a sales tax exemption on the purchase of food and groceries by qualified food banks.

Beneficiaries: Food banks

FY 2007 Revenue Loss: minimal

HB 1310 - Omnibus Bill

Summary: HB 1310 updates Georgia's tax code based on federal tax code changes, codifies existing practices of the Department of Revenue, and makes modifications to corporate and individual tax treatment.

FY 2007 Revenue Loss: \$11 million

Summary of 2005 House Bills**HB 5 – Sales Tax Holiday**

Summary: HB 5 establishes a sales tax holiday from July 28, 2005 to July 31, 2005 on certain items, such as clothes, footwear, & school supplies.

Beneficiaries: Consumers purchasing certain items from Georgia retailers.

FY 2006 Revenue Loss: \$10.4 million

FY 2007 Revenue Loss: none

HB 191 – Part 1: Single Sales Apportionment

Summary: HB 191 consists of two separate corporate income tax issues: apportionment and compliance. Currently, Georgia corporate income taxes are based on an apportionment formula of property, payroll, and sales. HB 191 changes this formula to a single sales factor apportionment formula by 2008. Certain in-state corporations would experience a significant reduction in state income taxes, while out-of-state corporations could experience a tax increase.

Beneficiaries: Multi-state corporations with significant property and payroll in Georgia

FY06 Corporate Tax Revenue Loss: \$39.8 million

FY07 Corporate Tax Revenue Loss: \$65.6 million

HB 191 – Part 2: Delaware-holding Company Loophole

In addition to changing the apportionment formula, HB 191 attempts to close the Delaware-holding company loophole. Some Georgia corporations currently evade state income taxes by shifting income to subsidiaries located in Delaware and Nevada, states that do not tax certain income such as royalties. The intention of HB 191 is to require corporations to add-back this royalty income shifted to Delaware and Nevada subsidiaries, and thus more fully comply with the intent of the corporate income tax.

FY 2006 Revenue Gain: \$38.5 million

FY 2007 Revenue Gain: \$38.5 million

HB 263 – School Supply Tax Exemption for Teachers

Summary: HB 263 allows an exemption of up to \$250 from eligible educators' taxable income for certain qualified school expenditures.

Beneficiaries: Teachers.

FY 2006 Revenue Loss: \$1.9 million

FY 2007 Revenue Loss: not provided (estimate in table 1 uses \$1.9 million)

HB 282 – Small Business Growth Initiative

Summary: HB 282 provides deductions from the state corporate income tax based on federal provisions concerning tangible personal property purchased for business uses.

Beneficiaries: Small businesses (i.e. Georgia corporations filing Form 600 and to sole proprietorships filing Form 500).

FY 2006 Revenue Loss: \$16 million

FY 2007 Revenue Loss: \$32 million

HB 341 – Jet Fuel Tax Exemption

Summary: HB 341 establishes a cap on sales and use tax for jet fuel purchased by qualifying airline companies. Airlines will be exempt from further sales tax after paying \$15 million in sales and use tax on jet fuel. HB 341 also exempts certain local taxes as well as sales tax on airlines' food and beverage purchases.

Beneficiaries: Large airline corporations, namely Delta.

FY 2006 Revenue Loss: \$1.5 to \$13 million¹

FY 2007 Revenue Loss: \$1.5 to \$13 million (state); \$12.6 to \$20.5 million (local)

HB 389 – Additional Tax Credit for Certain Existing Businesses

Summary: HB 389 provides an additional one-year \$500 tax credit per new job created by certain existing businesses. Augmenting the current job tax credit program, the additional credit would apply to growing businesses based on the existing tier structure.

Beneficiaries: Certain businesses existing in Georgia for the preceding three years involved in manufacturing, warehousing and distribution, processing, telecommunications, tourism, or research and development.

FY 2006 Revenue Loss: none

FY 2007 Revenue Loss: \$3.8 million

HB 488 – State and Local Tax Revision Act of 2005 (Omnibus Bill)

Summary: The Omnibus Bill updates Georgia's tax code based on federal tax code changes, codifies existing practices of the Department of Revenue, and makes modifications to corporate and individual tax treatment.

FY 2006 Revenue Impact: Minor revenue impact.

HB 538 – Income Tax Credit and License Fee and Renewal for National Guard

Summary: HB 538 allows license and registration extensions, without fee, to National Guard or Reserve members who serve at least 90 consecutive days. The bill also provides an income tax credit in the amount of life insurance premium payments for National Guard serving at least 90 consecutive days.

Beneficiaries: Georgia National Guard and Reserve members serving 90 consecutive days.

FY 2006 Revenue Loss: Unknown (bill changed significantly after analysis in the Fiscal Note)

FY 2007 Revenue Loss: Unknown

HB 539 – Entertainment Industry Investment Act

Summary: HB 539 provides an income tax credit to production companies that invest in Georgia certified production. The credit varies based on location and employment of Georgia residents, ranging from 9% to 12% of the base investment, 3% of payroll, and an additional 2% of base investment based on a level of spending for multiple television projects. HB 539 also repeals the rapid growth credit.

Beneficiaries: Production companies and affiliates.

FY 2006 Revenue Loss: loss of \$9.8 million to gain of \$5 million (midpoint is a loss of \$2.4 million)

FY 2007 Revenue Loss: not provided (estimate in table 1 uses loss of \$2.4 million)

HB 559 – Energy Efficient Products Sales Tax Exemption

Summary: HB 559 provides a sales tax exemption for certain energy efficient products purchased from October 6, 2005 to October 9, 2005.

Beneficiaries: Consumers purchasing certain energy efficient products from Georgia retailers.

FY 2006 Revenue Loss: \$187,000

FY 2007 Revenue Loss: none

¹ Fiscal impact does not include revenue loss from sales tax exemption on food and beverages.