



Adding Up the Fiscal Notes 2008 Final Tax Bills After Governor's Vetoes

By: Sarah Beth Gehl

On the final day of the legislative session, the two major tax cut proposals failed to come up for a vote. The House and Senate conference committee did not find agreement on the competing tax cut proposals – the House's car tag tax elimination (\$672 million revenue loss) and the Senate's income tax cut (\$1.2 billion revenue loss). As the competing tax cuts failed, several other bills died along with them, including property tax assessment caps, car fee for trauma care, elimination of the state quarter-mill property tax, and local option sales tax for transportation. In addition, a bill to close a corporate tax loophole passed the House, but failed to be brought up for a vote in the Senate.

While the major tax proposals were not passed, numerous smaller tax bills passed both chambers. The Governor vetoed only two of the tax bills, allowing almost 20 tax bills to become law at an estimated cost of **\$155 million to \$165 million** in state revenues and \$44 million in local revenues in Fiscal Year (FY) 2009, according to the fiscal notes attached to each bill (Table 1). The two tax bills vetoed by the Governor were:

- **HB 1129 – Georgia Tourism Development Act**

Summary: Provides sales tax refund for incremental state sales tax generated by approved tourist attractions, along with all local sales tax generated by the attraction. Tourist attractions can receive sales tax refunds equal to the lesser of the total sales tax liability or 25 percent of original investment at the end of a 10 year period. The incremental sales tax is the amount of sales tax generated by the project that exceeds the sales tax generated by the previous property use.

FY 2009 Revenue Loss: No fiscal note available

- **HB 1249 – Income Tax Credit for Solar Energy Technology Manufacturing Facilities**

Summary: Provides an income tax credit for solar energy companies that locate or expand their headquarters in Georgia. The tax credit is equal to \$5,500 per eligible new full-time employee for five years. In addition, the company can receive a tax credit not to exceed 15 percent of qualified equipment expenditures and 75 percent of qualified research expenses. If the tax credit exceeds the company's tax liability, the company can take the excess credit against withholding taxes or sales taxes for the construction/expansion of the facility. The bill caps the aggregate credits for the equipment expenditures and research expenses at \$1 million, but does not cap the amount of credits for new employees.

FY 2009 Revenue Loss: No fiscal note available

Table 1: State Revenue Loss from Tax Legislation			
	FY 2009	FY 2010	FY 2011
HB 237 – Sales tax exemption for manufacturing machinery*	- \$11.5 million	- \$11.34 million	- \$11.34 million
HB 272 – Sales tax exemption for energy used in manufacturing	negligible to - \$8.7 million	negligible to - \$12.5 million	negligible to - \$8.2 million
HB 670 – Income tax credit for wood residuals and clean energy	- \$2.5 million	- \$2.5 million	- \$2.5 million
HB 851 – Income tax credit for rehab of historic structure*	--	- \$2.7 to - \$10.0 million	- \$2.7 to - \$10.0 million
HB 926 – Internal Revenue Code alignment	- \$22.0 million	- \$22.0 million	- \$1.0 million
HB 948 – Sales tax holiday	- \$12.6 million	--	--
HB 957 – Sales tax exemption for Goodwill and Health Clinics	Under -\$1.5mill	Under -\$1.5mill	--
HB 977 – Tax incentives for High Deductible Health Plans	- \$11.5 million	- \$24.9 million	- \$29.3 million
HB 1100 – Revisions to Film Tax Credit*	- \$10.0 million	- \$10.0 million	- \$10.0 million
HB 1133 – Income tax credit for student scholarship org. donations	- \$50.0 million	- \$50.0 million	- \$50.0 million
HB 1273 – Revisions to Jobs Tax Credit for Less Developed Areas	- \$0.7 million	- \$1.4 million	- \$2.0 million
HB 1274 – Revisions to credits for donations of conservation land	Under -\$1 mill.	- \$1.0 million	- \$2.0 million
HR 1276 – Forest Land Conservation Act*	- \$34.0 million	- \$34.0 million	- \$34.0 million
TOTAL FISCAL IMPACT	-\$155 to -\$165 million	-\$161 to -\$181 million	-\$145 to -\$160 million
<i>Source:</i> Official fiscal note for bills. HR 1276 estimate taken from committee testimony. The loss could be less in FY 2009 since there would not be a full year of implementation, but the committee testimony did not specify. <u>Does not include bills lacking a fiscal note or bills extending the sunset dates for existing tax exemptions.</u>			
*Fiscal note did not provide exact estimate for 2011, so 2010 estimate used.			

Tax Bills with a Fiscal Impact

(Note: All fiscal impacts are from the official fiscal note attached to the bill, unless otherwise noted. Subsequent changes to legislation that would affect the fiscal impact may not be included. Unless otherwise noted, losses are for state revenues.)

HB 237 – Sales tax exemption for equipment in manufacturing (“Integrated Plant Theory”)

Summary: Changes definitions within the sales and use tax exemption for machinery used in manufacturing to include equipment and machinery that is “necessary and integral” to the manufacturing process, rather than machinery “used directly in” the manufacturing process.

Beneficiaries: Manufacturers

FY 2009 Revenue Loss: \$11.5 million (state); \$8.6 million (local)

HB 272 – Sales tax exemption for energy used in manufacturing

Summary: Provides a partial sales tax exemption for energy used in manufacturing. Manufacturers would be liable for such sales tax up to a certain threshold, at which point they would be exempt from energy sales tax.

Beneficiaries: Manufacturers

FY 2009 Revenue Loss: \$3,335 to \$8.7 million (highly variable depending on whether manufacturers purchase delivered services or at the point of origin)

HB 670 – Income tax credit for wood residuals and clean energy equipment

Summary: As passed by the House, the bill provided an income tax credit for a taxpayer who transports wood residuals to a renewable biomass facility. The Senate added, and the House agreed to, an additional tax credit for businesses and individuals that install clean energy property, such as solar energy, wind, and geothermal equipment. The bill places a \$2.5 million cap on the aggregate amount of tax credits and requires annual reporting on the amount of credits claimed, type of clean energy equipment installed, and economic benefits of the tax credits to the state.

Beneficiaries: Taxpayers transporting wood residuals or installing clean energy equipment

FY 2009 Revenue Loss: Capped at \$2.5 million

HB 851 – Income tax credit for rehabilitation of historic structures

Summary: Expands the current income tax credit for certified rehabilitation of historic homes and buildings beginning January 2009. Homeowners and other property owners would receive a tax credit of 25 percent of qualified rehab costs, rather than the current 10 percent for homeowners and 20 percent for other property owners. The bill also raises the cap for total tax credits from \$5,000 to \$100,000 for homeowners and \$300,000 for other property owners.

Beneficiaries: Owners of rehabbed historic buildings

Revenue Loss: \$2.7 million to \$10 million (2010; based on whether number and size of projects remain the same or increase significantly)

HB 926 – Internal Revenue Code alignment (“Omnibus Bill”)

Summary: Incorporates federal tax changes into the Georgia tax code.

FY 2009 Revenue Loss: \$22 million

HB 948 – Sales tax holiday

Summary: Provides the annual four-day sales tax holiday on clothing, school supplies, computer equipment, and energy efficient products. The bill was amended to include language on private label bad debt.

Beneficiaries: Consumers of specified products

FY 2009 Revenue Loss: \$12.6 million (state); \$8.5 million (local).

HB 957 – Sales tax exemption for Goodwill Industries, Nonprofit Health Centers, and Nonprofit Volunteer Health Clinics

Summary: Extends the sunset date for the sales tax exemption for Goodwill Industries. The bill was amended to include a state sales tax exemption for nonprofit health centers and a state and local sales tax exemption for nonprofit volunteer health clinics.

Beneficiaries: Goodwill Industries, nonprofit health centers, and nonprofit volunteer health clinics

FY 2009 Revenue Loss: \$882,000 to \$1.6 million (state); \$511,000 to \$1.0 million (local)

**Fiscal impact does not include the exemption for nonprofit health centers.

HB 977 – Tax Incentives for High Deductible Health Plans

Summary: Provides tax incentives for high deductible health plans to consumers, employers who offer such plans, and insurance companies. Taxpayers can take an income tax deduction equal to the monthly premiums paid on such plans. Insurance companies will be able to claim an exemption from state and local insurance premium taxes for premiums collected on such health plans. Small employers who offer the plan will receive a \$250 tax credit per employee enrolled in a HDHP.

Beneficiaries: Insurance companies, employers, and purchasers of high deductible health plans

FY 2009 Revenue Loss: \$11.5 million (rising to \$40.6 million in 2013) (state); \$6.0 million (local)

**Fiscal impact comes from fiscal note for HB 1087, which carried the same provisions.

HB 1100 – Revision of Film Tax Credit

Summary: Revises the film production tax credit to allow a tax credit equal to 20 percent of the investment, rather than the current 9 percent. If the production includes a Georgia promotion, it will be eligible for an additional tax credit equal to 10 percent of the base investment. The tier structure was also removed, among other changes.

Beneficiaries: Film production companies

FY 2009 Revenue Loss: \$10 million

**Fiscal impact includes the revision of the credit to 20 percent, but does not include the additional 10 percent credit for Georgia promotion.

HB 1133 – Income tax credit for donations to student scholarship organizations

Summary: Provides an income tax credit for donations to student scholarship organizations, which provide scholarships for students to attend private schools. Individuals may take a credit for the

donation amount or \$1,000, whichever is less; couples filing jointly can take a credit for the donation amount or \$2,500, whichever is less. Corporations can take a credit for the lesser of the donation or 75 percent of their income tax liability. The bill caps the aggregate annual tax credits at \$50 million.
Beneficiaries: Individuals and corporations who donate to student scholarship organizations
FY 2009 Revenue Loss: Capped at \$50 million

HB 1159 – Income tax credit for adoption of a foster child

Summary: Provides a \$2,000 income tax credit per foster child from the year of adoption until the child reaches the age of 18.

Beneficiaries: Adoptive parents of foster children

FY 2009 Revenue Loss: No fiscal note available

HB 1246 – Revisions of Job Tax Credit for Insurance Companies

Summary: Originally, HB 1246 revised definitions within the job tax credit program. The final version of the bill, however, extended job tax credits to insurance companies for the first time. Since insurance companies do not pay the corporate income tax, they have not been eligible for the tax credits. HB 1246 allows insurers to take the credit against premium taxes.

Beneficiaries: Insurance companies

FY 2009 Revenue Loss: No fiscal note available

HB 1273 – Revision of Job Tax Credit for Less Developed Areas

Summary: Lowers the threshold for businesses in poverty-stricken areas to qualify for the jobs tax credits. The bill changes the definition of less developed area to census blocks with 15 percent poverty rate, rather than the current 20 percent. Businesses adding two employees, rather than the current five, could qualify for tax credits in less developed areas.

Beneficiaries: Businesses in less developed areas

FY 2009 Revenue Loss: \$675,500

**Fiscal impact does not include the changes from 20 percent poverty rate to 15 percent poverty rate.

HB 1274 – Revision to income tax credits for donations of property for conservation purposes

Summary: Expands the tax credit to include donations of conservation land to the federal government. The bill allows taxpayers to carry-forward unused credits for 10 years, rather than the current 5 years, and allows partners in a partnership to take up to \$1 million in tax credits for property donations. The bill also includes penalties for false appraisals.

Beneficiaries: Taxpayers who donate real property for conservation purposes

FY 2009 Revenue Loss: Less than \$1 million for original bill, but subsequent changes have an unknown fiscal impact

HR 1276 and HB 1211 – Forest Land Conservation Use Act

Summary: Creates an assessment and taxation structure based on current use for forest land property in excess of 200 acres. The property owner enters into a 15 year conservation use covenant to receive the tax preference. The state will reimburse local governments for a portion of the lost revenue. If the overall tax digest revenue for a local government is reduced by less than 3 percent under this system, the state will reimburse the local government 50 percent of the difference between the conservation use value and the fair market value of the forest land. Cities, counties, and schools will receive full reimbursement for the lost revenue above 3 percent of the digest. In addition, the resolution places a cap on forest land fair market value at the rate of government inflation.

Beneficiaries: Forest land owners

Revenue Loss: No fiscal note available. Committee testimony stated a \$34 million cost to the state government for reimbursements to local governments and a \$20 million revenue loss to local governments, as the state reimbursements will not cover the full cost. The testimony did not state whether this cost was in FY 2009 or in FY 2010, when the changes would be in effect for an entire year.

Extension of Sunsets

Summary: Several bills extended the sunset dates for existing tax exemptions –

- HB 1023 extends the sunset date on the sales tax exemption for overhead materials used by government contractors. (FY 2009 state revenue loss of \$14.5 million to \$16 million.)
- HB 1046 extends the sunset date on the ad valorem tax exemption for watercraft inventory. (FY 2009 state revenue loss of \$4,928.)
- HB 1110 extends the sunset date for the sales tax exemption for food sold to qualified food banks. (FY 2009 state revenue loss of \$182,500.)
- HB 1178 extends the sunset date on the sales tax exemption for petroleum gas and fuel used for swine raising purposes. (FY 2009 revenue loss of \$292,000.)