



GBPI

Georgia Budget and Policy Institute

Thoughtful Analysis...Responsible Policy

Adding Up the 2009 Fiscal Notes

By Sarah Beth Gehl, Deputy Director

If the Senate passes all of the tax break bills passed by the House of Representatives, state revenues will decline by an estimated \$228 million in FY 2010 and \$614 million in FY 2012, according to Georgia State University Fiscal Research Center's official fiscal notes on the bills.

Sixteen bills offer tax breaks, ranging from a few hundred thousand dollars for the Atlanta Symphony Hall to hundreds of millions of dollars for businesses hiring unemployed workers. The most significant tax breaks are found in House Bills (HB) 261 and 481, which provide a homebuyers tax credit and several tax breaks for businesses, for a combined revenue loss of \$715 million over three years.

As the Senate considers these 16 tax break bills, they will also consider 3 revenue-raising bills passed by the House. These bills impose a title fee on motor vehicles, place fines on "super speeders," and close a corporate tax loophole. HB 480, which replaces the existing sales and ad valorem taxes on motor vehicles with a new title fee, raises an estimated \$263 million in FY 2010.

As the Senate considers these tax bills, they should do so with an eye toward the cumulative effects. In total, the 19 tax bills moving to the Senate cause a combined gain of \$87 million in state revenues in FY 2010 (Table 1). There is an expected net gain of \$223 million in FY 2011 and an overall loss of \$313 million in FY 2012. GBPI recommends that the Senate consider the following questions:

- Will the revenue gains balance the losses? What is an acceptable deficit, if any, for the State to carry into the next year? For example, if the Senate passes all the tax break bills but does not pass HB 480, then revenues will fall by \$176 million rather than rise by \$87 million in FY 2010.
- Will the cumulative effect shift taxes from one group of Georgians or taxpayers to another? Is this shift appropriate? For example, if the Senate does pass HB 480, taxes will be shifted further away from taxpayers purchasing a home and certain businesses, to taxpayers purchasing a car.

In addition to considering the total impact of these tax changes, the Senate should consider the following facts when reviewing the bills:

1. Georgia already has the 41st lowest state taxes as a percent of personal income, and the 44th lowest state and local taxes on businesses as a percent of gross state product. Accordingly, the state ranks 49th in spending on public services per capita.¹
2. Georgia faces severe budget gaps in the coming years, which de facto results in significant cuts to critical public services. Therefore any combination of tax bills causing additional revenue losses in the coming years mean more cuts to the budget, 80 percent of which is spent on education, healthcare, and public safety.

Table I

Tax Legislation Passed by the House			
	FY 2010 (millions)	FY 2011 (millions)	FY 2012 (millions)
Revenue Losses			
HB 74 – Omnibus Bill	- \$20	- \$8	- \$15
HB 116 – Extension of sales tax exemption on aircraft repair parts	- \$7.0	- \$7.3	- \$7.5
HB 120 – Annual sales tax holiday	- \$13.2		
HB 129 – Sales tax exemption for Zoo Atlanta expansion	minimal	minimal	minimal
HB 186 – Extension of teleworking tax credits	- \$1.3	- \$2.5	- \$1.3
HB 212 – Extension of sales tax exemption on jet fuel	- \$24.4	- \$24.4	
HB 261 – Homebuyers tax credit	- \$108.1	- \$38.0	- \$18.4
HB 349 – Sales tax exemption for civil rights museum construction	- \$0.6	- \$1.0	- \$0.5
HB 358 – Extension of sales tax exemption on donated food	minimal	minimal	
HB 364 – Sales tax exemption on airplane flight simulation devices	minimal	minimal	
HB 395 – Extension of sales tax exemption on Atlanta Symphony Hall	minimal	-\$0.6	
HB 410 – Revisions to high deductible health plan tax preferences	local only	local only	local only
HB 438 – Revisions to Mega tax credit ^a	- \$1.0	- \$1.0	- \$1.0
HB 439 – Revisions to BEST tax credits	- \$16.0 to -\$42.5	- \$16.4 to -\$42.9	- \$19.4 to -\$45.9
HB 481 – Jobs and Opportunity Act	- \$22.7	+ \$5.9	- \$535.2
HB 482 – Elimination of state inventory tax		- \$1.1	- \$2.1
HB 485 – Alternative tax credit for base year port traffic	minimal	minimal	minimal
Revenue Loss Subtotal^b	- \$228 million	- \$107 million	- \$614 million
Revenue Gains			
HB 160 – Super speeder fine ^c	\$23	\$23	\$23
HB 379 – Real estate investment trust (REIT) loophole closure ^d	\$8 to \$50	\$16 to \$100	\$16 to \$100
HB 480 – Elimination of ad valorem and sales taxes on motor vehicles; Imposition of title fee	\$263	\$249	\$220
Revenue Gain Subtotal^b	\$315 million	\$330 million	\$301 million
TOTAL FISCAL IMPACT^b	+ \$87 million	+ \$223 million	- \$313 million
<p>Source: Official fiscal note for bills. (Fiscal notes may not reflect revisions to bills.)</p> <p>a) Fiscal impact turns positive after 5 years, for a net positive effect over the 10 year period.</p> <p>b) Subtotals and total impacts use midpoints of any estimate involving a range.</p> <p>c) Estimate from Governor’s Budget Report, FY 2010. FY 2010 estimate used for 2011 and 2012.</p> <p>d) Official fiscal note estimates a \$15.8 million revenue gain in FY 2011. Dept. of Revenue presentations have included a revenue gain of \$100 million.</p>			

Description of Tax Bills

(Note: Revenue loss is calculated from the fiscal note attached to the bill as of its passage by the House. Bills might have been revised without a corresponding revision to the fiscal note. Revenue losses or gains shown below are state losses and do not include the local revenue loss associated with certain bills.)

HB 74: Omnibus Bill

Summary: Annual bill to align Georgia tax code with federal tax code.

FY 2010 Revenue Loss: \$20 million

HB 116: Extension of sales tax exemption on aircraft repair parts

Summary: Renews the sales tax exemption for aircraft repair parts purchased to repair planes owned by nonresidents. The exemption primarily assists customers of Gulfstream.

Beneficiaries: Customers of Gulfstream and other aircraft repair companies.

FY 2010 Revenue Loss: \$7 million

HB 120: Sales tax holiday

Summary: Renews the annual sales tax holiday for school supplies, clothing, computers, and energy efficient appliances.

Beneficiaries: Consumers of certain items during the tax holiday.

FY 2010 Revenue Loss: \$13.2 million

HB 129: Sales tax exemption for Zoo Atlanta expansion

Summary: Provides a sales tax exemption on construction materials used for the renovation or expansion of the Atlanta zoo.

Beneficiary: Zoo Atlanta.

FY 2010 Revenue Loss: minimal

HB 160: Super speeder fine

Summary: Creates a new \$200 fine for “super speeders” traveling 85 mph or more on a highway or 75 mph or more on a two-lane road. The bill also increases certain fees associated with the reinstatement of suspended or revoked drivers’ licenses.

FY 2010 Revenue Gain: \$23 million (*Source:* Governor’s Budget Report)

HB 186: Extension of teleworking income tax credits

Summary: Renews the income tax credit for teleworking expenses for calendar years 2010 and 2011, with a cap of \$2.5 million on total credits available annually. The bill requires a public report of the employers and credits claimed.

Beneficiaries: Employers with teleworking expenses.

Calendar Year 2010 Revenue Loss: \$2.5 million

HB 212: Extension of sales tax exemption on jet fuel

Summary: Renews the partial sales tax exemption on jet fuel for airlines operating at airports with over 750,000 takeoffs and landings per year (i.e. Atlanta’s Hartsfield-Jackson). The airlines are exempt from the first 1.8 percent of the 4.0 percent state sales tax. According to the fiscal note, 1 percent of the local sales tax is also exempted.

Beneficiaries: Airlines with regularly scheduled flights at Atlanta Hartsfield-Jackson Airport.
FY 2010 Revenue Loss: \$24.4 million

HB 261: Homebuyers' income tax credit

Summary: Provides an income tax credit for taxpayers purchasing a single family residence in a certain six-month period, with the intention of incentivizing home purchases. Qualifying homebuyers are eligible for a tax credit equal to 1.2 percent of the purchase price or \$3,600, whichever is less, taken over three years. According to the fiscal note, 90,503 home sales will be eligible for this credit; however, based on data in the fiscal note, GBPI calculates that only 900 to 1,100 of those home sales will be attributed to this credit. Thus, the state will spend \$150,000 to \$182,000 per home to incentivize 900 to 1,100 home sales.

Beneficiaries: Taxpayers purchasing a single family residence in a certain six-month period.
FY 2010 Revenue Loss: \$108.1 million

HB 349: Sales tax exemption for the construction of a civil rights museum

Summary: Provides a sales tax exemption on materials used in the construction of the proposed Atlanta civil rights museum.

Beneficiary: Atlanta civil rights museum.

FY 2010 Revenue Loss: Less than \$1 million

HB 358: Extension of the sales tax exemption on donated food

Summary: Renews the sales tax exemption on food donated to hunger relief organizations.

Beneficiaries: Food industry donors to hunger relief organizations.

FY 2010 Revenue Loss: minimal

HB 364: Sales tax exemption on airplane flight simulation training devices

Summary: Provides a sales tax exemption on the purchase of flight simulation training devices. Committee testimony stated that the exemption would apply to one company planning to locate these devices in Georgia.

Beneficiary: Single company purchasing flight simulation devices.

FY 2010 Revenue Loss: minimal

HB 379: Captive real estate investment trust loophole closure

Summary: Closes a corporate tax loophole known as captive real estate investment trust (REIT). Through these transactions, companies shift income between subsidiaries to avoid corporate taxes.

FY 2010 Revenue Gain: \$8 to \$50 million²

HB 395: Extension of the sales tax exemption for Atlanta Symphony Hall

Summary: Renews the sales tax exemption for materials used in the construction of the Atlanta Symphony Hall.

Beneficiary: Atlanta Symphony Hall.

FY 2010 Revenue Loss: minimal

HB 410: Revisions to high deductible health plan tax preferences

Summary: Revises the tax preferences provided last year for insurers, consumers, and businesses for high deductible health plans. The bill removes the requirement that such plans be

sold in association with health savings accounts. In addition, the bill exempts insurers from local premium taxes for high deductible health plans.

Beneficiaries: Insurers providing high deductible health plans.

FY 2010 Revenue Loss: No state loss. Local revenue loss of \$5 million.

HB 438: Revisions to Mega tax credit

Summary: Revises the tax credit program for major economic development projects. Currently, projects involving 1,800 workers and a minimum of \$450 million in property investment qualify for a \$5,250 per worker tax credit for five years. The bill revises this “mega tax credit” to apply to firms meeting two of three requirements: \$450 million investment, 1,800 workforce, and \$150 million payroll. The bill also expands the qualifying projects beyond manufacturing.

Beneficiaries: Businesses undertaking significant investment or expansion.

FY 2010 Revenue Loss: \$1.0 million (Estimate turns positive after five years.)

HB 439: Revisions to the BEST tax credits

Summary: Provides numerous revisions to Georgia’s primary economic development tax credit program, known as “Business Expansion Support” (BEST). Provisions include:

- a. Replacing the headquarters tax credit with a quality jobs tax credit, which would target firms creating high-paying jobs.
- b. Allowing certain tax credits to be used against payroll withholding.
- c. Expanding the port tax credit to include both imports and exports.
- d. Strengthening definitions for the retraining tax credit.
- e. Creating a clawback provision to recover credits when a business fails to maintain certain requirements.

Beneficiaries: Businesses qualifying for tax credits.

FY 2010 Revenue Loss: \$16.0 to \$42.5 million (Includes expected revenue gains as a partial offset.)

HB 480: Replacement of sales and ad valorem tax on motor vehicles with a title fee

Summary: Replaces the current sales and ad valorem tax on motor vehicles with a one-time title fee upon transfer, in the amount of the lesser of 7 percent of the sale price or \$2,000. A portion of the fee flows to the state, while a portion flows to local governments. The intent of the legislation is to use a portion of the increased state revenues for trauma care.

FY 2010 Revenue Gain: \$263 million

HB 481: Jobs, Opportunity, and Business Success Act

Summary: Provides several temporary tax breaks for businesses:

- a. Suspension of certain business fees for FY 2010.
- b. Up to \$500 credit against unemployment insurance taxes if hiring a qualified unemployed worker.
- c. \$2,400 corporate income tax credit for hiring a qualified unemployed worker and employing such worker for two years. The fiscal note projects this credit will apply to 20,649 jobs per month, 98 percent of which would have been created regardless of the credit. Only 2,200 jobs will be created specifically due to this credit, costing the state \$265,000 per job.
- d. Elimination of the sales tax deposit requirement for vendors.

Beneficiaries: Certain businesses.

FY 2010 Revenue Loss: \$22.7 million (Includes expected revenue gains offsetting a portion of losses. Loss increases to more than \$500 million in FY 2012.)

HB 482: Elimination of state inventory tax

Summary: Eliminates the state ad valorem tax on business inventory.

Beneficiaries: Businesses with inventory.

FY 2010 Revenue Loss: No loss in 2010. Loss of \$2.1 million in FY 2012 and each year beyond.

HB 485: Alternative tax credit for base year port traffic

Summary: Provides an additional \$1,250 job tax credit targeted to one company engaged in distribution and experiencing a certain level of increased port traffic.

Beneficiary: Specific company engaged in port activity.

FY 2010 Revenue Loss: minimal

Other Bills of Interest

HB 100: Revisions to student scholarship donation income tax credit

Summary: In 2008, the legislature passed HB 1133, creating an income tax credit for individuals and corporations donating to student scholarship organizations that provide scholarships for children to attend private school. HB 100 revises the tax credit program, allowing individuals to receive a tax credit equal to 75 percent of their state tax liability or their donation amount, whichever is less. HB 100 maintains the \$50 million cap on the total amount of tax credits allowed, resulting in a revenue loss of \$50 million.

HB 233: Three-year freeze on assessment growth for property tax purposes

Summary: For tax years 2009 through 2011, HB 233 freezes the assessed value of property for tax purposes. If property sells, the freeze remains in place; however, improvements are revalued at fair market value. The bill does not greatly affect state revenues, as the state property tax raises only \$80 million; however, local entities are significantly affected as counties and municipalities rely more heavily on property taxes, while school districts rely almost exclusively on property taxes.

HB 277/HR 206 and SB 39/SR 44: One-percent sales tax for transportation

Summary: The House version of transportation funding allows for a voter-approved 1 percent statewide sales tax dedicated to transportation projects listed in HB 277. The House version also moves the 4th percent of the sales tax on motor fuels from the state general fund to transportation projects (\$195 million in FY 2011).³ The Senate version allows counties and regions to levy a voter-approved 1 percent sales tax for transportation. The competing proposals have passed their respective chambers.

Bills to Improve Tax Administration, Collection, and Transparency:

- **HB 334** – Lowers the threshold requirement for e-filing from \$5,000 to \$1,000 in FY 2010 and \$500 in FY 2011 for sales, use, motor fuel, and withholding taxes.
- **HB 444** – Provides for penalties against fraudulent tax preparers.
- **SB 206** – Requires a tax expenditure report to detail the cost of tax preferences.

All of the above bills have passed the House or Senate.

SR 453: Georgia Tax Reform Commission

Summary: The Senate passed SR 453 to create an 18-member tax reform commission to review the tax system with “a view toward modernizing and revitalizing the revenue structure.” The Commission would provide recommendations to the 2011 session of the General Assembly.

¹ State tax revenue burden ranking from: 1) Federation of Tax Administrators; 2) Council on State Taxation’s *Total State and Local Business Taxes: 50 State Estimates for Fiscal Year 2008*; 3) Governing Performance Project.

² Fiscal note provides an estimate of \$16 million for FY 2011, with an expectation of less than half of that amount in FY 2010, according to conversations with fiscal note’s author. The Department of Revenue (DOR) estimates \$100 million revenue gain. With a January 1, 2010 start date, the author assumes half of the DOR estimate.

³ Estimate of the 4th cent of the sales tax on motor vehicles from the fiscal note to the 2008 transportation proposal (Fiscal Note to LC 18 6614, December 2007).

Contact: Sarah Beth Gehl, sbgehl@gbpi.org

© 2009 Georgia Budget and Policy Institute

All Rights Reserved

This document may be quoted with proper citation. A pdf is available for reference and dissemination at www.gbpi.org.

The Georgia Budget and Policy Institute (GBPI) is the leading independent, nonprofit, non-partisan organization engaged in research and education regarding the fiscal and economic health of the state of Georgia. The GBPI provides reliable, accessible, and timely analyses to promote greater state government fiscal accountability as a way to improve services to Georgians in need and to promote an improved quality of life for all Georgians.