



## DEPARTMENT OF AUDITS AND ACCOUNTS

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March 17, 2017

Honorable Chuck Hufstetler  
Chairman, Senate Finance  
121-C State Capitol  
Atlanta, Georgia 30334

SUBJECT: Fiscal Note  
House Bill 125 (LC 34 5201S)

Dear Chairman Hufstetler:

The bill would create a sales tax exemption for certain tangible property used in the repair or maintenance of boats. Under the bill, the maximum combined state and local sales and use tax collected on one boat repair or refitting event is \$35,000. With a local tax rate of 3 percent and state tax rate of 4 percent, the bill would effectively exempt parts and materials in excess of \$500,000 in value. The bill does not specify an effective date for the exemption, so it is assumed to be effective for purchases on or after July 1, 2017. The bill includes a sunset date of June 30, 2020.

### Impact on State and Local Revenue

Limited data are available from which to estimate the revenue effects of this exemption, but an economic impact assessment of a planned boat repair yard in the Savannah area enabled estimation of the foregone sales tax revenue from the exemption for that facility. Based on that analysis and certain assumptions regarding other facilities detailed in the attached appendix, projected state revenue losses from the sales tax exemption are between \$0.6 million and \$0.9 million in FY 2019 and FY 2020 (Table 1). Local revenue losses are slightly lower than state losses each year.

**Table 1. State and Local Revenue Effect from HB 125 LC 34 5201S**

(\$ millions)	FY 2018	FY 2019	FY 2020
Low Loss Estimates:			
State Revenue Loss	(\$0.3)	(\$0.6)	(\$0.6)
Local Revenue Loss	(\$0.2)	(\$0.5)	(\$0.5)
High Loss Estimates:			
State Revenue Loss	(\$0.5)	(\$0.9)	(\$0.9)
Local Revenue Loss	(\$0.3)	(\$0.7)	(\$0.7)

**Impact on State Agency Costs**

The Department of Revenue did not anticipate the need for additional funds as a result of the bill, stating that any changes could be paid for with existing funds.

Sincerely,



Greg S. Griffin  
State Auditor



Teresa A. MacCartney, Director  
Office of Planning and Budget

GSG/TAM/mt

### Analysis by the Fiscal Research Center

The economic impact assessment of the Savannah Yacht Center (SYC), which is currently under construction in Savannah and scheduled to begin limited operations in 2017 (see company website, [savannahyc.com](http://savannahyc.com)), projects revenues for the facility, and describes the activities and cost structure such that the cost of parts for major repair and refitting activities could be roughly estimated.

- Revenues at anticipated operating levels are projected in the report to be \$52 million annually once the facility is fully operational. For purposes of the projections, revenues for calendar year 2018 are assumed to be \$52 million (half of that in FY 2018), growing thereafter at 2 percent per annum.
- Based on the same report, it is assumed that major repairs, those of the scope and duration likely to reach the \$500,000 of tangible property threshold in the bill, account for about 64 percent of total revenues or about \$33 million the first calendar year. Of that, about 43 percent (or about \$14 million the first calendar year) is assumed to be spent for the purchase of parts and materials for these major repairs.
- In addition, based on the same report, 12 major repair projects are likely to reach the threshold in calendar year 2018 with an average of \$1.14 million in parts and materials each. Thus, with the first \$500,000 of each repair's parts cost taxed and the balance exempted, \$0.64 million or 56 percent of parts and materials purchased for major repairs, on average, are assumed to be exempt parts and materials purchases.

On this basis, state and local (at 3%) sales tax revenue losses from SYC's major repairs parts and materials purchases, assuming passage of the exemption, would be as shown in Table 2. These amounts are 56 percent of projected sales tax collections under current law from major repair parts and materials purchases.

**Table 2. Savannah Yacht Center Major Repair Parts, Estimated Sales Tax Revenue Loss**

(\$ millions)	FY 2018	FY 2019	FY 2020
State Revenue	\$0.15	\$0.31	\$0.32
Local Revenue	\$0.11	\$0.23	\$0.24

Existing businesses may also qualify for the proposed exemption, but no data are available as to the volumes of such existing, qualifying activity. However, a search for yacht and ship repair yards in Georgia revealed two operations that, to varying degrees, are similar to SYC in terms of facilities and services offered. Both appear to be smaller in terms of boat sizes handled and only one appears to have a dry dock. However, both have lifts and ship rails and offer major repair and refitting services. Other facilities may exist, though none could be identified. For this reason, the estimates in Table 2 are grossed up to allow for existing, qualifying activity of between one and two times that estimated for SYC. These grossed up amounts are shown in Table 1 as the low and high cost estimates, respectively.