



DEPARTMENT OF AUDITS AND ACCOUNTS

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January 25, 2017

Honorable Jay Powell
Chairman, House Ways and Means
133 Capitol
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
House Bill 56 (LC 43 0441ER)

Dear Chairman Powell:

The bill would create a 1.5 percent property tax recovery fee on rental charges for equipment rentals through companies that operate under NAICS Codes 532310 and 532412. Fees collected by the companies are to be retained in escrow until the ad-valorem tax is assessed on the company's rental equipment. If the total amount of property tax recovery fees collected exceeds the assessed ad-valorem tax liability on rental equipment in any year, the company shall remit the excess plus accrued interest in the escrow account to the state treasury. The new fee would apply to rentals starting January 1, 2018, and extend to December 31, 2022.

Impact on State and Local Revenue

Georgia State University's Fiscal Research Center (FRC) estimated that the bill would slightly decrease state and local revenue. The property tax recovery fee would be a separate line item on the customer invoice and would not be included in the taxable amount of the agreement. If equipment rental companies reduce their rates to offset the new fee, the taxable amount of the sales would be reduced.

FRC estimated that the bill would decrease state revenue by \$45,000 in FY 2019, the first year of the bill's full effect (Table 1). The effect would increase slightly through FY 2022. Surplus funds from escrow accounts to be paid to the state cannot be precisely estimated at this time and are thus not included in these estimates. These amount may be significant—more than offsetting the sales tax revenue loss—but are not expected to exceed \$1 million in any fiscal year. Local revenue loss was also estimated, ranging from \$34,000 in FY 2019 to \$37,000 in FY 2022. The first and last year amounts are lower because the fee begins in mid-FY 2018 and ends in mid-FY 2023. The assumptions used by FRC are included in the appendix.

Table 1. Estimated Effects of LC 43 0441ER on State and Local Sales Tax Collections

<i>(\$ millions)</i>	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
State Rev. Loss	\$22	\$45	\$46	\$48	\$49	\$25
Local Rev. Loss	\$16	\$34	\$35	\$36	\$37	\$19

Impact on State Agency Costs

The Department of Revenue (DOR) estimated one-time costs of \$280,000 associated with the bill. DOR estimated that changes to the Georgia Tax Center and Integrated Tax System would cost \$272,000, while updating regulations and the DOR website would cost \$8,000. DOR estimated annual costs of \$15,000 for staffing for work related to customer support, return processing, compliance, audits, and appeals.

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 subject bill applies a new property tax recovery fee to equipment rentals by firms classified under NAICS codes 532310 and 532412. The imposition of the property tax recovery fee would have no material impact on property tax revenue to the governments. Currently, equipment rental companies pay property taxes on their equipment directly and recover the cost from the rental revenue on the equipment. The recovery fee requires escrowing of recovery fees and thus may, to the extent of any delinquencies, improve collections of taxes owed, but does not alter the amounts owed.

Because the bill requires equipment rental companies to pay to the state any surplus of property tax recovery fees collected in excess of property taxes due, it is possible that the state would realize a material amount of revenues from these fees. No data are available as to the property tax base associated with rental equipment, but based on IBISWorld estimates of net fixed assets for NAICS code 532310 firms, shared down to Georgia and using that figure as a proxy for the fair value of rental equipment, and assuming an average millage rate of 30 mills, recovery fee collections could exceed property taxes on the equipment by as much as about \$800,000. It was not possible to estimate net fixed assets for the equipment rented in taxable transaction for NAICS code 532412. Given the high level of uncertainty about these estimates, it is assumed that state revenues would not exceed \$1 million in any fiscal year.

State and local sales tax revenue effects are estimated as follows. Based on data from DOR, sales tax revenues from these NAICS codes were \$2.6 million and \$109,000, respectively, in CY 2015, which translates into taxable equipment rental revenues of \$64.7 million and \$2.7 million for the year, respectively, and \$67.4 million combined. Equipment rental revenues are projected to grow through 2023 at annual growth rates of 3.4 percent and 1.1 percent for the respective NAICS codes, according to industry research from IBISWorld.

To calculate the effect of the bill on sales tax revenues, it is first assumed that rental rates are reduced to offset the fee, thus reducing the taxable amount of the sale. Estimated losses in state and local sales tax revenues, presented in Table 1, arise from this assumed difference in taxable rental revenues, about 1.48 percent lower under the proposed law than under current law. Estimated taxable rentals under the current and proposed law are presented in Table 2 below.

Table 2: Estimated Taxable Sales Under Current and Proposed Law

(\$ millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023**
Current Law Taxable Rentals						
NAICS 532310	\$35.2	\$72.7	\$75.2	\$77.8	\$80.4	\$41.6
NAICS 532412	\$1.4	\$2.8	\$2.9	\$2.9	\$2.9	\$1.5
Current Law Total	\$36.6	\$75.6	\$78.1	\$80.7	\$83.4	\$43.1
Proposed Law Taxable Rentals						
NAICS 532310	\$34.7	\$71.7	\$74.1	\$76.6	\$79.2	\$41.0
NAICS 532412	\$1.4	\$2.8	\$2.8	\$2.9	\$2.9	\$1.5
Proposed Law Total	\$36.0	\$74.5	\$76.9	\$79.5	\$82.1	\$42.4

* Jan-Jun 2018 only. ** Jul-Dec 2022 only.