DEPARTMENT OF AUDITS AND ACCOUNTS

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

SUBJECT: Fiscal Note
House Bill 821 (LC 34 5331-ECS)

Dear Chairman Powell:

The bill would make a number of changes to Georgia's tax code. Part I would amend Georgia law to incorporate changes made in the federal Tax Cuts and Jobs Act and Disaster Tax Relief and Airport Extension Act of 2017. Other federal bills were deemed to have no revenue impact to the state. Part II amends the treatment of replacement titles under the state Title Ad Valorem Tax. Finally, Part III exempts state and most local sales and use taxes for jet fuel. Only Parts I and III would have a revenue impact.

Impact on Revenue – Part I
Georgia State University's Fiscal Research Center (FRC) estimated that Part I of the bill would lower FY 2018 state revenue $24.6 million. There is no effect in subsequent years.

In the case of the provisions included in Table 1, with the exception of the deduction for medical expenses, the state revenue effect of these changes is determined by allocating that portion of the national revenue effect associated with these provisions that is applicable to Georgia, adjusting for the difference in the federal and state tax rates. A separate allocation factor is used to estimate the effect of adopting each provision. In some cases, the appropriate share may be best represented as the ratio of capital expenditures in Georgia relative to the nation. In the case of other provisions, it may be the amount of capital gain income claimed on Georgia federal returns compared to that claimed on federal returns by all U.S. filers. The provisions are then adjusted to reflect the cost of adopting the provisions solely for tax year 2017.

The estimate for the medical expense deduction is based on the results of a microsimulation model developed by the Fiscal Research Center. This model uses data on Georgia taxpayers for 2015 to simulate changes to current law. The results are then forecasted to reflect future expectations of tax revenues. Table 1 contains the projected revenue effect of each provision.

Table 1. Projected State Revenue Effects of Part I of HB 821 LC 34 5331-ECS

($ *millions*)	FY 2018	FY2019-23
Retroactive provisions from TCJA:		
7.5%-of-AGI floor for medical expense deductions is retroactively extended through TY 2018 and applied to all taxpayers.	($18.0)	Not Applicable
NOLs can't be carried back but can be carried forward indefinitely.	$2.3	Not Applicable
Business deduction is denied for entertainment expenses. Expenses for employer-operated eating facilities are only 50% deductible through 2025, then become nondeductible.	$3.2	Not Applicable
Employers can't deduct cost of providing qualified transportation fringes and other transportation benefits.	$2.4	Not Applicable
Like-kind exchanges are limited to exchanges of real estate.	$1.0	Not Applicable
Annual caps on depreciation of passenger autos are raised	($1.5)	Not Applicable
Treatment of computer equipment as listed property is ended	($1.9)	Not Applicable
Gross receipts limits to qualify for small construction contract exception to percentage of completion method is raised to $25 million	($1.4)	Not Applicable
Production period for beer, wine, distilled spirits won't include aging period for UNICAP rule purposes	($1.4)	Not Applicable
10% of AGI casualty loss threshold is retroactively made inapplicable in 2016 and 2017 to net disaster losses from 2016 disaster areas	($8.7)	Not Applicable
Pre-2018 accumulated deferred foreign income excluded for purposes of REIT gross income tests	$2.1	Not Applicable
Other provisions with a revenue effect of less than $1 million	($0.3)	Not Applicable
Retroactive provisions from DTRAEA:		
Disaster relief provisions from DTRAEA	($2.5)	Not Applicable
Total Part I	**($24.6)**	**Not Applicable**

Note: Totals may not add due to rounding

Impact on Revenue – Part III

Under the proposed bill, part III of the bill would change the tax treatment of jet fuel within Georgia. Jet fuel would be exempt from all local sales taxes except for those joint county/municipal LOSTs and MARTA taxes in affect prior to December 30, 1987, which would continue to apply at no more than the rate then in effect.

Under current law, jet fuel is subject to an estimated local sales tax rate of 2.1 percent. This is the average of local sales tax rates weighted by the estimated amount of jet fuel sold in each county. As such, this average rate is heavily influenced by the current two percent local sales tax rate for jet fuels in Clayton County. The grandfathered local taxes apply in counties where relatively small amounts of jet fuel are sold, thus the effective local tax rate for jet fuel would decrease to 0.01 percent statewide, on average.

The wide range of jet fuel prices experienced over recent years indicates there are a wide range of revenue impacts that are feasible under this proposed legislation. Georgia Department of Revenue (DOR) began in July 2015 requiring separate reporting of jet fuel sales and has provided data on sales tax collections from jet fuel for FY 2016, FY 2017 and the first six months of FY 2018. A key challenge in estimating the impact of this change over time is the extreme volatility of jet fuel prices. In July 2015 when DOR began collecting this revenue data, the price of spot jet fuel averaged $1.56 per gallon. By January of 2016, the price had fallen to $0.95 per gallon, a drop of 40% in a six-month period. This volatility is even more extreme in light of jet fuel prices ranging from $2.50 per gallon to more than $3.00 per gallon for 2011 through 2014.

Table 2 contains recent sales tax collections from jet fuel since DOR began requiring separate reporting. Note that this collections data through FY 2017 corresponds to a period of low jet fuel prices. In recent months jet fuel prices have fluctuated. In July 2017, jet fuel prices averaged $1.41 per gallon. By December 2017, the average price had increased to $1.81, a 40% increase. The FY 2019 budget estimates state revenue for jet fuel at $35.2M.

Table 2. Sales Tax Collections from Jet Fuel

($ *millions*)	**FY 2016**	**FY 2017**	**FY 2018***
State	$31.4	$34.9	$19.4
Local	$17.4	$20.8	$11.9

*FY 2018 reflects collections through December 31, 2017

Commodities such as oil and its refined products can experience highly volatile price changes that extend for multiple years. Changes in production capacity, demand, and geo-political conditions are just a few factors that contribute to this volatility. It is possible to devise feasible scenarios in which jet fuel prices are much lower than those assumed in these two pricing scenarios or are much higher.

Impact on Expenditures

The Department of Revenue (DOR) would have increased expenditures of approximately $172,000 as a result of the bill. Most funding ($160,000) would cover IT items such as defining requirements, design and development, and system testing. The remaining funds are for form updates and training.

Sincerely,

Greg S. Griffin
State Auditor

Teresa A. MacCartney, Director
Office of Planning and Budget

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