



DEPARTMENT OF AUDITS AND ACCOUNTS

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February 27, 2020

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

SUBJECT: Fiscal Note
House Bill 868 (LC 43 1487S)

Dear Chairman Hufstetler:

The bill would exempt sales of certain transportation services, including taxi, limousine, ridesharing, and transportation-referral services, from state and local sales taxes, provided that the vehicle used is a passenger vehicle as defined by O.C.G.A. §40-8-76.1. The bill has no effective date but is assumed to be July 1, 2020 for purposes of the analysis.

Impact on State Revenue

Georgia State University's Fiscal Research Center (FRC) estimated that the bill would reduce state revenue by \$19.7 million to \$32.0 million in FY 2021 (**Table 1**). The loss would be greater in subsequent years. Local revenue losses would be \$16.3 million to \$26.5 million in FY 2021, also increasing in later years. Details of the analysis are included in the appendix.

Table 1. Estimated State and Local Revenue Effects of LC 43 1487

(\$ millions)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
State Revenue Effect					
High	(\$32.0)	(\$34.0)	(\$35.8)	(\$37.8)	(\$39.8)
Low	(\$19.7)	(\$20.9)	(\$22.0)	(\$23.2)	(\$24.4)
Local Revenue Effect					
High	(\$26.5)	(\$28.1)	(\$29.7)	(\$31.3)	(\$32.9)
Low	(\$16.3)	(\$17.3)	(\$18.2)	(\$19.2)	(\$20.2)

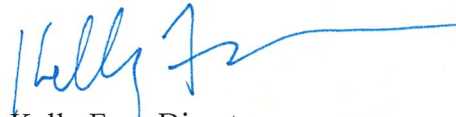
Impact on State Expenditures

The Department of Revenue (DOR) would not require additional funding to implement the provisions of the bill.

Sincerely,

A handwritten signature in blue ink that reads "Greg S. Griffin".

Greg S. Griffin
State Auditor

A handwritten signature in blue ink that reads "Kelly Farr".

Kelly Farr, Director
Office of Planning and Budget

GSG/KF/mt

Analysis by the Fiscal Research Center

Taxis and Limousines

Section 1 of the bill proposes to exempt for-hire ground transportation services provided by an individual driving a passenger vehicle, as defined by O.C.G.A. §40-8-76.1, from the state and local sales and use taxes. A passenger vehicle is any motor vehicle designed to carry 15 or fewer passengers, with the exception of motorcycles, motor-driven cycles, and certain vehicles used in agriculture. The current revenue-producing transportation services to be subject to the proposed excise tax include taxi and limousine services as well as ridesharing services, which are analyzed separately below. The high and low revenue losses from the exemption of taxi and limo services are based on the following:

- The Georgia Department of Revenue (DOR) reports that annual state sales tax collections for the taxi and limousine industry (NAICS 4853) were \$1.34 million in FY 2019. Tax collections have been declining since 2013 for taxis. However, limousine tax revenue has grown since 2013, surpassing that of taxi revenue in FY 2019.
- Historical DOR data suggest that limousine service will account for any revenue growth in this sector, with taxi revenue continuing to decline. The steep rise in limousine revenue from FY 2018-19 seems to be an outlier given historical data. The most recent 5 years captures the decline in taxi revenue and the increase in limousine revenue. Thus, we use the 5-year average growth rate of 1.1 percent for the sector as the high growth estimate and a growth rate of zero as our low estimate. Note that in FYs 2010-13, prior to the ascendance of ridesharing services, taxi revenue grew.
- Local sales tax estimates assume an average effective local sales tax rate of 3.31 percent, the population-weighted average local rate as of January 2020, according to the Tax Foundation.

Table A1. Taxi and Limousine Services, Projected Current Law Revenue

(\$ millions)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
State Revenue					
High	\$1.37	\$1.39	\$1.40	\$1.42	\$1.43
Low	\$1.34	\$1.34	\$1.34	\$1.34	\$1.34
Local Revenue					
High	\$1.13	\$1.15	\$1.16	\$1.17	\$1.19
Low	\$1.10	\$1.11	\$1.11	\$1.11	\$1.11

Ridesharing

Purchases of transportation through ridesharing services such as Uber and Lyft are taxable transportation services under the current-law state sales and use tax, though press reports indicate that at least one network disputes that they are obligated to collect and remit the tax. The estimates herein assume that the state is able to enforce, collect, and remit obligations on ridesharing networks under the sales tax absent the proposed bill.

Section 1 of the bill would exempt ridesharing services from the sales tax along with taxi and limousine services. Taxable ridesharing sales and implied state and local sales taxes due absent the proposed bill are estimated as follows:

- Uber Technologies Inc. SEC filings since going public show U.S. ridesharing revenue in CY 2018 of \$19.4 billion with 2.4 billion trips taken, implying revenue of about \$7.94 per ride. Based on 3 quarters of CY 2019 SEC filings, it is estimated that for CY 2019, Uber had U.S. revenue of \$23.4 billion from 3.3 billion rides, generating about \$7.15 per ride.
- Lyft Inc. SEC filings indicate that U.S. ridesharing revenue in CY 2018 was \$2.0 billion with 62.8 million active riders. Based on 3 quarters of CY 2019 filings, it is estimated that for CY 2019, Lyft will have U.S. revenue of \$3.5 billion with 86.1 million active riders. Note that an active rider can take more than one trip, thus using the 10-Q data, it is not possible to estimate the number of trips Lyft made in the U.S.
- A 2019 estimate from research firm Second Measure suggests that Uber and Lyft control all but 2% of the U.S. ride hailing market.
- Using the available financial data for Uber and Lyft and grossing up for smaller providers based on market share, it is estimated that U.S. ridesharing industry revenue was \$21.8 billion in CY 2018 and \$27.4 billion in CY 2019.
- To determine a low case amount that is associated with Georgia services, we multiply the figure of \$27.4 billion by 1.50 percent, which represents Georgia's share of the national employment in the taxi and limousine service industry, based on data from the Quarterly Census of Employment and Wages for 2017. This results in an estimated sales tax base of \$411.1 million for Georgia in CY 2019 and represents the low estimate for ridesharing revenues in Georgia for the year.
- The Contingent and Alternative Workforce Arrangements data from the Bureau of Labor Statistics indicate that Georgia's share of the U.S. population reporting earning income through an app or website that connected them directly with consumers, including but not limited to ridesharing services, was approximately 1.9 percent in 2018. Other data suggest that larger population and car-ownership markets tend to use ridesharing services instead of taxis relatively more often (i.e. ridesharing market shares vs. taxis is greater), thus for the high estimate. Thus, for high case estimates, Georgia is assumed to represent about 2.5 percent of the national ridesharing market, resulting in estimated Georgia gross fares of \$685.2 million for CY 2019.
- According to market research firm eMarketer, the number of U.S. adult users of Uber grew by about 17.4 percent annually from 2016 to 2018, but growth is expected to decelerate over the subsequent years. The estimates assume, based on eMarketer's forecast, annual growth rates for Uber of 11 percent for 2019, trending down to 3.0 percent for years 2023-25. The same article also projected Uber and Lyft's U.S. market shares for the same period. By combining the users and market share projections for Uber, approximate Lyft growth rates were also estimated, trending from approximately 20 percent in 2019 to 5.0 percent in 2023-25. As these growth rates represent growth in users, 2 percent inflation per year has been added to allow for growth in average fares. Though data are insufficient to estimate this, it is also possible that the numbers of rides purchased by the average user may grow for the periods of the projections, resulting in faster growth of gross bookings and greater revenue than is shown in Table A2.
- For all estimates, the state and average local sales tax rate is applied to the forecasted sales tax base, converted into state fiscal years, and the estimated revenue is adjusted to reflect the timing of receipts based on the state fiscal calendar. The local rate assumed, again, is 3.31 percent.

Table A2. Projected Georgia Ridesharing Sales and Sales Tax Revenues

(\$ millions)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Taxable Sales					
High	\$765.6	\$815.8	\$861.0	\$908.8	\$959.2
Low	\$459.3	\$489.5	\$516.6	\$545.3	\$575.5
State Sales Tax Rev.					
High	\$30.6	\$32.6	\$34.4	\$36.4	\$38.4
Low	\$18.4	\$19.6	\$20.7	\$21.8	\$23.0
Local Sales Tax Rev.					
High	\$25.3	\$27.0	\$28.5	\$30.1	\$31.8
Low	\$15.2	\$16.2	\$17.1	\$18.0	\$19.1