



DEPARTMENT OF AUDITS AND ACCOUNTS

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June 15, 2020

Honorable Brett Harrell
Chairman, House Ways and Means
133 State Capitol
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
House Bill 1056 (LC 43 1524)

Dear Chairman Harrell:

The bill would establish state and local sales and use taxes on the sale of digital goods and services as defined. The taxes would apply to transactions occurring on or after January 1, 2021.

Impact on State Revenue

Georgia State University's Fiscal Research Center (FRC) estimated that the bill would increase state revenues \$100 million in fiscal year 2022, the first full year of its effect. The amount would increase slightly in subsequent years. Local revenue is estimated to increase \$83 million in fiscal year 2022, also increasing in succeeding years. Details of the analysis are included in the appendix.

Table 1. Estimated State and Local Revenue Effects of the Bill

(\$ millions)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
State	\$49	\$100	\$105	\$108	\$112
Local	\$40	\$83	\$87	\$90	\$93

Impact on State Expenditures

The Department of Revenue would not require additional funding to implement the provisions of this bill.

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Sincerely,

A handwritten signature in blue ink that reads "Greg S. Griffin". The signature is written in a cursive style with a long horizontal flourish at the end.

Greg S. Griffin
State Auditor

A handwritten signature in black ink that reads "Kelly Farr". The signature is written in a cursive style.

Kelly Farr, Director
Office of Planning and Budget

GSG/KF/mt

Analysis by the Fiscal Research Center

The subject bill would define a category of currently untaxed, electronically delivered goods and services that would become taxable under the bill. These digital goods and services include the following:

- Prewritten computer software delivered electronically
 - It is assumed, based on the bill language, that so-called software-as-a-service, where users pay for cloud-based use software applications, rather than software installed on their local computer, would also be taxable under the bill.
- “Specified digital products” including digitally published and delivered written, audio, and video works and games as follows:
 - ePublishing
 - eBooks
 - ePapers
 - eMagazines
 - Digital Music
 - Music Streaming
 - Music Downloads
 - Video-on-Demand
 - Video Streaming
 - Pay-per-View
 - Video Downloads
 - Video Games
 - Mobile Games
 - Downloaded Games
 - Online Games
 - Gaming Networks

Though physically delivered versions of these products are currently taxable, because these products are delivered electronically by internet download or a web-based service, they are not currently taxable in Georgia. Revenue estimates thus depend on estimating the size of the market for these digital goods. For the latter four broad categories, market size estimates and growth projections from data aggregation and research service Statista are used. The Statista market definitions avoid problems of overlap between markets in other data sources, particularly between mobile and other platforms. Digital music market estimates from Statista were lower than those from the Recording Industry Association of America (RIAA), but were used in the interest of conservatism. Should the RIAA estimates prove more accurate, revenues would be higher than estimated here.

For prewritten computer software, available data was of limited help. No data is available on retail sales of prewritten software (as opposed to custom software and related services) and little is known about the share of software sales that are delivered electronically by internet download. Statista and IBISWorld offer market size estimates and forecast for software publishing, generally, and adjustments are made for nontaxable sales (e.g. for government customers or export sales), and for reasonably likely shares of prewritten software vs. custom software and services.

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National market size estimates were then shared down to Georgia based on the Georgia share of national personal consumption expenditures for services, approximately 2.6 percent in 2019. Estimated taxable sales in Georgia are presented in Table 2 below.

Table 2. Estimated Georgia Sales of Digital Products

(\$ millions)	CY 2021	CY 2022	CY 2023	CY 2024	CY 2025
ePublishing	\$283	\$301	\$316	\$325	\$334
Digital Music	183	190	196	202	207
Video-on-Demand	440	449	455	458	461
Video Games	518	526	532	535	539
Software (digital delivery)	1,008	1,100	1,165	1,237	1,314
Total	\$2,432	\$2,566	\$2,664	\$2,756	\$2,855

Allocations to fiscal years for revenue estimates account for the mid-FY effectiveness of the bill in mid-FY 2021. Such revenue estimates are presented in Table 1. State revenue is calculated at 4 percent, while local revenue is calculated at 3.31 percent, the most recent population-weighted local rate reported by the Tax Foundation.

As a final check, estimated revenue effects were checked against estimates from other states that recently considered or adopted similar legislation, including Iowa, Kansas, and Maryland. Adjusting those states' estimates for the relative differences in the sizes of state economies, these estimates are closely comparable to those done in Kansas and Maryland (within 1-3 percent), but higher (by 52 percent) than Iowa's estimate. Given the uncertainty around software market estimates, with some sources suggesting materially larger online software sales amounts than assumed here, actual revenue gains may be larger than estimated here.