



DEPARTMENT OF AUDITS AND ACCOUNTS

270 Washington St., S.W., Suite 1-156
Atlanta, Georgia 30334-8400

Greg S. Griffin
STATE AUDITOR
(404) 656-2174

February 3, 2017

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

SUBJECT: Fiscal Note
House Bill 125 (LC 43 0479)

Dear Chairman Powell:

The bill would create a sales tax exemption for certain tangible property used in the repair or maintenance of boats. Under the bill, if the total cost of eligible goods used in a repair of a boat exceeds \$500,000, then all eligible goods used in that repair is exempt from sales and use taxes. Eligible goods are defined as “engines, parts, equipment, or other securely affixed tangible personal property.” 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.

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 \$1.03 million and \$1.54 million in FY 2019, rising to between \$1.09 and \$1.63 million in FY 2022 (Table 1). Local revenue losses are approximately 25% lower than state losses each year.

Table 1. State and Local Revenue Loss from LC 43 0479

(\$ millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Low Loss Estimates:					
State Revenue Loss	\$0.51	\$1.03	\$1.05	\$1.07	\$1.09
Local Revenue Loss	\$0.38	\$0.77	\$0.79	\$0.80	\$0.82
High Loss Estimates:					
State Revenue Loss	\$0.76	\$1.54	\$1.57	\$1.60	\$1.63
Local Revenue Loss	\$0.57	\$1.15	\$1.18	\$1.20	\$1.23

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), 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.

No data are available from which to estimate the share of parts and materials purchases that would meet the “securely affixed” condition in the definition of an eligible good. However, anecdotal reports from online yachting publications and related websites suggest that consumable materials and supplies, and items that may not be affixed to the vessel comprise a very small, possibly-immaterial share of tangible property purchases for major repair and refitting jobs. Thus in the interest of conservatism in estimating revenue losses, it is assumed that such ineligible purchases make up only about 5 percent of total parts and materials purchases.

On this basis, state and local (at 3%) sales tax revenues from SYC’s major repairs parts and materials purchases, absent the exemption, would be as shown in Table 2.

Table 2. Savannah Yacht Center Major Repair Parts, Estimated Sales Tax Cost

(\$ millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
State Revenue Loss	\$0.25	\$0.51	\$0.52	\$0.53	\$0.54
Local Revenue Loss	\$0.19	\$0.38	\$0.39	\$0.40	\$0.41

Existing businesses may also qualify for the proposed exemption, but no data are available as to the volumes of such existing, qualifying activity. A search for yacht and ship repair yards in Georgia revealed two facilities 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 one and two times that estimated for SYC. These amounts are shown in Table 1 as the low and high cost estimates, respectively.