REVENUE LOSSES FROM EXEMPTIONS OF GOODS FROM THE GEORGIA SALES TAX

The general sales tax is an important source of revenue for the state. In fiscal year 1997, the Georgia state government collected $3.9 billion in revenue from the state sales tax, representing about 37 percent of all state government tax revenue. Relative to other states, the Georgia sales tax base is broad; for the U.S., sales tax bases represent about 43.4 percent of aggregate personal income, while for Georgia it is about 61.5 percent of aggregate personal income.

By Georgia law, the state sales tax is "...to tax the retail purchase, retail sale, rental, storage, use, and consumption of tangible personal property and the services described in this article..." The law means that all goods sold at retail are taxed unless specifically exempt while all services are exempt unless specially included in the sales tax base by law. In this report we present estimates of the loss of revenue to the state government from most of the exemptions of specific goods or classes of goods from the sales tax base. There are a few exemptions for which estimates could not be developed.

There are several reasons why exemptions are granted. First, there is the issue of equity. Sales taxes are regressive, i.e., sales amount to larger proportions of income for low income families than for high income families. The exemption of food from the sales tax was adopted, at least in part, to make the sales tax less regressive. Second, taxing certain items, for example, prescription drugs and medical devices, is considered unfair.

Other exemptions are based on charity. Georgia, along with other states, exempt purchases by non-profit entities, including hospitals and nursing homes. Finally, there are exemptions granted as special consideration to business, for example as inducements for business to move to or stay in Georgia.

There are several strong arguments against granting sales tax exemptions. The most important is that such exemptions reduce the size of the tax base, necessitating a higher tax rate in order to raise the same level of revenue. Second, exemptions increase the administrative burden by requiring vendors to distinguish between exempt and non-exempt purchases. Third, exemptions create inequities since they favor individuals who tend to purchase exempted goods.

The estimates of the loss of sales tax revenue from exemptions were made using data from many sources. The most current available data were used to construct the initial estimates of revenue loss. These estimates were then "updated" to 1997 by adjusting for inflation and growth. Table 1 contains a summary of the estimates of revenue loss, while Table 2 presents a detailed description of each exemption and lists the data sources used. There are several exemptions for which no reliable estimate could be developed.
<table>
<thead>
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<th>Table 1</th>
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<td>Estimates of Revenue Loss</td>
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### A. Exemptions for property and services sold primarily to households
1. Sale of lottery tickets .................................. $77,889,066
2. Charges for rooms and lodging, more than 90 days .................................. $208,299,387
3. Sale of water through water lines .................................. $32,742,537
4. Sale of foods, etc. with food stamps and WIC vouchers .................................. $36,930,316
5. Personal property brought into Georgia .................................. $163,461,692
6. Casual sales of personal property NA
7. Credit allowances for trade-ins on property .................................. $657,722,298
8. Charges for public transportation .................................. $10,381,269
9. Sale of vehicles to handicapped veterans .................................. $29,326
10. Charges for long distance telephone services .................................. $91,950,037
11. Sale of food for home consumption .................................. $518,463,000

### B. Exemptions related to health care
12. Purchase of medical equipment with Medicare and Medicaid .................................. $4,975,020
13. Sale of prescription drugs and durable medical devices .................................. $101,807,433
14. Sales to hospitals .................................. $38,982,576
15. Sales to non-profit hospitals and nursing homes .................................. $148,551,520

### C. Exemptions related to farming and fishing
16. Sale of raw materials used in farming and ranching .................................. $29,949,199
17. Sale of machinery used in farming and ranching .................................. $9,835,214
18. Sale of equipment used in harvesting lumber .................................. $209,644
19. Sale of sugar to the keepers of honeybees NA
20. Sale of farm animals for breeding purposes NA
21. Sale of fuel used in heating structures used in poultry raising NA
22. Sale of bait for shrimpers NA

### D. Exemptions related to education
23. Sale of school lunches in public schools .................................. $6,145,554
24. Sale of school lunches in private schools .................................. $780,110
25. Sales to private elementary and secondary schools .................................. $19,597,237
26. Sales to the University System of Georgia .................................. $46,546,760
27. Sales to private colleges and universities .................................. $7,146,900

### E. Professional and business services
28. Sales by parent-teacher organizations NA
29. Professional, insurance or personal service transactions NA
30. Fees for services rendered by repair people .................................. $60,583,494

### F. Exemptions for government agencies and nonprofit organizations
31. Sales to federal, state and local governments .................................. $1,460,627,337
32. Property furnished by governments to contractors for government work .................................. $313,220,918
33. Sales to non-profit orphan homes NA
34. Sales to non-profit blood banks NA
35. Sales by the Rock Eagle 4-H Center NA
36. Sales by schools for extra-curricular activities NA
37. Sales to Consular Officials NA
38. Sale of components used in military craft NA
G. Exemptions related to religious entities
39. Sales of religious papers owned by religious entities ........................................ NA
40. Sales by religious entities in fund raising activities ........................................ NA
41. Sales of books recognized as Holy Scripture ................................................ NA

H. Exemptions related to non-farm business
42. Sale to electricity when it is the major input used in manufacturing .................. NA
43. Sale of property manufacturing for export ................................................... $573,644,518
44. Sale of machinery used in manufacturing ...................................................... $123,278,952
45. Sale of raw materials used in manufacturing ................................................ $2,309,672,641
46. Sale of paper stock manufactured for export ................................................ NA
47. Sale of property resulting from business reorganization ................................ NA
48. Sale of vehicles used in interstate commerce ............................................... NA
49. Sale of material handling equipment used in warehouses .............................. NA
50. Sale of machinery for remanufacturing aircraft engines ............................... NA
51. Sale of machinery used to reduce pollution ................................................ $25,234,411
52. Use of cargo containers for international shipping ....................................... NA
53. Sale of fuel and supplies to ships used in commerce ..................................... NA
54. Transportation charges for interstate and intrastate commerce ..................... $438,231,681
55. Gross revenues from coin-operated amusement machines ............................ $2,161,602
56. Compensation allowed to vendors for collecting tax .................................... NA
57. Rental of films when admission is charged ................................................ NA

I. Miscellaneous exemptions
58. Sale of motor vehicles to non-residents that are taken out of state ................ NA
59. Sale of art and artifacts displayed in public museums ................................ NA
60. Excise tax for motor fuel if billed separately ............................................. NA
61. Sale of grass sod made by sod producer .................................................... NA
62. Sale of funeral merchandise when purchased from Georgia Crime Victims Emergency Fund ................................................................. NA

NA: Estimates not attainable
Table 2
Description of Sales Tax Exemptions and Sources of Data Used in Estimation

A. Exemptions for property and services sold primarily to households

1. **Description:** The sale of lottery tickets.
   Estimate: $77,889,066
   Data source: *Georgia County Guide*.

2. **Description:** Charges for rooms and lodging supplied for a continuous period of 90 days or more.
   Estimate: $208,299,387

3. **Description:** The sale of water delivered to customers through water mains, lines, or pipes.
   Estimate: $32,742,537

4. **Description:** Sales of tangible personal property where food stamps or WIC coupons are used as the medium of exchange.
   Estimate: $36,930,316

5. **Description:** Tangible personal property owned by non-domiciled persons which is brought into Georgia as a result of a change in domicile to Georgia.
   Estimate: $163,461,692

6. **Description:** The casual sale of tangible personal property.
   Estimate: NA

7. **Description:** Credit allowances for trade-in of tangible personal property toward the purchase price of other tangible personal property.
   Estimate: $657,722,298
   Data source: *Census of Retail Trade*.

8. **Description:** Sales or charges by counties, municipalities, and public transit authorities for the transportation of passengers. The fare exemption also extends to urban transit systems, except for charter and sightseeing service, which are operated by carriers subject to the jurisdiction of the Georgia Public Service Commission.
   Estimate: $10,381,269
9. **Description:** The sale of vehicles to certain, specified handicapped veterans who receive grants from the Veterans Administration to retrofit the vehicle.
   Estimate: $29,326

10. **Description:** Charges made for long distance telephone service.
    Estimate: $91,950,037

11. **Description:** The sale of food for off-premises human consumption or use of eligible foods and beverages.
    Estimate: $518,463,000
    Data source: Bahl and Hawkins (1997), Table 21.

**B. Exemptions Related to Health Care**

12. **Description:** The sale or use of certain durable medical equipment and prosthetic devices paid for directly by funds of the state or the United States under Medicare or Medicaid.
    Estimate: $4,975,020

13a. **Description:** Sales of prescription drugs, prescription eyeglasses, and contact lenses.

13b. **Description:** Sale of insulin and insulin syringes.

13c. **Description:** Sale of oxygen prescribed by licensed physicians.

13d. **Description:** Sale of hearing aids.
    Estimate for items 13a - 13d: $101,807,433

14. **Description:** Sales to hospital authorities.
    Estimate: $38,982,576

15. **Description:** Sales to non-profit licensed nursing homes or non-profit general hospitals or mental hospitals where the property or services sold is used exclusively in the operation of such home or hospital.
    Estimate: $148,551,520
C. Exemptions related to farming


17a. Description: The sale of machinery and equipment used exclusively for irrigation of farm crops when made to persons engaged primarily in producing farm crops for sale. Authorization: §48-8-3(26) Official Code of Georgia Annotated.

17b. Description: Machinery and equipment used on the farm to produce poultry and eggs or to hatch and breed poultry or to breed livestock. Authorization: §48-8-3(29)(A and B) Official Code of Georgia Annotated.

17c. Description: Machinery and equipment used on the farm to produce, process, or store fluid milk for sale. Authorization: §48-8-3(29)(C) Official Code of Georgia Annotated.

17d. Description: Farm machinery and equipment used to produce livestock for sale. Authorization: §48-8-3(29) Official Code of Georgia Annotated.

17e. Description: Machinery and equipment used by the producer for poultry, eggs, fluid milk or livestock for sale when the equipment is used to harvest farm crops used for feeding purposes. Authorization: §48-8-3(29)(E) Official Code of Georgia Annotated.

17f. Description: Machinery used directly in tilling the soil or in animal husbandry when the machinery is incorporated for the first time into a new farm unit in this state, and machinery bought to replace machinery in an existing farm unit in the state. Authorization: §48-8-3(29)(F-H) Official Code of Georgia Annotated.

17g. Description: The sale of rubber tired farm tractors and attachments sold to persons engaged primarily in producing farm corps for sale if the equipment is used exclusively for tilling, planting, cultivating, and harvesting farm crops; and equipment used exclusively in harvesting farm crops. Authorization: §48-8-3(29)(I) Official Code of Georgia Annotated. Estimate for items 17a-17g: $9,835,214 Data Source: U.S. Statistical Abstract.


21. **Description:** The sale of liquefied petroleum gas or other fuel used to heat structures where poultry is raised.
   Authorization: §48-8-3(49) Official Code of Georgia Annotated.
   Estimate: NA

22. **Description:** The sale of bait to licensed commercial fisherman for crabs.
   Estimate: NA

D. **Exemptions related to education**

23. **Description:** School lunches sold to pupils and employees of public schools.
   Estimate: $6,145,554
   Data source: *U.S. Education Digest, 1995* and *U.S. Statistical Abstract.*

24. **Description:** School lunches sold to pupils and employees of bona fide private schools which have been approved by the commissioner as organizations eligible to receive tax deductible contributions when application for exemption is made to the department and proof of the exemption is established.
   Estimate: $780,110
   Data source: *U.S. Education Digest, 1995* and *U.S. Statistical Abstract.*

25. **Description:** Sales of property and services to be used exclusively for education purposes to bona fide private elementary and secondary schools.
   Estimate: $19,597,237
   Data source: *U.S. Education Digest, 1995* and *U.S. Statistical Abstract.*

26. **Description:** Sales of tangible personal property to the University System of Georgia and its educational units.
   Estimate: $46,546,760
   Data source: *U.S. Education Digest, 1995* and *U.S. Statistical Abstract.*

27. **Description:** Sales of tangible personal property and services to be used exclusively for education purposes to private colleges and universities.
   Estimate: $7,146,900
   Data source: *U.S. Education Digest, 1995.*

28. **Description:** Sales by any parent-teacher organization for extracurricular activities.
   Estimate: NA
E. Exemptions for professional and business services

29. **Description:** Professional, insurance, or personal service transactions and repair work when billed separately.
Estimate: NA

30. **Description:** Fees or charges for services rendered by repair persons where the repair charge is separately billed.
Estimate: $60,583,494
Data source: Census of Service Industries.

F. Exemptions for government agencies and nonprofit organizations

31. **Description:** Sales of tangible personal property to the United States government, the State of Georgia, its counties or municipalities, or any department of such governments
Estimate: $1,480,627,337

32. **Description:** Transactions where tangible personal property is furnished by the United States government, the State of Georgia, its counties or municipalities, or any department of such governments to contractors to install or repair or extend public water, gas, or sewage systems of the governmental entity.
Estimate: $313,220,918

33. **Description:** The sale of tangible personal property and services to non-profit orphans' homes.
Estimate: NA

34. **Description:** Sales to qualified non-profit blood banks.
Estimate: NA

35. **Description:** Sales of tangible personal property and fees and charges for services by the Rock Eagle 4-H Center.
Estimate: NA

36. **Description:** Sales of public and private schools of concessions or tickets for admission to school athletic contests if the net proceeds are used solely to benefit the school or its students.
Estimate: NA

37. **Description:** Sales to Consular Officials based on a Certificate of Diplomatic Exemption.
Estimate: NA
38. **Description:** The sale of major components and repair parts installed in military aircraft, vessels, and missiles.
   Estimate: NA

G. **Exemptions related to religious entities**

39. **Description:** The sale of any religious paper which is owned and operated by religious institutions or denominations and no profit ensues to the benefit of any private person.
   Estimate: NA

40. **Description:** Sales by religious institutions or denominations in fund raising activities where the number of fund raising days does not exceed 30 in any calendar year and the fund raising proceeds are used for certain specified purely charitable and religious purposes.
   Estimate: NA

41. **Description:** The sale or use of Holy Bibles and similar books commonly recognized as being Holy Scripture.
   Estimate: NA

H. **Exemptions related to non-farm business**

42. **Description:** The sale of electricity used in the manufacture of a product if the direct cost of the electricity used in the manufacture exceeds 50% of the cost of all materials, including electricity, used directly in the product. For manufacturers located in the state on or before January 1, 1995, the exemption is phased in 20% increments for 1995 through 1999 and for manufacturers locating in Georgia after January 1, 1995, in 20% increments beginning on January 1 of the year following location in Georgia.
   Estimate: NA

43a. **Description:** The sale of tangible personal property manufactured or assembled in this state for export when delivery is taken outside the state.

43b. **Description:** The sale of aircraft, watercraft, motor vehicles, and other transportation equipment manufactured or assembled in this state for use exclusively outside the state.
   Estimate for items 43a and 43b: $573,644,518.
   Data Source: Census of Manufactures.

44. **Description:** The sale of machinery used directly in the manufacture of tangible personal property when the machinery is bought to replace or upgrade machinery in a manufacturing plant existing in this state or when incorporated for the first time in a new manufacturing plant in this state.
   Estimate: $123,278,952.
   Data source: Census of Manufactures.
45. **Description:** The sale, use, storage or consumption of:

Industrial materials used to process, manufacture, or convert tangible personal property when the materials become a part of the finished product.

Industrial materials coated upon or impregnated into the product at any state of its processing, manufacture, or conversion.

Material, containers, sacks, bags, etc. used to package manufactured property for shipment or sale.

Estimate: $2,309,672,641
Data source: Census of Manufactures.

46. **Description:** The sale, use, storage, or consumption of paper stock manufactured in this state into catalogs which will be delivered and used outside the state.

Estimate: NA

47. **Description:** The sale, transfer, or exchange of property resulting from business reorganization when the owners, partners, or stockholders maintain the same proportionate share in the newly formed business.

Estimate: NA

48. **Description:** The sale of aircraft, watercraft, locomotives and rolling stock and major components thereof which will be used principally in interstate commerce.

Estimate: NA

49. **Description:** The sale of primary material handling equipment used directly in the handling and moving of tangible personal property in a warehouse or distribution facility in this state. This exemption applies only if it is part of an expansion of an existing facility at which expansion is worth $10 million or more or if it is part of the construction of a new facility worth $10 million or more.

Authorization: §48-8-3(34.1) Official Code of Georgia Annotated.
Estimate: NA

50. **Description:** The sale or use of machinery or equipment which is used directly in the remanufacture of aircraft engines or aircraft engine parts in a remanufacturing facility located in this state.

Estimate: NA

51a. **Description:** The sale of machinery and equipment incorporated into a facility which is used primarily to reduce or eliminate air or water pollution.

Authorization: §48-8-3 (36) and §48-3-3 (60) Official Code of Georgia Annotated.

51b. **Description:** The sale of machinery and equipment for use in combating air and water pollution and any industrial materials used up in a recycling or burning process which contribute to pollution problems if not used up.

Estimate for items 51a and 51b: $25,234,411
52. **Description:** The use of cargo containers owned by or leased to persons engaged in international shipment of cargo by ocean going vessels. 
Estimate: NA

53. **Description:** The sale of fuel and supplies for consumption aboard ships plying the high seas in intercoastal trade or foreign commerce. 
Estimate: NA

54. **Description:** Charges made for transporting tangible personal property made in connection with interstate and intrastate transportation of the property. 
Estimate: $438,231,681 
Data source: *Census of Transportation, Communications, and Utilities.*

55. **Description:** The gross revenues from bona fide coin operated amusement machines which are otherwise required to be registered under Chapter 17 of Title 48. 
Estimate: $2,161,602 

56. **Description:** Compensation allowed to vendors for collecting tax. 
Estimate: NA

57. **Description:** The rental of videotape or motion picture film to any person who charges admission fees to view the videotape or film. 
Estimate: NA

I. **Miscellaneous exemptions**

58. **Description:** The sale or use within Georgia of objects of art, and other objects and artifacts which are displayed by museums that are open to the public. 
Estimate: $1,755,074 
Data source: *County Business Patterns of Georgia, 1993 and Current Business Reports - Service Annual Survey, 1993.*

59. **Description:** The sale of motor vehicles to nonresidents for immediate transportation to and use in another state. 
Estimate: NA

60. **Description:** The federal retailers' excise tax if the tax is billed to the consumer separately from the selling price of the product, relating to motor fuel taxes. 
Estimate: NA
61. **Description:** The sale of grass sod of all kinds when the sale is made by the sod producer or family member.
   **Authorization:** §48-8-3(62) Official Code of Georgia Annotated.
   **Estimate:** NA

62. **Description:** The sale of use of funeral merchandise, including burial containers and cemetery markers, when purchased with funds from the Georgia Crime Victims Emergency Fund.
   **Authorization:** §48-8-3(63) Official Code of Georgia Annotated.
   **Estimate:** NA
For an overview of the Georgia sales tax, see Bahl and Hawkins (1997).

Bahl and Hawkins (1997), Table 14.

Official Code of Georgia, §48-8-1.

The loss of revenue from the exemption of services is considered by Bahl and Hawkins (1997).

This argument is presented more fully in Bahl and Hawkins (1997).

REFERENCE


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