



## DEPARTMENT OF AUDITS AND ACCOUNTS

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February 18, 2019

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

SUBJECT: Fiscal Note  
House Bill (LC 43 1176)

Dear Chairman Harrell:

The bill modifies the definition of a “dealer” for the purpose of responsibility of collecting Georgia sales and use taxes. These taxes must be collected by persons or businesses that facilitate or broker the sale of taxable property or services and have economic nexus in the state. Economic nexus is defined as facilitating the sale of more than \$100,000 of tax property or services in the previous or current calendar year. The law would apply to sales occurring on or after January 1, 2020.

### Impact on Revenue

Georgia State University’s Fiscal Research Center (FRC) estimated that the bill would result in additional state revenue of \$78.4 million and local revenue of \$64.5 million in FY 2021, the first full year of the bill’s effect (Table 1). The revenue gains would increase in subsequent years. The attached appendix details the analysis.

**Table 1. Estimated State and Local Revenue Effects**

<i>(\$ millions)</i>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>
State Revenue	\$38.4	\$78.4	\$81.1	\$83.7	\$86.5
Local Revenue	\$28.2	\$64.5	\$66.8	\$68.9	\$71.2

### Impact on State Expenditures

The Department of Revenue (DOR) would require approximately \$1.0 million for ten additional staff. This includes six additional compliance revenue agents (\$463,245), two additional out-of-state auditors (\$281,896), one additional tax attorney (\$178,073), and one audit tax examiner III (\$87,800). These estimates do not include costs to implement HB 61 (2018 Session). The agency has requested funding in FY 2020 for HB 61.

Sincerely,

/s/ Greg S. Griffin

Greg S. Griffin  
State Auditor

/s/ Kelly Farr

Kelly Farr, Director  
Office of Planning and Budget

GSG/KF/mt

## Analysis by Fiscal Research Center

Three significant categories of businesses have been identified as ones affected by the proposed bill, including ride-sharing networks like Uber and Lyft, lodging network services like Airbnb or HomeAway/VRBO that facilitate short-term rentals of private homes, and tangible personal property auction sites like eBay. In addition, online “marketplace” sites like Amazon Marketplace that facilitate sales of goods by third-party sellers would be required to collect and remit sales tax, assuming substantial nexus. However, due to lack of data on the amounts of sales through smaller auction and marketplace sites that are not already being taxed, potential revenue gains from auction and marketplace sites other than eBay are not estimated.

The estimates assume that sales taxes are not currently being collected on ride-sharing network or lodging network sales, or on most auction site sales, as explained in the discussion of eBay below. To the extent that any of these providers or sites are already collecting and remitting sales tax (other than as assumed in the case of eBay), or their customers are paying use tax on their purchases, the bill will have a smaller revenue effect.

### Ride Sharing

The following summarizes the facts and assumptions used in the ride sharing revenue estimates:

- State and local sales tax is applied to the gross payment for service.
- Because data on gross payment for services provided only in Georgia was not available, we estimate the tax base as follows:
  - According to reporting from CNBC and other news outlets, Uber gross bookings were \$11.3 billion globally in Q1 2018 and \$12 billion in Q2 2018.
  - These Q1 and Q2 2018 figures were added together and then doubled to represent a full year of bookings (though bookings likely have grown in the latter two quarters of the year versus the year earlier periods, insufficient data are available to determine whether there is any seasonality in bookings; this approach is less likely to overestimate revenues). The same source estimated 900,000 of Uber’s 3 million worldwide drivers are in the U.S., suggesting approximately 30% of total revenue was likely earned on U.S. rides.
  - This figure is then adjusted further to account for the operations of other ridesharing services, such as Lyft. Uber is estimated to have about a 71 percent market share as of 2018, according to reporting from CNBC.
  - Grossing up for other providers produces an estimated U.S. tax base of \$18 billion for 2018.
  - To determine the amount that is associated with Georgia services, we multiply the figure of \$18 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 \$271 million for Georgia in 2018.
- According to market research firm eMarketer, 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 2023-24. 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 2023-24. Note that these growth rates are based on numbers of users. Though data are insufficient to estimate this, it is also possible that rides purchased by the average user may grow over the periods of the projections, resulting in faster growth of gross bookings and greater revenue than is shown in Table 2.

- For all estimates, the state and average local (3.29 percent) sales tax rate is applied to the forecasted sales tax base, and the estimated revenue is adjusted to reflect the timing of receipts based on the state fiscal calendar.

**Table 2. Estimated State and Local Sales Tax Revenue from Ride-Sharing Services**

(\$ millions)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
State Revenue Gain	\$6.9	\$14.3	\$15.1	\$15.7	\$16.3
Local Revenue Gain	\$6.6	\$11.8	\$12.5	\$13.0	\$13.4

Lodging Network Services

The following summarizes the facts and assumptions used in the lodging network revenue estimates:

- Based on listing information from Airdna.com, an Airbnb data analytics service, Airbnb’s available rooms and nights in Georgia’s major cities are estimated to be about 14.8 thousand units and 1.9 million available room-nights annually as of 2018.
- Based on data also from Airdna, the average occupancy rate for Airbnb listings in major Georgia cities is estimated to be 46 percent and the average price paid for these rooms is \$170 per night in 2018. The average price of a night is expected to grow with inflation, two percent annually.
- As part of their preparation for a possible initial public offering, Airbnb released a report discussing its market share, among other financial and growth metrics. The number of Airbnb room-nights available, calculated above, was divided by this reported market share to estimate the approximate size of the overall alternative accommodations market in Georgia’s major cities. If Airbnb’s market share estimate was inflated, then total room-nights, rental spending, and taxes received would be higher than the estimates presented in Table 3.
- Research firm eMarketer estimates Airbnb’s growth from 2015 to 2016 to have been about 44.4 percent in the U.S., but warns of significant regulatory, safety, and other challenges coming for the company and its industry. The same report projects year-over-year growth rates slowing dramatically to 2.4 percent between 2021 and 2022. These eMarketer forecasted growth rates were used to estimate Airbnb’s room-night rental sales through FY 2024, and its market share projections (from the report mentioned previously) were in turn used to estimate the total industry’s rental sales.

**Table 3. Estimated State and Local Sale Tax Revenue from Lodging Network Services**

<i>(millions except per night prices)</i>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>
Room Night Rentals	2.19	2.21	2.25	2.29	2.35
Per Night Price	\$177	\$180	\$184	\$188	\$191
<b>Rental Spending</b>	<b>\$386.7</b>	<b>\$399.1</b>	<b>\$413.1</b>	<b>\$430.0</b>	<b>\$449.6</b>
State Revenue	\$7.7	\$16.0	\$16.5	\$17.2	\$18.0
Local Revenue	\$5.3	\$13.1	\$13.6	\$14.1	\$14.8

***Auction Sites for Tangible Personal Property***

The following summarizes the facts and assumptions used in the auction site revenue estimates:

- EBay is assumed to dominate the market for merchandise sold through an auction site that would be defined as a facilitator under the proposed legislation, and thus to account for substantially all the potential revenue gains from this market. To the extent there are similar sites that would reach the economic nexus threshold of \$100,000 of sales in Georgia, revenue effects could be larger.
- EBay reports U.S. marketplace sales of \$37.5 billion in gross merchandise value in 2018.
- This amount is shared down to Georgia based on Georgia's share of U.S. households with internet access (about 3 percent as of 2017, according to Census data), resulting in an estimated \$1.14 billion gross merchandise value sold to Georgia purchasers in 2018.
- According to instructions given to sellers by EBay, sellers are responsible for any state or local sales tax that may be due on their sales. However, insufficient data are available from which to estimate EBay marketplace sales on which Georgia taxes are already collected, thus it is assumed that 2.9 percent (Georgia's share of U.S. retail trade as of 2018) of sales to Georgia are made by Georgia sellers and are currently being taxed. This results in an estimate \$1.11 million in 2018 of potentially taxable merchandise sales on EBay that are not currently being taxed.
- EBay's growth has slowed considerably in recent years, and financial news reports suggest analysts expect continued slow growth. Based on these reports, the projections assume an average growth rate of 2.4 percent for all periods.

**Table 4. Estimated State and Local Sales Tax Revenue from Auction Sites**

<i>(\$ millions)</i>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>
EBay Taxable Sales*	\$1,188	\$1,220	\$1,254	\$1,288	\$1,323
State Revenue	\$23.8	\$48.2	\$49.5	\$50.8	\$52.2
Local Revenue	\$16.3	\$39.6	\$40.7	\$41.8	\$42.9

\* Net of Georgia purchases from EBay sellers inside Georgia, which are assumed to be taxed currently.

The totals of estimated state and local revenue effects from Tables 2 through 4 are summed in Table 1.