

# POLICY NOTES

## Property Tax Relief in Georgia: The Local-Option Sales Tax (LOST)

by *Changhoon Jung*

After property taxes, sales taxes are the largest source of local government revenue in the United States. In 1963, only 12 states had authorized one or more levels of local government to utilize sales taxes, but the number gradually increased to 25 by mid-1970, 30 by 1980, and 33 by 1995. The rapid increase of the number of localities adopting the sales tax in the late 1970s and early 1980s reflected a growing resistance to property taxes. By authorizing their local governments to implement the sales tax, state governments sought to provide another revenue source to fund local government services. They also sought to diversify the local revenue base, thereby minimizing the adverse effects of relying heavily on any one tax and making the tax structure more flexible and responsive to changing local economic circumstances, legal challenges, or political actions.

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Authorizing local sales taxes can relieve the property tax burden, directly or indirectly. Some states provide direct relief by mandating that part or all of the sales tax proceeds must be used to reduce the property tax through a limit on either tax rates, assessment increases, or the tax levy or a combination of two or more of these limits. But, even in states that do not require property tax reduction when authorizing local sales taxes, the taxes can give indirect property tax relief by preempting an increase in property tax revenue to finance local services.

The Georgia General Assembly adopted the Local-Option Sales Tax (LOST) Act in 1975. It allows counties, with the approval of voters, to enact a 1 percent general-purpose sales-and-use-tax. Proceeds from the tax are collected by the Georgia Department of Revenue and disbursed to a county and its qualified municipalities as directed in an agreement negotiated by the county government and its cities based on criteria established by general law.

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Since its inception in 1975, the number of counties adopting the tax has gradually increased: 13 of Georgia's 159 counties adopted the tax in 1976. The number rose to 82 counties in 1979, and by January 2000 all but 6 of the state's counties were using the tax. LOST revenue now makes up 7 to 35 percent of general revenues depending on the county—second only to the property tax as a source of local government tax revenue in the state.

LOST was authorized to provide property tax relief, additional revenue, or both to local governments (Durning 1992). To achieve this goal, the LOST Act required that all sales tax revenue collected in the second year of the tax—and all subsequent years—be used to reduce property taxes. LOST revenues can be used to reduce county millage rates across the board on all taxable property within the county, including property within municipalities located in the county. In the case of taxpayers who own property within an incorporated city, their city millage rate can be reduced in equal proportion to the LOST revenue received by the city.

Because the law specified that all LOST revenues were to be used for dollar-for-dollar property tax relief in the second year of collection, a property tax rollback in that year would seem almost certain. However, after the second year, the legislation is "less explicit about the use of LOST revenue for property tax rollbacks," even though it requires "local governments

to show on property tax bills the amount of tax rollback resulting from LOST” (Durning 1992, 6–7). Because the amount of LOST revenue that might be used to reduce property taxes becomes less certain after that second year of collection, it is difficult to determine what the property tax rate would have been in the absence of LOST revenue.

In a recently published study, I examined whether the use of LOST actually brought property tax relief as state policy makers intended it to or whether it simply provided an additional source of revenue to support increased local government spending (Jung 2001). Data used in this research came from the *Report of Local Government Finance* (counties), which has been compiled annually by the Georgia Department of Community Affairs (DCA) since FY 1984. A pooled cross-sectional time-series regression technique was used in the analysis, drawing on data from the 136 counties that consistently submitted financial reports between FY 1984 and FY 1997.

The research suggests that the use of LOST led to property tax relief as well as millage rate reduction. Regression results show that counties collecting the LOST tend to have per capita property taxes that are an average of 12 dollars or 1.8 mills lower than do those counties that do not collect the tax. Whereas an extra dollar of LOST revenue provides about 28 cents in property tax relief, it leads to an increase in total spending of about 48 cents. In sum, the findings illustrate that LOST has partially achieved the objectives of property tax relief, but on balance it is more an augmentation of than an effective substitute for property taxes in Georgia counties.

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## Selected Resources

Durning, Dan. 1992. *Distributing Georgia's General-Purpose Local-Option Sales Tax Revenues: An Examination of the Present Policy and Some Options* (Athens: Carl Vinson Institute of Government, University of Georgia, 1992).

Jung, Changhoon. 2001. Does the Local-Option Sales Tax Provide Property Tax Relief? The Georgia Case. *Public Budgeting & Finance* 21, no. 1 (Spring): 73–86.

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