

Tax Incentive Evaluation: Exemption on the Sale of Lottery Tickets

DOAA summary of report prepared by the University of Georgia's Carl Vinson Institute of Government

BACKGROUND

In 1992, the Lottery for Education Act established the Georgia lottery as a means of increasing state funding for education. In 2022, sales totaled \$5.8 billion with \$1.47 billion going to fund education. Of the 50 states, 45 currently operate a lottery. However, Alabama is one of the five that do not have a lottery, so Georgia benefits from Alabama residents buying tickets. In almost all states, and Georgia, lottery tickets are exempt from sales tax.

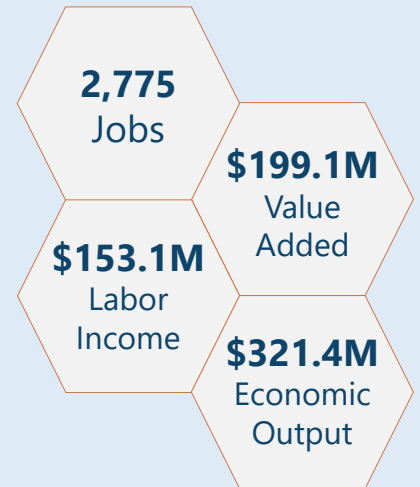
This review was requested by the House Ways and Means Committee and performed in accordance with O.C.G.A. § 28-5-41.1. The University of Georgia's Carl Vinson Institute of Government (the Institute) prepared the report.

ECONOMIC ACTIVITY

The primary purpose of the sales tax exemption does not appear to be an immediate increase in economic activity but instead to provide additional education funds. However, the Institute was able to estimate economic activity associated with lottery ticket sale, including the creation of more than 36,000 jobs.

Ticket sales (and jobs) would exist even without the exemption. If lottery tickets were taxed, the Institute estimated a decrease in sales equal to the tax rate of 7.64%. As a result, the exemption is responsible for that portion of economic activity ($36,549 \text{ jobs} \times 7.64\% = 2,775$)

O.C.G.A. § 28-5-41.1 requires the analysis to include net economic activity, which includes the opportunity cost of the tax expenditure. If taxes on the excluded income had been collected and expended by the state, the Institute estimated the creation of 6,174 jobs and \$306.7 million in value added to the economy.

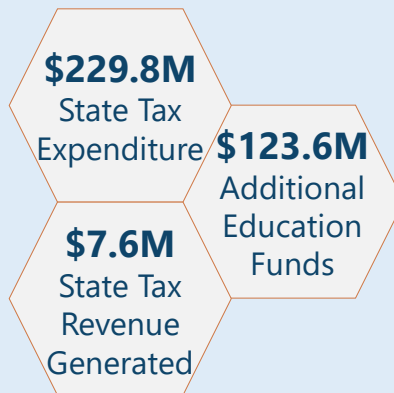


Note: Economic activity attributable to exemption

REVENUE

The exemption is estimated to increase from \$229.8 million in FY 2024 to \$263.1 million in FY 2028. In FY 2024, the increased ticket sales due to the exemption are estimated to result in \$123.6 million in additional education funds and \$7.6 million in tax revenue.

The Institute estimated that the alternate use of the exemption funds would have generated \$243 million in additional tax revenue.



Note: 2024 estimates

COST

The Institute did not note administrative costs associated with the exemption.

PUBLIC BENEFIT

The Institute cited the additional funding for education as the associated public benefit. It also noted that research indicates that lower income consumers are significantly more likely to purchase lottery tickets and that the sales taxes have a greater negative effect on lower income consumers.