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Tax Incentive Evaluation

Georgia's Sales Tax Exemption on Administrative and Support Services

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Executive Summary

This study is a review of Georgia's sales tax exemption on administrative and support services conducted in accordance with the Tax Expenditures Transparency Act of 2024, also known as Senate Bill 366. Georgia's current sales tax provisions apply to "tangible personal property and certain services" but has never included administrative and support services. Consequently, no clear-cut "taxed" v. "tax exempt" periods exist for direct comparison. The research team projected forgone state sales tax revenue attributable to the exemption and compared the estimated ROI of the current tax situation with the counterfactual scenario: what if Georgia collected sales taxes on administrative and support services as defined by NAICS code 561?

NAICS code 561 includes a broad range of administrative and support services, including activities such as office administrative services, facilities support services, employment services, and business support services. Furthermore, specific services like security and investigation, as well as travel arrangements and building cleaning services, fall under this sector. Consequently, the analysis of tax implications must account for these various administrative and support services across the state. The research team indicated a significant variance in how states tax these activities. In general, most states operate on the principle that services are not subject to sales tax unless explicitly specified otherwise. Those states that do tax services within NAICS 561 often focus only on a very limited number of narrowly defined exceptions, such as non-residential cleaning, pest control, specific security services, or certain labor charges that result in tangible personal property.

The estimated Return on Investment (ROI) of Georgia's sales tax exemption on administrative and support services (Table A), ranges from 46% in 2024 to 32% in 2030. ROI declines by approximately 2.3 percentage points per year over this period, indicating that the relative economic benefit of the exemption decreases over time. Intuitively, this result implies that, for every \$1 in tax exempted in 2024, an additional \$1.46 is reinvested into administrative and support services output. The reverse could also be assumed. That is, for every \$1 of tax collected on administrative and support services under a counterfactual scenario, approximately \$1.46 would be subtracted from service output in the state. The ROI of the exemption is calculated based on net forgone sales tax revenue, that is, the total or gross amount of forgone revenue to the state less any additional taxes collected as a result of the exemption.

In the case of the alternate use of forgone revenue, institute researchers modeled two impacts: the impact of the state of Georgia collecting and spending sales tax revenue from administrative and support services and the impact of the reduction in administrative and support services output due to reduced demand for these services as the price of administrative and support

services labor increases. Under the alternate scenario, for every \$1 in sales tax on administrative and supports services collected and spent by the state, \$1.32 in value-added impact accrues to the state's economy.

Table A. ROI of Georgia's Sales Tax Exemption on Administrative and Support Services and Alternate Use of Forgone Revenue, 2024-2030

	2024	2025	2026	2027
Gross Forgone State Rev.	\$1,127,584,000	\$1,191,514,121	\$1,259,068,859	\$1,330,453,717
Net Forgone State Rev.	\$1,069,607,739	\$1,139,340,875	\$1,203,747,255	\$1,274,032,167
Exemption Value-Added	\$1,562,939,237	\$1,639,924,056	\$1,705,384,521	\$1,773,457,952
ROI of Exemption ¹	0.46	0.44	0.42	0.39
Alt. Use Value-Added	\$1,485,168,145	\$1,569,372,052	\$1,658,350,031	\$1,752,372,754
ROI of Alternate Use ²	0.32	0.32	0.32	0.32
	2028	2029	2030	
Gross Forgone State Rev.	\$1,405,885,851	\$1,485,594,726	\$1,569,822,820	
Net Forgone State Rev.	\$1,347,212,135	\$1,424,578,946	\$1,506,371,487	
Exemption Value-Added	\$1,844,248,654	\$1,917,865,094	\$1,994,420,063	
ROI of Exemption ¹	0.37	0.35	0.32	
Alt. Use Value-Added	\$1,851,726,241	\$1,956,712,727	\$2,067,651,585	
ROI of Alternate Use ²	0.32	0.32	0.32	

Source: Institute of Government projections based on Bureau of Economic Analysis (BEA) data and IMPLAN 2023.

1. ROI of the tax exemption is calculated based on Net Forgone State Revenue (e.g. gross forgone revenue less additional state taxes collected).
2. ROI of the alternate use is calculated based on Gross Forgone State Revenue.

Background

Georgia enacted Senate Bill 366 (SB366), which is also known as the Tax Expenditures Transparency Act of 2024. The main intuition was to strengthen the reporting of tax expenditures with a focus on how the state catalogs, analyzes, and publicly reports. The bill requires the calculation of forgone tax revenue and the economic impact of the tax incentive on the state economy, as well as the overall return on investment (ROI) of the credit exemption. This act sets the expectation that sizable or long-standing preferences will be examined for fiscal cost, economic effects, transparency, and policy rationale, and demands assessment of the selected tax preference or exemption's efficiency, impacts, and recommendations for improving the ROI. As no code section is assigned with the exemption of administrative and support services, this study fits directly within this framework's motivation and reviews Georgia's sales tax exemption for these services. This report captures one of the four tax incentive evaluations produced under contract with the Georgia Department of Audits and Accounts by the University of Georgia's Carl Vinson Institute of Government.

HISTORY & PURPOSE

In Georgia, administrative support services are implicitly exempt from state tax. There is no specified date or section of the Georgia code associated with this tax exemption. Consequently, there is also no stated or implied purpose of this sales tax exemption. It is assumed that services are tax-exempt because they are analogous to labor, which is taxed through the state's income tax.

HOW IT WORKS

In Georgia, the economy is continuing to shift toward services. However, most of the services are exempt from state and local sales tax, with only a few exceptions. The state primarily focuses on tangible goods for the sales and use tax. Consequently, large service subsectors generate significant receipts that sit outside current taxation. SB366's regular evaluation of these service exemptions in a timely manner produces a fresh, data-driven look and aids the state's expectation for tax expenditure oversight. The Governor's Office of Planning and Budget's Tax Expenditure Reports provide estimates for services that are implicitly exempt because they are not tangible personal property. Georgia State University's Fiscal Research Center publishes the tax expenditure estimates for many services and has established that the inclusion of the consumption of services could produce a more thorough estimation of total tax expenditure in the state.

Georgia does not explicitly identify administration or business support services as qualifying for taxation at the time of sale. Hence, without having instructions on which specific services within these two categories to consider in this evaluation study, the Institute followed guidance provided by the Department of Accounts and Audit to mirror the annual Georgia Tax

Expenditure Report, which bases the services estimates on NAICS code 561, Administrative and Support Services¹.

According to the definition from Census, the subsector group establishments under NAICS code 561 include industries in activities that support the day-to-day operations of other organizations. The processes employed in this sector are general management, personnel administration, clerical activities, cleaning activities. They are often integral parts of the activities of establishments found in all other sectors of the economy (p. 485)². For example, these establishments support staffing and placements, call centers, document preparation, office administration, janitorial and landscaping, as well as service delivery across the economy, but still their receipts are out of tax scope under Georgia's current base. Using the more detailed 4-digit NAICS codes, there are eight sub-sectors in the group of industries described as administrative and support services under NAICS 561:

- Office Administrative Services (NAICS 5611)
- Facilities Support Services (NAICS 5612)
- Employment Services (NAICS 5613)
- Business Support Services (NAICS 5614)
- Travel Arrangement and Reservation Services (NAICS 5615)
- Investigation and Security Services (NAICS 5616)
- Services to Buildings and Dwellings (NAICS 5617)
- Other Support Services (NAICS 5619)

As Georgia's economy continues to shift toward services, administrative and support service represent a growing share of economic activity that is currently outside the sales and use tax base. Because this sector enables activity in every other industry, any changes to their tax treatment would have largely system-wide implications for businesses, households, and local governments. This study evaluates what would happen if Georgia aligned these services with the general base by removing the exemption and applying the state or local sales tax.

UTILIZATION

Utilization of the sales tax exemption of the administrative and support services sector is difficult to quantify, as all service providers of these sectors in Georgia have access to the exemption by default. These sectors are deeply embedded in Georgia's business operations and public institutions, making them a critical component of the state's production network. These services function as intermediate inputs for most industries in the state. The administrative and

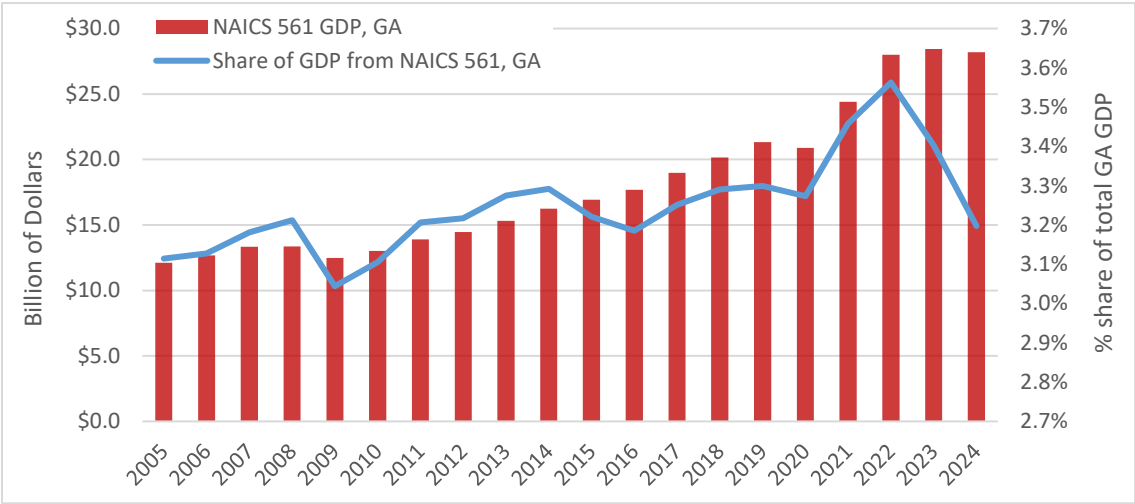
¹ Georgia Tax Expenditure Report for FY 2025, Fiscal Research Center at Georgia State University
<https://opb.georgia.gov/budget-information/budget-documents/tax-expenditure-reports>

² North American Industry Classification System United States, 2022
https://www.census.gov/naics/reference_files_tools/2022_NAICS_Manual.pdf

support services sector is highly labor intensive, with more than 312,565 employed and about \$14 billion in wages (QCEW, 2024). Almost every sector within NAICS 561 experienced substantial increase in wages since 2020, especially travel arrangement and reservation services (NAICS 5615). In 2024, almost half of the NAICS 561 wages in Georgia are found in employment services, a labor-intensive subsector which are largely local and non-exportable.

The estimated value of the administrative and support services industry in Georgia ranged from \$12.1 billion in 2014 to \$28.2 billion in 2024, with the largest spike occurring in 2023 (Figure 1). The share of value produced by these services in Georgia, throughout the time periods shows that, this sector has a significantly increasing rate of contribution towards the total output produced in Georgia, with a little decline in last two years. These data imply that Georgia’s GDP grew faster compared to the administrative support services earned GDP since 2023.

Figure 1. Share of Total Value and Estimated Value of the Administrative and Support Services Industry in Georgia, 2005-2024



Source: Institute of Government calculation based on BEA data.

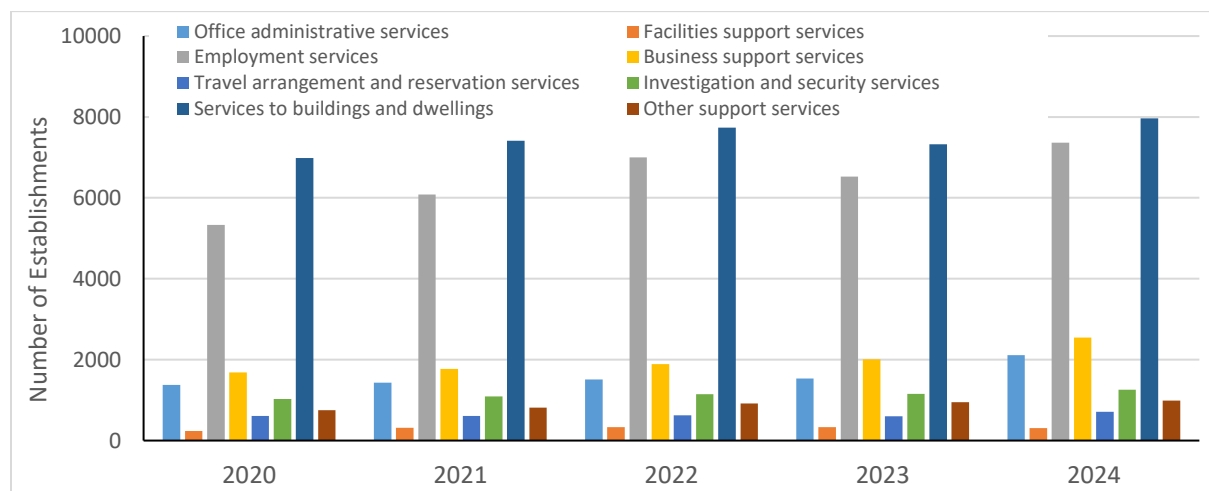
In a more granular way, if sectors within the NAICS 561 are examined individually, a variation in the growth of their number of establishments, wages, and employment from 2020 to 2024 is observed. In speaking with employers across these services in Georgia, researchers find the highest growth of 48% experienced by travel arrangement and reservation services (NAICS 5615) from 2020 to 2024 (QCEW, 2025)³. The second highest employment growth of 30.3% was in NAICS 5619 (other support services), followed by office administrative support services

³ QCEW, BLS. <https://www.bls.gov/cew/data.htm>

(15%, NAICS 5611). Overall, all sectors experienced growth in employment except employment services (NAICS 5613). Appendix A contains detailed information on this data.

Figure 2 shows the number of establishments from all industry sectors which are included within administrative and support services industry in Georgia from 2020 to 2024. Researchers observe that Georgia’s NAICS 561 footprints expansion led by two large industry groups, services to buildings and dwellings (rising to 8,000 establishments in 2024) and employment services (growth to 7,300). Business support services experienced the fastest proportional gain in establishments, and investigation and security services also went up. Overall growth is broad-based, but the sector remains concentrated in building services and staffing. High establishment counts across subsectors indicate many small and mid-sized firms, which reinforces the sector’s role as a widely dispersed service provider rather than a concentrated industry. These imply that changes to the sales tax base could affect a broad range of firms and buyers, not just a small number of large employers.

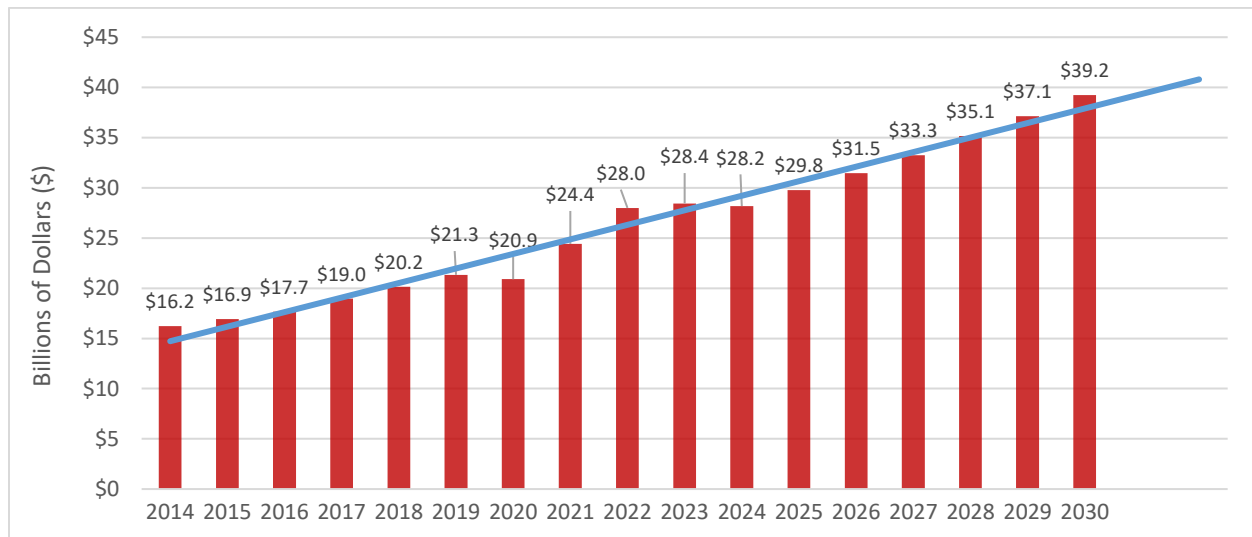
Figure 2. Number of Establishments of Administrative and Support Services Industry in Georgia, 2020-2024



Source: Institute of Government calculation based on Quarterly Census of Employment and Wages (QCEW) data.

Figure 3 shows that, between 2014 and 2030, the estimated values and projections exhibit an increasing trend. Therefore the Institute of Government projected the value until 2030. Figure 3 shows that the values are increasing linearly and this trend is also consistent with the next five years’ projected value of these services, rising approximately \$39.2 billion. Implementing a blanket tax on all administrative and support services would likely result in an extensive impact on Georgia’s service industry from both a cost and a regulatory standpoint. This topic is discussed further in the “Other States” section.

Figure 3. Estimated and Projected Value of the Administrative and Support Services Industry in Georgia, 2014-2030



Source: Institute of Government calculation based on BEA data. *Note – 2025-2030 is an estimate based on year-to-year growth rate.*

OTHER STATES

Table 1 summarizes the scale of administrative and support services activity across the Southeast. The table shows that, in the most recent year, Georgia accounts for almost \$28 billion in revenue, \$17 billion in wages, and approximately 324,500 jobs, which are equal to 11% of regional economic activity in administrative and support service sector. Among the neighboring states, Florida dominates, with about \$63 billion in GDP and \$39 billion in wages, while states such as Arkansas, Mississippi, and West Virginia contribute less than 5% each. Other related Southeast states' economic activities can be found in the Appendix (Figures A1-A3). These regional differences matter for tax policy design, as understanding the size of the sector helps frame the potential mobility of firms and the competitive tax environment. Given Georgia's position as one of the largest administrative and support services markets implies that any modification to the sales tax of NAICS 561 services could have fiscal and competitive effects. Any modest changes in the tax base could generate nontrivial revenue without disproportionately affecting other sectors.

Most states, including Georgia, collect sales taxes only on purchases of tangible personal property and not on services, unless explicitly listed as taxable activities. Only a few states (e.g., Hawaii, New Mexico, South Dakota, and West Virginia) tax all their services by default unless an exemption is provided. States that do not have any form of sales tax include Alaska, Delaware, New Hampshire, and Oregon. All other states' services are generally not taxed by

default, but specific enumerated services may be subject to tax, making the rules highly specific to the exact nature of the service provided⁴.

Table 1. Southeast Regional Economic Activity for Administrative and Support Services, 2024

State	Revenue (\$m)	Revenue Share (%)	Wages (\$m)	Wages Share (%)	Employment Units	Employment Share (%)
Florida	\$63,153	30.17	\$38,544	30.54	231774	33.86
North Carolina	\$28,668	13.7	\$17,313	13.72	78126	11.42
Georgia	\$28,190	13.47	\$17,261	13.68	78212	11.43
Virginia	\$25,176	12.03	\$15,262	12.09	60294	8.81
Tennessee	\$18,584	8.88	\$10,217	8.1	51356	7.5
South Carolina	\$10,489	5.01	\$6,527	5.17	47341	6.92
Kentucky	\$8,242	3.94	\$4,917	3.9	27307	3.99
Louisiana	\$7,825	3.74	\$4,668	3.7	23774	3.47
Alabama	\$7,665	3.66	\$4,699	3.72	37994	5.55
Arkansas	\$5,011	2.39	\$2,910	2.31	16488	2.41
Mississippi	\$3,879	1.85	\$2,293	1.82	15648	2.29
West Virginia	\$2,444	1.17	\$1,586	1.26	16097	2.35

Source: BLS Quarterly Census of Employment and Wages (QCEW) and BEA, 2024.

Institute of Government researchers found no states that levy a blanket sales tax on all administrative and support services, but they identified some states that tax certain narrowly defined support related services. Within NAICS 561, only some categories are taxed, commonly including janitorial, non-residential cleaning, pest control, security or investigation services, credit reporting or debt collection, employment services or staffing, packaging or labeling, and travel agency fees services depending on the state legislation or department of revenue guideline. These services are not uniformly taxed across states, and they remain exempt in Georgia. All states neighboring Georgia, including Alabama, Florida, North Carolina, South Carolina, and Tennessee, have different provisions for applying tax on administrative support services. They mostly follow similar “good-centric” models like Georgia, except Florida and North Carolina.

Florida taxes several services at the state’s 6% rate with the local option (varies by county) up to 2.0% under rule §212.05(1)(i) and §212.05(1)(k)⁵. Florida has a good-centric system, but explicitly taxes on nonresidential cleaning (NAICS 561720) and nonresidential pest control services (NAICS 561710)⁶. Florida also collects taxes from private investigation and security services

⁴ State-by-state guide to charging sales tax on services.

<https://www.avalara.com/us/en/learn/whitepapers/service-taxability-by-state.html>

⁵ The 2025 Florida Statutes. <https://www.leg.state.fl.us/statutes/index.cfm?>

⁶ <https://www.floridasalestax.com/florida-tax-law-blog/2023/december/florida-sales-and-use-tax-for-taxable-services/>.

such as detectives, burglar protection, and other protection services (NAICS 561610 to 561613, and 561620)⁷. North Carolina doesn't broadly tax services, but since 2016, has taxed certain repair, maintenance, and installation (RMI) services to real and tangible property. North Carolina has maintained its exemption on most other services. The taxability of these services broadly depends on whether the services are considered a real property contract or a retail sale. If a service involves creating or manufacturing a product, sales tax may apply.

Tennessee, South Carolina, and Alabama generally do not collect taxes on the broader categories within NAICS 561, except for narrow, enumerated categories. Tennessee taxes only specified services (e.g., telecommunications, certain digital, lodging, lodging services, cleaning, parking and storing, and telecommunication services) at a rate of 7% state sales tax plus an additional local variables rate, while many NAICS 561 categories remain outside the base⁸. Alabama mostly taxes tangible personal property, only taxing specific services including certain repair, installation, dry cleaning, lodging at a 4% state tax rate plus local tax rate. Alabama sometimes treated pest control as a taxable service, but most NAICS categories remain outside the base (employment services, admin support, business support, call center, etc.).

South Carolina provides a tax exemption on services and only certain enumerated services are taxed (e.g., laundry cleaning, electricity communications, accommodations or admissions) under the 6% state service and local taxes. Some activities under NAICS 561, such as employment services, admin support, business support centers, document prep, call centers, credit bureaus or collection, travel agencies, janitorial or landscaping or pest control, and investigation or security, are generally outside the South Carolina sales tax base unless they are bundled with the sale, installation, or repair of tangible property or otherwise captured by a special rule⁹. On the other hand, West Virginia taxes several services categories relevant to NAICS 561, including janitorial services, certain employment placements, collection services, and credit information services, reflecting a comparatively broader base for services.

Economic Impact

This section presents the economic activity attributed to Georgia's sales tax exemption for administrative and support services. The analysis begins with estimates of gross economic activity generated by the sales tax exemption for administrative and support services projected from 2025 to 2030. Next, this section presents calculations of net economic activity generated by

⁷ Florida Sales and Use Tax on Cleaning Services.

https://floridarevenue.com/Forms_library/current/brochure/gt800015.pdf?

⁸ Tennessee Department of Revenue.

https://www.tn.gov/content/dam/tn/revenue/documents/taxpayer_education/sales/services_subject_to_sales_tax.pdf?

⁹ South Carolina Sales and Use Tax.

<https://dor.sc.gov/sites/dor/files/Documents/Policy%20Manuals/SC%20Sales%20Tax%20Manual.pdf?>

the exemption and calculates the return on investment for the exemption. In the following section, these results are compared with the economic activity that would have been generated under an alternate-use scenario in which the state collects sales taxes on administrative and support services and spends that revenue in a manner similar to all other tax revenues. These calculations allow for a direct comparison between the return on investment of the Georgia sales tax exemption for administrative and support services (NAICS code 561) and the counterfactual situation in which the state is assumed to collect sales tax on administrative and support services. For more information on the methodology and IMPLAN, see Appendix B.

GROSS ECONOMIC ACTIVITY

Institute researchers projected administrative and support services output with and without the sales tax exemption from 2025 through 2030 based on the historical trend in service data from the Bureau of Economic Analysis (BEA). Results are displayed in Table 2. Under the current scenario in which the sales tax exemption exists, Institute researchers estimated that administrative and support services generated \$29.79 billion in revenue in 2025, increasing to \$39.25 billion in 2030. Total administrative and support services output with the tax exemption amounted to \$206.06 billion over the six-year period from 2025 to 2030.

To project administrative and support sector output with a sales tax on administrative and support services, projected output under the current “no tax” scenario must be reduced to account for the higher support services costs resulting from imposition of the sales tax. This estimated reduction is accounted for by the application of a price elasticity of demand for services. Price elasticity of demand is a measure of the change in demand for goods or services in response to a change in price. Institute researchers utilized -0.52% for the price elasticity of demand for administrative and support services based on a review of academic literature on the demand for services. For more detailed information on elasticity, see Appendix C. Based on the assumption that a state tax on administrative and support services would be accompanied by a local sales tax as well, a 7.4% (state and local combined) increase in the cost of administrative services would amount to a reduction in the demand for administrative and support services by 3.9% . Under the counterfactual scenario in which these services are taxed, the value of administrative and support services produced in the state would decline to \$28.63 billion in revenue in 2025 and increase to only \$37.71 billion by 2030. The lost output between the current (tax exempt) and counterfactual (taxed) scenarios increases from \$1.16 billion in 2025 to \$1.53 billion by 2030. Over a six-year period, the total reduction in administrative and support services output as a result of a sales tax on administrative and support services would be \$8.04 billion.

Table 2. Projected Administrative and Support Services Output, Modeled With and Without Tax Exemption, 2025-2030

Year	Value of Administrative and Support Services w/Exemption	Value of Administrative and Support Services w/o Exemption	Increase in Value of Administrative and Support Services Due to Exemption	% Change Due to Exemption
2025	\$29,787,853,021	\$28,626,126,754	\$1,161,726,268	3.90%
2026	\$31,476,721,473	\$30,249,129,335	\$1,227,592,137	3.90%
2027	\$33,261,342,936	\$31,964,150,561	\$1,297,192,374	3.90%
2028	\$35,147,146,276	\$33,776,407,572	\$1,370,738,705	3.90%
2029	\$37,139,868,157	\$35,691,413,299	\$1,448,454,858	3.90%
2030	\$39,245,570,490	\$37,714,993,241	\$1,530,577,249	3.90%
Total	\$206,058,502,354	\$198,022,220,762	\$8,036,281,592	3.90%

Source: Institute of Government projections based on BEA data.

The research team also projected forgone state revenue as a percentage of total administrative and support services and modeled the estimated economic impact to the state economy of the sales tax exemption using IMPLAN¹⁰. Results are shown in Table 3. Forgone state revenue ranges from \$1.07 billion in 2024 to \$1.51 billion in 2030. Increased spending on support services as a result of the sales tax exemption on administrative and support services is estimated to add \$1.56 billion in value-added economic activity to the state's economy in 2024, growing to \$1.99 billion by 2030.

The economic ROI of the exemption is calculated as the return to net forgone tax revenue (i.e., gross forgone revenue less additional taxes collected due to an expanded administrative and support services sector) from the value-added impact of the exemption. Projected ROI ranges from 46% in 2024 to 32% in 2030 and averages .39 for the 2024 – 2030 time period. This result means that for each dollar given up in forgone sales tax revenue, \$1.39 in additional economic impact accrues to the state's economy.

¹⁰ IMPLAN® model, 2021 Data, using inputs provided by the user and IMPLAN Group LLC, IMPLAN System (data and software), 16905 Northcross Dr., Suite 120, Huntersville, NC 28078 www.IMPLAN.com

Table 3. Reduction in Economic Impact of Administrative and Support Services Without the Sales Tax Exemption, 2024-2030

	2024	2025	2026	2027
Net Forgone State Rev.	\$1,069,607,739	\$1,139,340,875	\$1,203,747,255	\$1,274,032,167
Exemption Value-Added	\$1,562,939,237	\$1,639,924,056	\$1,705,384,521	\$1,773,457,952
ROI of Exemption¹	0.46	0.44	0.42	0.39

	2028	2029	2030
Net Forgone State Rev.	\$1,347,212,135	\$1,424,578,946	\$1,506,371,487
Exemption Value-Added	\$1,844,248,654	\$1,917,865,094	\$1,994,420,063
ROI of Exemption¹	0.37	0.35	0.32

Source: Institute of Government projections based on BEA data and IMPLAN 2023.

1. ROI of the tax exemption is calculated based on Net Forgone State Revenue (i.e., gross forgone revenue less additional state taxes collected).

Table 4 shows the increase in employment, labor income, value added to the state economy, and administrative and support services output for the sample year 2025. The sales tax exemption for administrative and support services is estimated to support an additional 14,875 administrative and support services related jobs, 2,680 indirect jobs in industries that supply inputs to the administrative and support services sector, and 5,133 induced jobs as workers in those direct and indirect jobs spend their earnings on additional goods and services. Labor income figures in Table 3 represent the additional salary dollars associated with the jobs, while value-added represents the additional value added to the state economy as a result of increased administrative and support activity. Output figures capture the total amount of additional output attributable to the tax exemption.

Table 4. Economic Impact Detail of the Sales Tax Exemption for Administrative and Support Services for 2025

Impact	Employment	Labor Income	Value Added	Output
DIRECT	14,875	\$920,557,551	\$745,236,296	\$1,161,726,267
INDIRECT	2,680	\$186,947,982	\$290,214,473	\$503,484,346
INDUCED	5,133	\$300,691,219	\$604,473,287	\$986,139,037
TOTAL	22,687	\$1,408,196,752	\$1,639,924,056	\$2,651,350,190

Source: Institute of Government projections based on BEA data and IMPLAN 2023.

ALTERNATE USE OF FORGONE REVENUE

As part of this tax incentive evaluation, the research team estimated how much economic activity would be generated if the current exemption for administrative and support services did not exist and a tax on services was collected and spent by the state of Georgia. To compare the ROI of the counterfactual scenario to the current scenario, the research team modeled the economic impact of the alternate use of forgone revenue. The alternate use of forgone revenue assumes that the state collects sales tax on administrative and support services and spends that revenue on goods and services that it typically provides to taxpayers. Forgone revenue is modeled in IMPLAN as the direct output of state spending.

The forgone revenue becomes the direct output of state spending, and IMPLAN traces the effects throughout Georgia's economy via direct, indirect, and induced channels. This method does not evaluate the performance of the NAICS 561 industry itself, but instead estimates the economic benefits that could be realized if the state redirected additional tax revenue into its standard spending mix. The analysis begins with an estimate of the gross forgone revenue for 2025. Based on the taxable base and available state sale tax rates, Georgia would forgo approximately \$1,191,514,121 in potential sales tax revenue if the exemption for NAICS 561 services is maintained. In the alternate-use scenario, this full amount is treated as additional state spending and injected into IMPLAN as direct output. IMPLAN then traces how that spending supports jobs and production directly in government and government funded activities, indirectly through suppliers, and also induced through household spending of wages.

Table 5 displays the economic impact of the state collecting and spending \$1.19 billion in sales taxes collected on administrative and support services in 2025. According to IMPLAN estimates, \$1.19 billion in taxes on administrative and support services would support the equivalent of 19,829 state jobs, 1,648 indirect jobs generated through the supplier network, and 4,583 induced jobs arising from household of labor income. In total, the expanded state spending would support for a total of 26,059 jobs across Georgia. These jobs are concentrated in labor-intensive government and service producing sectors, which reflect the structure of state and local government budgets. State and local government budgets allocate a substantial share toward payroll, education, public safety, health services, and contracted operations. The counterfactual model indicates that for each additional \$1 million in state spending, 17 state jobs are created. Each additional \$1 million in state spending also supports one indirect job and four induced jobs. In other words, each \$1 million of additional state and local government spending financed by taxing NAICS 561 services is associated with about 22 total jobs, combining all effects.

Based on IMPLAN estimates, \$1.19 billion in state spending would add \$1.25 billion in labor income, \$1.57 billion in value-added, and \$2.35 billion in total economic output impact to Georgia's GDP. Comparing value-added to spending implies that each dollar of additional

government spending generates about \$1.32 in Georgia GDP. These results should be interpreted with extreme caution due to the fact that IMPLAN's multiplier-based algorithms simply apply percentages of a state salary budget to all additional state revenues. While in reality, 19,829 state jobs would represent a 30% increase in the size of the state work force the most likely case is that such a tax would result in some marginal expansion of state employment and an additional state budget surplus that would be directed towards other uses. Thus, the correct interpretation should be that the tax would generate sufficient revenue to support the equivalent of 19,829 state jobs. A large percentage of indirect and induced jobs attributed to the increased tax revenue would be offset by job losses attributed to a reduced service sector. An important point to note is that IMPLAN predicts that 14,875 administrative and support services sector jobs (Table 4) would be lost due to a tax on administrative and support services. The net effect of Tables 4 and 5 would amount to a net gain of 1,032 indirect jobs and 570 induced jobs.

Table 5. Economic Impact of \$1.19 Billion in State Taxes on Administrative and Support Services, 2025

IMPACT	EMPLOYMENT	LABOR INCOME	VALUE ADDED	OUTPUT
DIRECT	19,829	\$892,119,929	\$878,039,346	\$1,191,514,121
INDIRECT	1,648	\$99,912,765	\$175,941,263	\$326,337,615
INDUCED	4,583	\$260,268,679	\$515,391,443	\$832,182,540
TOTAL	\$26,059	\$1,252,301,373	\$1,569,372,052	\$2,350,034,276

Source: Institute of Government projections and IMPLAN 2023. Note: Refer to prior paragraph for guidance on interpretation of results in Table 5.

NET ECONOMIC ACTIVITY

Under the counterfactual scenario, state sales tax was calculated on projected administrative and support services. Forgone state revenue is estimated at \$1.19 billion in 2025, increasing to \$1.57 billion in 2030 (Table 6). Over the six-year period from 2025 to 2030, total forgone state revenue amounts to \$9.4 billion. Table 6 also displays the value-added economic impact (GDP) of administrative and support services spending attributable to the exemption, which ranges from \$1.64 billion in 2025 to \$1.99 billion in 2030. The estimated ROI of Georgia's sales tax exemption on administrative and support services (Table 6), ranges from 44% in 2025 to 32% in 2030. In the counterfactual scenario, where the state collects and spends sales tax revenue on administrative and support services, the value-added impact ranges from \$1.56 billion in 2025 to \$2.07 billion in 2030. The ROI of the counterfactual scenario is 32% over the projected time period.

Table 6. Forgone State Revenue Due to the Sales Tax Exemption Administrative and Support Services and Value-Added Economic Impact of Alternate Use Scenario, 2024-2030

	2024	2025	2026	2027
Gross Forgone State Rev.	\$1,127,584,000	\$1,191,514,121	\$1,259,068,859	\$1,330,453,717
Net Forgone State Rev.	\$1,069,607,739	\$1,139,340,875	\$1,203,747,255	\$1,274,032,167
Exemption Value-Added	\$1,562,939,237	\$1,639,924,056	\$1,705,384,521	\$1,773,457,952
ROI of Exemption¹	0.46	0.44	0.42	0.39
Alt. Use Value-Added	\$1,485,168,145	\$1,569,372,052	\$1,658,350,031	\$1,752,372,754
ROI of Alternate Use²	0.32	0.32	0.32	0.32
	2028	2029	2030	
Gross Forgone State Rev.	\$1,405,885,851	\$1,485,594,726	\$1,569,822,820	
Net Forgone State Rev.	\$1,347,212,135	\$1,424,578,946	\$1,506,371,487	
Exemption Value-Added	\$1,844,248,654	\$1,917,865,094	\$1,994,420,063	
ROI of Exemption¹	0.37	0.35	0.32	
Alt. Use Value-Added	\$1,851,726,241	\$1,956,712,727	\$2,067,651,585	
ROI of Alternate Use²	0.32	0.32	0.32	

Source: Institute of Government projections and IMPLAN 2023.

1. ROI of the tax exemption is calculated based on Net Forgone State Revenue (i.e., gross forgone revenue less additional state taxes collected).
2. ROI of the alternate use is calculated based on Gross Forgone State Revenue.

Fiscal Impact

SB366 tax incentive evaluations are required to calculate the fiscal impact of credits and exemptions as well as the economic impact. The fiscal impact of tax exemption sums forgone state revenue, increased state tax collections, and any cost to the state of administering the exemption. Forgone revenue was calculated as 4.0% of taxable administrative and support services. The research team modeled additional state revenue generated by the exemption using IMPLAN. The research team could identify no recent examples of states that have established such a complex tax collection program as would be required to collect sales tax on administrative and support services. However, the cost of hiring and training additional staff, developing new tax forms, and programing software for a collection and auditing program would be substantial.

The difference in state tax between the current (with exemption) and counterfactual (without exemption) scenarios is displayed in Table 7. Increased state tax collections due to the exemption range from \$52 million in 2025 to \$63 million in 2030 for a total increase of \$347 million over the six-year period. The fiscal impact of Georgia's tax exemption for administrative and support services ranges from -\$1.14 billion in 2025 to -\$1.51 billion in 2030. Fiscal impact of

the exemption over the six-year period from 2025 to 2030 totaled to -\$7.89 billion in state revenue.

Table 7. Forgone State Revenue Due to the Sales Tax Exemption on Administrative and Support Services, Increased State Tax Collections Due to the Exemption, and Fiscal Impact of the Exemption, 2025-2030

YEAR	FORGONE STATE REVENUE	INCREASED STATE TAX COLLECTIONS	FISCAL IMPACT
2025	-\$1,191,514,121	\$52,173,245	-\$1,139,340,875
2026	-\$1,259,068,859	\$55,321,604	-\$1,203,747,255
2027	-\$1,330,453,717	\$56,421,550	-\$1,274,032,167
2028	-\$1,405,885,851	\$58,673,716	-\$1,347,212,135
2029	-\$1,485,594,726	\$61,015,781	-\$1,424,578,946
2030	-\$1,569,822,820	\$63,451,333	-\$1,506,371,487
TOTAL	-\$8,242,340,094	\$347,057,228	-\$7,895,282,866

Source: Institute of Government projections and IMPLAN 2023.

Ancillary Impacts

Although the intent of exempting services in general, and administrative and support services in particular, from sales tax in Georgia is not explicitly identified, it is assumed that it is because services are implicitly taxed as labor under the state's income tax. This sales tax exemption for administrative and support services marginally stimulates economic development, and, though overlooked, plays a significant role in shaping business costs and economic activity across Georgia. The exemption of these services functions primarily through its impact on operating costs for both private businesses and public institutions. Administrative and support services require intermediate inputs, especially for cleaning and janitorial services, landscaping, security, document preparation, call centers, credit bureaus, travel arrangements, waste management coordination, employment services, and a broad array of business support activities. As these services are purchased regularly and by every industry, exempting them from sales tax effectively lowers the cost of doing business in Georgia.

This exemption indirectly supports economic development by allowing firms to maintain lower overhead expenses, letting more resources be directed toward expansion, hiring, or investment in core production activities. Building services, employment services, and business support are examples of NAICS 561 subsectors that are highly labor intensive and deeply embedded in the daily functioning of schools, hospitals, manufacturers, local governments, logistics companies, and service-sector employers. Higher operating costs generated by taxing these services would ripple across every sector that relies on regular cleaning, staffing, security, or administrative

support. As a result, imposing a tax on NAICS 561 services could modestly elevate business costs statewide and reduce competitiveness relative to neighboring states that continue to exempt most service purchases.

Adopting a blanket sales tax on administrative and support services in Georgia would broaden Georgia's tax base, but it would also raise the cost of essential recurring services used by both households and firms. The tax impact could vary by subsector. Services such as security, janitorial, landscaping, and staffing are generally price-inelastic in the short-run, meaning consumption would decline only with taxation. However, some subsectors, such as travel arrangement or certain business support firms, may scale back usage or can shift toward in-house labor, automated systems reducing the need for excess personnel, or contract consolidation. Large institutions, such as universities, hospitals, and local governments, would also experience cost increases, which could translate into budget shifts rather than expanded service demand.

Several pros and cons exist in consideration of imposing a tax on administrative and support services. Such a tax has the potential to raise significant amounts of revenue without causing a major contraction in this industry due to the relatively inelastic nature of the demand for services in the service consumption, because much of the sector consists of necessary operating inputs. Taxing administrative and support services would also broaden the sales tax base to match the service-oriented nature of today's economy. On the other hand, the increased cost of administrative and support services would be shouldered by virtually all industries, including small businesses that purchase cleaning, staffing, or administrative support on thin margins. The tax would indirectly increase the cost of commercial operations, institutional budgets, and certain household services. IMPLAN estimates of state spending impacts should be interpreted with caution: the projected increase in state and local government jobs reflects the *budgetary equivalent* of the revenue raised, not the number of workers Georgia is likely to hire in practice.

A key policy consideration is that imposing tax on administrative and support services would distribute costs very differently from taxing goods. Because NAICS 561 services are purchased heavily by service-sector firms, hospitals, schools, and local governments, a new tax would increase operating costs across Georgia's economy, rather than concentrating impact within a sector. Another consideration is volatility. Administrative and support services that are somewhat sensitive to economic cycles such as employment services, travel arrangement, and business support declined sharply during the pandemic though building services (cleaning, landscaping, pest control) remained relatively stable. As a result, revenue generated from taxing NAICS 561 services would be expected to fluctuate with underlying sectoral cyclicalities, exhibiting more pronounced changes during economic downturns.

Overall, while taxing administrative and support services would generate additional revenue and broaden the state's tax base, it would also increase operating costs for firms and public

institutions and could influence demand for certain services. These trade-offs highlight how changes to the tax treatment of NAICS 561 services can have economy-wide implications based on the sector's central role as an intermediate input across industries.

Appendix

A. INFORMATION ON NAICS SECTOR 561 AS DEFINED BY THE US CENSUS BUREAU¹¹

According to Census's North American Industry Classification System, the administrative and support sector comprises establishments primarily engaged in activities that support the day-to-day operations of other organizations. The processes employed in this sector (e.g., general management, personnel administration, clerical activities, cleaning activities) are often integral parts of the activities of establishments found in all sectors of the economy. The establishments classified in this subsector have specialization in one or more of these activities and can, therefore, provide services to clients in a variety of industries and, in some cases, to households. The individual industries of this subsector are defined on the basis of the particular process that they are engaged in and the particular services they provide.

Many of the activities performed in this subsector are ongoing routine support functions that all businesses and organizations must do and that they have traditionally done for themselves. Recent trends, however, are to contract or purchase such services from businesses that specialize in such activities and can, therefore, provide the services more efficiently.

The industries in this subsector cannot be viewed as strictly "support." The travel arrangement and reservation services industry group includes travel agents, tour operators, and providers of other travel arrangement services, such as hotel and restaurant reservations and arranging the purchase of tickets, serving many types of clients, including individual consumers. This group was placed in this subsector because the services are often of the "support" nature (e.g., travel arrangement), and businesses and other organizations increasingly purchase such services.

The administrative and management activities performed by establishments in this sector are typically on a contract or fee basis. These activities may also be performed by establishments that are part of the company or enterprise. However, establishments involved in administering, overseeing, and managing other establishments of the company or enterprise are classified in Sector 55, management of companies and enterprises. Establishments in Sector 55, management of companies and enterprises, normally undertake the strategic and organizational planning and decision-making role of the company or enterprise. Government establishments engaged in

¹¹ <https://www.census.gov/naics/?input=561&year=2017&details=561>

administering, overseeing, and managing governmental programs are classified in Sector 92, public administration.

B. ECONOMIC MODELING USING IMPLAN

Economic impact modeling is a technique used to estimate how a new firm, facility, or policy change will affect a region's economy. Such estimates are often produced using an input-output model that first calculates a baseline forecast of economic activity for the geographic region and then estimates how shocks (inputs) to the economy alter economic activity (output). In this report, Institute of Government researchers estimated the economic impact of a tax on administrative and support services.

Institute researchers use IMPLAN, a widely used county-level economic model of the United States, to estimate the economic impact of the special deduction¹². This model produces a baseline economic forecast using data from the US Census Bureau, the North American Industry Classification System (NAICS), the Bureau of Economic Analysis, and the Bureau of Labor Statistics as well as other data from the US Department of Commerce.

In IMPLAN, an input, or change to the economy, is added to the model. Inputs can be new jobs, labor income, increased demand for goods and services, or policy changes, such as tax deductions. IMPLAN estimates the increase or decrease in economic activity resulting from the change. The economic measures reported by the model include the number of jobs supported, the labor income associated with those jobs, the value added (or lost) to the economy in the geographic region being studied, and the total economic output added (or lost) because of the change. IMPLAN provides estimates of the direct, indirect, and induced effects of an economic event – in this case, the administrative and support services sales tax exemption. Direct, indirect, and induced effects are estimated for employment, labor income, value-added impact, and total output impact.

¹² IMPLAN® model, 2021 Data, using inputs provided by the user and IMPLAN Group LLC, IMPLAN System (data and software), 16905 Northcross Dr., Suite 120, Huntersville, NC 28078 www.IMPLAN.com

C. PRICE ELASTICITY OF DEMAND

The pivotal question in most tax exemption studies is commonly referred to as the “but for” question. It seeks to answer the question, “But for the tax exemption, how would taxpayers behave, and thus, would resultant tax collections be different?” As there doesn’t exist any evidence, in case of taxation on the administrative support services, a question might be asked, similar to giving a counterfactual example, “How would new administrative and support services related taxes might be different if any tax on these services were enacted?”

In the field of economics, this amounts to estimating the price elasticity of demand for administrative and support services. By definition, the price elasticity of demand for any good implies the percentage change in the quantity demanded given a 1% change in its own price. To apply this concept to the case of administrative and support services, it can be said that if the price of administrative labor (services) were to rise by 1% in the absence of sales tax exemption, the demand could be expected to either decrease or stay the same, depending on the buyer’s sensitivity to price (i.e., elasticity). If, due to an increase in price, the demand for these services is responding negatively and is falling, demand for administrative services can be referred to as elastic. If the demand stays at the same level, it would be termed inelastic. So concisely, “but for” is similar to estimating the price elasticity of demand. In this section, researchers explore what would happen if the sales tax were collected *and also define challenges linked to estimating the economic impact of the exemption.*

When considering a tax on administrative and support services, understanding the price elasticity of any service demand is of importance. Researchers hypothesize that a tax on services will raise the overall price of service provided by any business office or facilities. If the cost of necessary services increases, several outcomes are possible. The demand for administrative and support decreases to reach a new equilibrium, and service sizes decrease slightly. With financing, the tax on administrative and support services added to the price of the total services would result in small increases to monthly payments. To the Institute’s researchers’ knowledge there are no direct, publicly available estimates of price elasticity of demand for NAICS 561. So, this study considers elasticity, which is derived or assumed, not empirically published for NAICS 561. To calibrate the behavioral response to a new sales tax on these services, this study therefore relies on estimates from closely related service markets and from a recent state level study of professional services demand.

First, researchers explored Georgia Southern University’s Center for Business Analytics and Economic Research (CBAER) study of the Professional, Scientific, and Technical Services industry (NAICS 54)¹³. That report reviewed empirical elasticities for several service categories,

¹³ McKay, Christian, Cary (2024). Examination of the Sales Tax Exemption on the Professional, Scientific, and Technical Services Industry. Center for Business Analytics and Economic Research (CBAER), Georgia

including computer system design services, veterinary services, and regulatory services affecting consumer markets. For example, the study mentioned an elasticity of -0.74 for the demand for computer accessories, a range from about -0.03 to -0.65 for veterinary services, and a range from -0.64 to -0.74 for regulatory impacts on consumer services. Based on these values, they adopted -0.5 as a representative own-price elasticity for the overall professional services sector¹⁴. Although NAICS 561 differs from professional services, many of its components, such as employment services, travel arrangement, investigation and security, and business support share similar demand features: they are purchased by firms and households as ongoing, often contractual services, but with some room for substitution or deferral when prices rise.

Second, researchers use broader empirical evidence on service sector price elasticities to check that this range is reasonable. A recent survey by Eisenhauer (2022) compiles price elasticities for a variety of service markets, including Airbnb rentals (around -0.48), golf and tourism services (often between -0.7 and -1.7), and some education services. These estimates suggest that short-run elasticities for business and household services generally lie between roughly -0.3 and -0.8 , with more discretionary travel and leisure services at the upper end of that range and more routine, contract-based services (such as cleaning or recurring subscriptions) closer to the lower end¹⁵. A meta-analysis of “own-wage elasticity of labor demand” finds averages around -0.43 , with high heterogeneity. Another study conducted meta-analysis on pesticide demand, and they found the median own-price elasticity ≈ -0.28 (inelastic)¹⁶.

To translate this evidence into a single parameter for NAICS 561 in Georgia, researchers grouped the industry into three broad clusters: (i) building and dwelling services (janitorial, landscaping, pest control), (ii) employment services and staffing, and (iii) other business support and travel-related services. Using BEA and QCEW data, researchers approximated each cluster’s share of Georgia’s NAICS 561 value added, with building services and staffing together accounting for a majority of the sector and more discretionary travel and support services comprising the remainder. Researchers then assigned each cluster an elasticity consistent with the literature above, for example, values in the neighborhood of 0.4 for building services, 0.5 for staffing, and 0.7 for more discretionary business and travel services. Weighting these cluster specific elasticities by their shares in Georgia’s NAICS 561 output produces an

Southern University. <https://scholars.georgiasouthern.edu/en/publications/examination-of-the-sales-tax-exemption-on-the-professional-scient>.

¹⁴ Georgia Audits. <https://www.audits.ga.gov/ReportSearch/download/31984?>

¹⁵ Eisenhauer, Joseph (2022). Price Elasticity, Tax Incidence, and Sales Volume: A Simple Model. JOURNAL FOR ECONOMIC EDUCATORS, 22(2), 2022

¹⁶ Popp, M. How elastic is labor demand? A meta-analysis for the German labor market. *J Labour Market Res* 57, 14 (2023).

overall magnitude a little above one-half; researchers round this to an absolute value of 0.52 and adopt -0.52 as our elasticity for administrative and support services.

In practice, an elasticity of -0.52 means that a 1% increase in the after-tax price of NAICS 561 services is assumed to reduce the quantity demanded by about 0.52%. This elasticity measure shows the sector as inelastic, which is consistent with its role as an intermediate input that firms and institutions cannot easily stop using, but still allows for some behavioral response through reduced use of discretionary services, renegotiation of contracts, or partial substitution to in-house staff or automation.

Using the -0.52 elasticity assumption, the study calculates revenue and demand effects by modelling the price increase induced by a new sales tax incorporating with the existed state sales tax of 4% and then estimating the reduction in quantity demanded of NAICS 561 services. The reduction in quantity is then used to adjust the projected tax base downward, yielding revenue forecasts and informed insights into industry impacts and competitiveness risks.

D. INFORMATION ON NAICS CATEGORY 561

Table A1. Industry Description of NAICS 561

NAICS Code	Sector Name	Description	Key Characteristics
NAICS 561	Administrative and Support Services	Provides support services such as office administration, staffing, security, cleaning, and travel arrangements for other organizations.	<ul style="list-style-type: none"> Services are typically offered on a contract or fee basis. Establishments are specialized in support processes The subsector excludes firms involved in corporate strategic planning or government administration

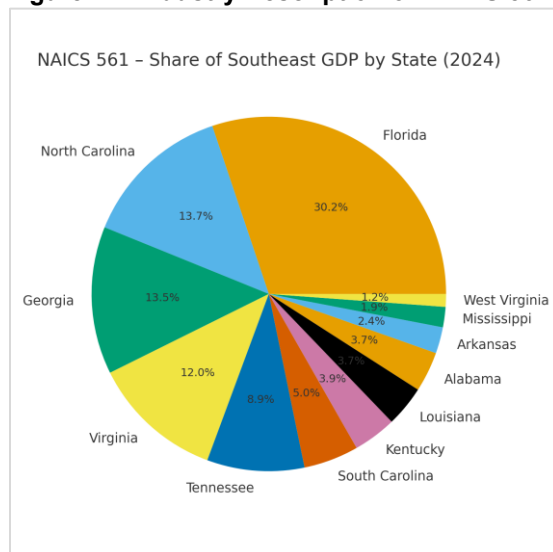
Source: North American Industry Classification System, Census Bureau¹⁷.

Table A2. Employment by Administrative and Support Services Sub-sector in Georgia 2020 – 2024

NAICS	Industry	2020	2021	2022	2023	2024
5611	Office administrative services	14708	15246	16959	16821	16909
5612	Facilities support services	8581	9822	9865	10420	9111
5613	Employment services	156702	174970	179854	162017	142846
5614	Business support services	30857	34002	34147	32813	32617
5615	Travel arrangement and reservation services	4166	4193	5486	6172	6176
5616	Investigation and security services	27325	28274	29645	30880	30909
5617	Services to buildings and dwellings	62730	61551	62376	62677	63985
5619	Other support services	7685	8047	9186	10063	10012

Source: Institute of Government calculation based on QCEW, 2025 data.

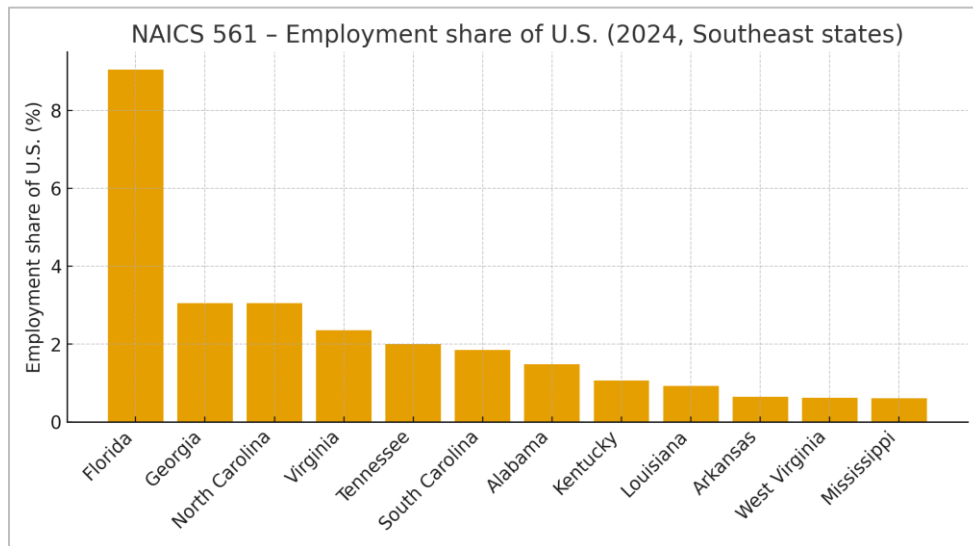
Figure A1. Industry Description of NAICS 561



Source: Institute of Government projections based on QCEW data.

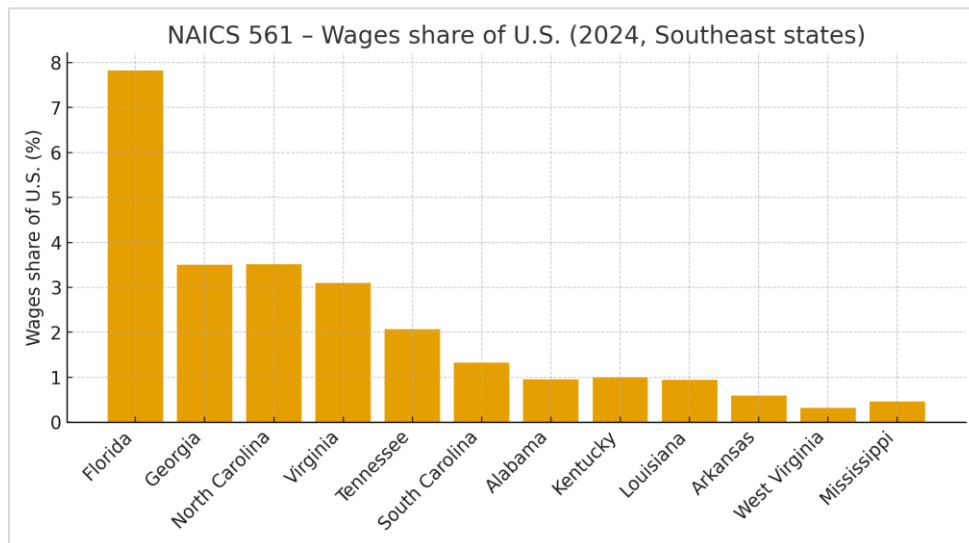
Figure A2. Employment Share of the United States by Southeast States (NAICS 561), 2024

¹⁷ <https://www.census.gov/naics/?input=561&year=2017&details=561>



Source: Institute of Government projections based on QCEW data.

Figure A3. Wages Share of the United States by Southeast States (NAICS 561), 2024



Source: Institute of Government projections based on QCEW data.