

## "FREEPORT" TAX EXEMPTIONS FOR GEORGIA INDUSTRIES

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Originally enacted in 1976 and subsequently amended several times, Georgia's freeport law offers manufacturers, distributors, wholesalers, and warehouse operations an attractive inventory tax exemption.

*Three classes of property are eligible:*

- 1. Manufacturer's raw materials and goods-in-process.** The freeport law defines these as "goods in the process of manufacture or production which shall include all partly finished goods and raw materials held for direct use or consumption in the ordinary course of the taxpayer's manufacturing or production business...." The exemption applies "only to tangible personal property which is substantially modified, altered or changed in the ordinary course of the taxpayer's manufacturing, processing or production operations in this state."
- 2. Finished goods held by the original manufacturer.** These are defined in the law as finished goods manufactured or produced within Georgia "in the ordinary course of the taxpayer's manufacturing or production business when held by the original manufacturer or producer.... The exemption...shall be for a period not exceeding 12 months from the date such property is produced or manufactured."
- 3. Finished goods held by distributors, wholesalers, and manufacturers destined for out-of-state shipment.** The law states that such goods are those "...which, on January 1, are stored in a warehouse, dock or wharf, whether public or private, and which are destined for shipment to a final destination outside this state and inventory of finished goods which are shipped into this state...and stored for transshipment to a final destination outside this state."

The law further defines finished goods as "goods, wares, and merchandise of every character and kind, but shall not include unrecovered, unextracted, or unsevered natural resources, or raw materials, or goods in the process of manufacture or production, *or the stock-in-trade of a retailer.*"

Elsewhere in the law, **stock in trade of a retailer** is defined as "finished goods held by one in the business of making sales of such goods at retail in this state... when such goods are held or stored at a business location from which such retail sales are regularly made. Goods stored in a warehouse, dock, or wharf, including a warehouse or distribution center which is part of or adjoins a place of business from which retail sales are regularly made, shall **not** be considered stock in trade of a retailer to the extent that the taxpayer can establish, through a historical sales or shipment analysis, either of which utilizes information from the preceding calendar year, or other reasonable documented method, the portion or percentage of such goods which is reasonably anticipated to be shipped outside this state for retail purposes."

Thus *warehoused* retail inventory can qualify for freeport tax exemptions.

**Raw materials**, according to the statute, are "any material whether crude or processed that can be converted by manufacture, processing, or combination thereof into a new and useful product, but shall not include unrecovered, unextracted, or unsevered natural resources."

### **Flexibility of Administration**

Georgia's law gives local governing authorities, whether counties or cities, complete control of implementation, inventory categories, and levels of exemption. A voter referendum is required to implement freeport and to establish the one, two, or three categories to be exempted. Local officials may then set the levels of inventory (from 20% to 100%) to be exempted and, if desired, defer or phase in implementation in 20% increments. (Exemption levels may also be reduced, but only following a 10-year process.)

### **Simplicity of Filing and Required Record-keeping**

A 1992 amendment to the freeport law stipulated that the books and records documenting inventory status shall not be required as part of the application for a freeport tax exemption. The 1992 law also stipulated that *historical sales or shipping records are sufficient documentation* for determining inventory status, without a requirement that goods be labeled individually. Further, it is not required that the goods' final destination be known on January 1 in order to qualify for the exemption.

*Source: Georgia Department of Economic Development 2006.*