DEPARTMENT OF AUDITS AND ACCOUNTS

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February 23, 2017

Honorable Jay Powell
Chairman, House Ways and Means
133 Capitol
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
House Bill 237 (LC 33 6887S)

Dear Chairman Powell:

The bill would establish an income tax credit based on the amount taxpayers donate to a Public Education Innovation Fund (PEIF). The credit for individual taxpayers would equal the lesser of the amount donated or $1,000 for single head of household filers, $2,500 for married filing joint filers, and $10,000 for members of a limited liability company or a shareholder in a sub chapter S corporation. For corporate taxpayers, the credit allowed is the lesser of the amount donated or 75 percent of current income tax liability. Credits earned that exceed the taxpayer's income tax liability are not refundable but can be carried forward for up to five years. The aggregate amount of credits allowed will not exceed $15 million per year and the credits will be preapproved on a first-come, first-serve basis. This law will be effective for tax years beginning on or after January 1, 2018.

Impact on State Revenue
Georgia State University's Fiscal Research Center (FRC) estimated that the bill would reduce state revenue by $4.0 million to $6.8 million in FY 2019 (Table 1). The reduction would be $13.5 million to $15.0 million in FY 2022. The assumptions used by FRC are included in the appendix.

Table 1. Estimated State Revenue Effects of HB 237 LC 33 6877S

($ *millions*)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
High Estimate	-	($6.8)	($14.3)	($15.0)	($15.0)
Low Estimate	-	($4.0)	($8.5)	($13.0)	($13.5)

Impact on State Agency Costs
The Department of Revenue (DOR) expects to incur annual and one-time costs associated with the bill. The one-time costs include $43,500 for IT system changes and testing, $8,600 for training, $4,000 for updating forms and documents, and $2,300 for taxpayer outreach. DOR estimated

annual costs of $66,800 (salary and benefits) for an additional employee in the Taxpayer Services Division.

Sincerely,

Greg S. Griffin
State Auditor

Teresa A. MacCartney, Director
Office of Planning and Budget

GSG/TAM/mt

Analysis by the Fiscal Research Center

Pennsylvania established a similar credit program in 2001 for taxpayers who donate to school improvement funds. The credit earned is 75 percent of the donation for one-year donations and 90 percent with a commitment for a two-year donation. This credit has a $30 million aggregate annual cap, has historically reached its annual cap in recent years for which data are available, and is expected to continue to reach the cap each year for the foreseeable future.

Georgia's Qualified Education Tax Credit (QETC) is a dollar-for-dollar or 100 percent tax credit for donations to student scholarship organizations with similar limits for taxpayers, a similar preapproval process, and currently a $58 million annual cap.

The preapproval and utilization history of the QETC, particularly in the initial years it was available, and Pennsylvania's experience with its similar credit provided the basis for the assumptions for the utilization of PEIF credits over the projection period of this fiscal note.

- After implementation, it took the QETC three years to approach its aggregate credit cap and preapproved credits now hit the aggregate cap on an annual basis. The proposed credit program is thus expected to take two years, in the high estimate case, and three years in the low estimate case to reach the aggregate cap.

- Though the QETC preapprovals hit the cap quickly each year now, a portion of preapproved credits each year are not taken on taxpayer returns, in part because of preapproved donors who do not donate the full, preapproved amount. In addition, some portion earned each year cannot be utilized and are carried forward. Thus the actual revenue cost each year has fallen short of the aggregate cap on preapprovals. The following assumptions as to unfunded preapprovals and carryforwards are made for the proposed PEIF credit program:

    - Zero unfunded preapprovals in the high case estimate and 10 percent unfunded preapprovals in the low case estimate.

    - 90 percent of earned credits will be utilized against current tax liability, affecting tax collections at the time of filing, with the remaining 10 percent being utilized on the subsequent year's return.