



DEPARTMENT OF AUDITS AND ACCOUNTS

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November 8, 2016

Honorable Jeff Jones
State Representative
411-F Coverdell Legislative Office Building
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
House Bill (LC 43 0412)

Dear Representative Jones:

The bill would provide an income tax credit to qualified educators for their personal expenditures on books, supplies, equipment, software, and other materials for use in the classroom or instructional setting in a qualified school. The credit would equal 50 percent of the amount of eligible expenditures, subject to a maximum credit of \$250 per year (\$500 of eligible expenses). The credit would be available for qualified expenses incurred over a five-year period, from January 1, 2017 through December 31, 2021. The credit is not refundable, but any credit not utilized in the year earned may be carried forward indefinitely.

As expenditures eligible for the proposed credit may also be eligible for the federal deduction for educator expenses in the calculation of federal adjusted gross income (FAGI), thus already having been excluded from Georgia adjusted gross income (GAGI), the bill also provides for an add-back in calculation of Georgia taxable income for any amounts so deducted on the taxpayer's federal return.

As shown in Table 1, the revenue loss is estimated at \$23.6 million to \$25.6 million in fiscal year 2018, growing slightly in subsequent years. Details of the analysis are provided in the attached appendix.

Table 1. State Revenue Loss from LC 43 0412

(\$ millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
High	\$25.6	\$26.0	\$26.5	\$26.9	\$27.4
Low	\$23.6	\$24.1	\$24.5	\$24.9	\$25.3

The Department of Revenue estimated that the tax credit will result in approximately \$6,000 in costs to update tax returns and other documents, update IT systems, and train staff. However, it expects those costs to be covered by current funding.

Sincerely,



Greg S. Griffin
State Auditor



Teresa A. MacCartney, Director
Office of Planning and Budget

GSG/TAM/mt

Analysis by the Fiscal Research Center

Educators eligible for the proposed credit are kindergarten through grade 12 teachers, instructors, or aides in a qualified school, as defined, for at least 810 hours in the tax year. Qualified schools include public and private schools, and also home study programs meeting the requirements of O.C.G.A. §20-2-690.

Note: The effect of the 810 hour minimum is unclear, but assuming no more than 200 work days per year and 8 hours per day, it would apparently exclude part-time instructors working four hours or fewer per day but may also exclude new teachers in their first school year (i.e., only teaching the fall semester in a given tax year).

Data and assumptions used in estimating the revenue effects of the bill follow, while Tables 2 and 3 summarize the projections:

- According to the Governor's Office of Student Achievement (GOSA), Georgia public schools employed approximately 117,000 full-time teachers and instructional support personnel in the 2015-16 school year. Based on data from the National Center for Education Statistics (NCES), an estimated 13,900 full-time equivalent teachers are employed in Georgia's private primary and secondary schools. The combined figure of 130,800 is projected to grow at the rate of growth of the age 15-19 population from Office of Planning and Budget projections over the 2016-21 period, 0.5 percent per annum.
- NCES reports that approximately 3.4 percent of school-age children nationally were homeschooled as of 2012. No state-level estimates were available. The projections assume a high of 4 percent and a low of 3 percent of Georgia students are homeschooled. They further assume 2.5 students per homeschooling family and one instructor per family.
- The 2011-12 NCES Schools and Staffing Survey (the latest available) indicates that 6.7 percent of educators nationally spend no personal funds on classroom materials or supplies while 15.5 percent spend more than \$500. For those spending more than zero but less than \$500, the average spent was about \$255. This average is assumed to grow at 2 percent per annum and the shares at zero or greater than \$500 spending are assumed to remain constant.
- The National Home Education Research Institute (NHERI) estimates that homeschooling families spend, on average, around \$600 per student on classroom materials, books, supplies, etc., thus homeschool instructors are assumed to all reach the \$500 maximum of spending eligible for the credit.
- Given the average salary of public school teachers in Georgia, \$53,382 in the 2014-15 school year according to the National Education Association, and starting salaries of \$33,000 or more, eligible educators are assumed to have sufficient income tax liability to utilize earned credits in the year earned.
- According to IRS Statistics of Income data, approximately 124,400 Georgia filers took the federal educator expense deduction for tax year 2014, which is limited to \$250 per eligible educator. The average deduction taken was \$254, suggesting that both spouses on at least 2,100

married filer returns claimed the deduction. The combined number, 126,500, is about 97 percent of the total Georgia educators who would be eligible for the proposed credit, but includes school principals and others not eligible for the proposed credit. It is thus assumed that 90 percent of public and private school educators eligible for the credit will need to add \$250 back to their FAGI to arrive at their GAGI, thus increasing their taxable income by that amount. The marginal tax rate on this additional income is assumed to be 6 percent.

- Credits earned in a given tax year are assumed to affect state revenues at the time of filing of returns in the first half of the following calendar year.

Table 2. Projections Summary by School Year

(\$ amts in millions)	SY 2017*	SY 2018	SY 2019	SY 2020	SY 2021	SY 2021
FT Teachers and Instructional Support:						
Public	117,542	118,130	118,721	119,314	119,911	120,510
Private	13,942	14,012	14,082	14,153	14,223	14,294
Total Public & Private	131,485	132,142	132,803	133,467	134,134	134,805
Eligible Spending	\$19.5	\$39.8	\$40.6	\$41.4	\$42.2	\$43.1
Homeschool Instructors:						
High	30,744	30,898	31,052	31,207	31,364	31,250
Low	22,820	22,934	23,049	23,164	23,280	23,397
High Eligible Spending	\$7.7	\$15.4	\$15.5	\$15.6	\$15.7	\$15.8
Low Eligible Spending	\$5.7	\$11.5	\$11.5	\$11.6	\$11.6	\$11.7

* SY 2017 spending is ½ annual amount (amounts beginning Jan. 1, 2017); SY 2022 assumes spending up to limit for credit occurs by Dec. 31, 2021.

Table 3. Projections Summary by Tax Year

(\$ amts in millions)	TY 2017	TY 2018	TY 2019	TY 2020	TY 2021
Total Eligible Spending:					
High	\$54.8	\$55.7	\$56.6	\$57.5	\$58.4
Low	\$50.8	\$51.7	\$52.5	\$53.4	\$54.3
Total Credits Earned:					
High	\$27.4	\$27.8	\$28.3	\$28.7	\$29.2
Low	\$25.4	\$25.8	\$26.3	\$26.7	\$27.2
Amts added back to FAGI	\$29.7	\$29.8	\$30.0	\$30.1	\$30.3
Tax on add-back	\$1.8	\$1.8	\$1.8	\$1.8	\$1.8