DEPARTMENT OF AUDITS AND ACCOUNTS

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January 18, 2017

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

SUBJECT: Fiscal Note
House Bill (LC 34 4996)

Dear Chairman Powell:

The University of Georgia's Carl Vinson Institute of Government (CVIOG) provided the following narrative on revenue impact of the bill:

This legislation provides an income tax credit for certain investments and activities related to revitalization zones. Revitalization zones are defined as specific geographic areas designated by the Commissioners of the Georgia Department of Community Affairs and the Georgia Department of Economic Development to be in need of economic revitalization. The Department of Community Affairs estimates it will approve seven revitalization zones per year. The legislation creates three new income tax credits: certified entity, certified investor, and qualified rehabilitation expenditures.

Certified Entity

The certified entity income tax credit provides a $2,000 per job per year tax credit up to $40,000 for five years for new businesses that locate in a revitalization zone or existing businesses in a revitalization zone that expand their operations. The certified entity credit is targeted toward, but not limited to, businesses in North American Industry Classification (NAICS) groups 31, 44, 45, and 72. NAICS 31 is food and beverage manufacturing, textile and apparel manufacturing, and leather products manufacturing; 44 and 45 are retail trade; and 72 includes accommodations and food service businesses. Certified entities must create and maintain at least two full-time equivalent jobs in a taxable year and must maintain the jobs to continue claiming the tax credit in the following years. It is estimated that four businesses would qualify for the certified entity tax credit per revitalization zone and employ an average of seven FTE.

Certified Investor

The certified investor tax credit provides a credit equal to 50% of the purchase price or $125,000, whichever is less, for acquiring and developing real estate in a revitalization zone. The income tax credit is pro-rated over a five year period. The real estate must have ongoing commercial benefit defined as either having an eligible certified entity business located in the property or other businesses (NAICS 31, 44, 45, 72) to continue to receive the tax credit. It is estimated that three certified investor tax credits would be issued per revitalization zone and that the average purchase price would be $250,000.

Qualified Rehabilitation Expenditure

The qualified rehabilitation expenditure tax credit provides a credit equal to 50% of the qualified expenses associated with the rehabilitation of a certified investor property, not to exceed $75,000. It is estimated that three certified investors per revitalization zone will claim the credit and they will spend $150,000 or more in qualified rehabilitation expenses. The credit is pro-rated over a five-year period.

Fiscal Impacts

The analysis assumes that the legislation will become effective on January 1, 2018 and taxpayers will take the prorated credit beginning with their 2018 income tax return in FY 2019. Based on that assumption, the first fiscal year impacted by the legislation will be FY 2019. Tax credits earned but not taken in any tax year may be carried forward up to ten years. The legislation includes a provision that automatically repeals the Code section on December 31, 2027 unless reauthorized by the General Assembly, meaning that tax credits could be issued through tax year 2027 with a portion utilized through FY 2037. The following table shows the legislation's estimated revenue loss for the five-year period beginning FY 2019:

Table 1: Loss of State Income Tax Revenue

	FY2019	FY2020	FY2021	FY2022	FY2023	Total
Certified Entity	$392,000	$784,000	$1,176,000	$1,568,000	$1,960,000	$5,880,000
Certified Investor	$525,000	$1,050,000	$1,575,000	$2,100,000	$2,625,000	$7,875,000
Qualified Rehab	$315,000	$630,000	$945,000	$1,260,000	$1,575,000	$4,725,000
Total	$1,232,000	$2,464,000	$3,696,000	$4,928,000	$6,160,000	$18,480,000

Department of Revenue Costs

The Department of Revenue (DOR) would incur one-time and ongoing costs associated with implementing the tax credits. DOR estimated one-time costs of $15,180 for adding the credits to the information system, developing an interface with DCA, creating and updating forms, and developing and delivering training. It also estimated the need for two employees in the Taxpayer Services Division responsible for the credits. These employees would have a total annual cost of $82,020.

Sincerely,

Greg S. Griffin

Greg S. Griffin
State Auditor

Teresa A. MacCartney

Teresa A. MacCartney, Director
Office of Planning and Budget

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