DEPARTMENT OF AUDITS AND ACCOUNTS

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February 22, 2017

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

SUBJECT: Fiscal Note
House Bill 265 (LC 34 5101S)

Dear Chairman Powell:

The bill would amend an existing income tax credit program and add a new sales and use tax exemption. The quality jobs income tax credit would allow taxpayers to create subsequent seven-year job creation periods under certain conditions. The bill restricts subsequent rounds of job creation by requiring that each new round be initiated by a qualified investment of at least $2.5 million and the construction or lease of one or more new facilities in the state. These requirements are in addition to the current law requirement of the creation of at least 50 jobs.

In addition, the bill would exempt from state and local sales and use tax the admission fees to certain non-profit art museums, symphonic halls, and theaters. Furthermore, from July 1, 2017 to January 1, 2019, the bill would provide a refund of state and local sales and use taxes paid on tangible personal property used in the renovation or expansion of a non-profit facility containing an art museum, symphonic hall, and theater up to a maximum of $750,000 in exempted state sales and use taxes per facility. The exemptions are effective beginning July 1, 2017. The ticket sales exemption does not expire.

Impact on State Revenue
Georgia State University Fiscal Research Center (FRC) was unable to determine the revenue loss that would result from the new quality jobs tax credit but determined that the state sales and use tax revenue loss would total $1.2 million to $2.3 million in fiscal year 2019, declining to $1.1 million to $2.2 million in fiscal year 2022.

Quality Jobs Tax Credit
FRC anticipates the legislation would result in revenue loss to the state, but it does not have sufficient information to provide a more precise estimate of the effect (Table 1). The estimate is highly dependent on the number of taxpayers qualifying for the credit, which can vary substantially from year to year. While current law enables firms to claim the tax credit for job creation periods

established for separate company units, officials at the GDEcD indicate that most firms do not meet the requirements to benefit from this proposal or are able to claim the credit for an additional job creation period by establishing a separate legal entity. Although not anticipated to occur on a regular basis, FRC expects some taxpayers will benefit from this provision, particularly larger employers with more complex organizational structures which have the potential for relatively large employment gains. The assumptions used by FRC are included in the appendix.

Table 1. Estimated Income Tax Revenue Effect of HB 265 Section 1

($ *millions*)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Modifications to the Quality Jobs Tax credit	Provision results in a loss of revenues – estimate not available at this time				

Sales and Use Tax Exemption
Table 2 summarizes the combined revenue effects of sales and use tax exemptions on ticket sales and art museum, symphonic hall, and theater facility renovations or expansions. In addition to state tax revenue losses, FRC estimated the bill would reduce local tax revenue by $1.3 million to $1.8 million in FY 2018, declining to $1.2 million to $1.7 million in FY 2022. The attached appendix includes details of FRC's analysis.

Table 2. Estimated Sales and Use Revenue Effects of HB 265 Section 2

($ *millions*)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
State Revenue Effects:					
Low	($1.3)	($1.2)	($1.1)	($1.1)	($1.1)
High	($2.4)	($2.3)	($2.1)	($2.2)	($2.2)
Local Revenue Effects:					
Low	($1.5)	($1.3)	($1.2)	($1.2)	($1.2)
High	($1.9)	($1.8)	($1.6)	($1.6)	($1.7)

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, $7,400 for training, $4,500 for updating forms and documents, and $2,300 for taxpayer outreach. DOR estimated annual costs of $133,600 for additional employees.

Sincerely,

Greg S. Griffin

Greg S. Griffin
State Auditor

Teresa A. MacCartney

Teresa A. MacCartney, Director
Office of Planning and Budget

GSG/TAM/mt

Analysis by the Fiscal Research Center

Section 1

- According to information provided by DOR and based on tax returns processed as of December 19, 2016, tax credit claims against the Quality Jobs Tax credit equaled approximately $24 million for tax year 2013 and $33 million for tax year 2014. Based on tax return data for 2015 for returns processed through 2-17-2017, 30 employers claimed the Quality Jobs Tax credit.

- Based on estimates presented in the Georgia Tax Expenditure Report for FY 2018, the value of credits utilized is expected to equal $49 million in FY 2016, $56 million in FY 2017 and $58 million in FY 2018.

- This legislation would apply specifically to taxpayers which already have a presence in Georgia, are involved in moving additional company units or divisions to the state, and which are already earning credits under the Quality Jobs Tax credit.

- Based on employment data from the Georgia Department of Labor, there were 55 employers, out of approximately 350,000, in 2015 with total employees in excess of 500, which increased employment in 2014 by 50 employees over their 2013 levels, and which increased employment in 2015 by more than their 2014 employment gain. The total of these employee gains in 2015 equaled 13,500. At this point, it is not possible to identify which, if any, of these 55 employers claimed the Quality Jobs Tax credit.

- As a point of reference, we provide in Table 3 the revenue effect associated with two hypothetical scenarios. These cases assume that the increase in employment occurs annually for the years between 2017 and 2021 and that taxpayers remain eligible to receive the credit each year for 5 years.

    - Case 1. Additional annual employment claimed under this tax credit per year equals 200 with a credit rate of $2,500 per employee.

    - Case 2. Additional annual employment claimed under this tax credit per year equals 1,000 with a credit rate of $5,000 per employee.

Table 3. Hypothetical example of revenue effect

($ *millions*)	**CY 2018**	**CY 2019**	**CY 2020**	**CY 2021**	**CY 2022**
Qualified Employment/Credit rate per worker = 200/$2,500	$0.5	$1.0	$1.5	$2.0	$2.5
Qualified Employment/Credit rate per worker = 1,000/$5,000	$5.0	$10.0	$15.0	$20.0	$25.0

Section 2

Sales of Admissions

To project ticket sales for FY 2018-22, the average of 2014 and 2015 ticket sales of an arts facility that contains a museum, symphony, and theatre was used to construct a FY 2015 base; growth from FY 2015 through FY 2022 is assumed to be roughly the rate of inflation or 2% per year. Projected ticket sales for each major component of the arts facility is provided in Table 4.

Table 4. Arts Facility with Major Components Ticket Sales

(*$ millions*)	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**
Museum	$5.8	$6.0	$6.1	$6.2	$6.3
Symphony	$16.2	$16.5	$16.8	$17.2	$17.5
Theatre	$3.5	$3.6	$3.7	$3.8	$3.8
Total	$25.6	$26.1	$26.6	$27.1	$27.7

Table 5 presents the projected state (4 percent) and local (4.5 percent) sales tax revenues from ticket sales under current law through FY 2022.

Table 5. Arts Facility with Major Components Current-Law Sales Tax Revenue from Ticket Sales

(*$ millions*)	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**
State	$1.0	$1.0	$1.1	$1.1	$1.1
Local	$1.2	$1.2	$1.2	$1.2	$1.2

Because other facilities in the state may also qualify for the ticket sales tax exemption, a "high" case estimate for eligible ticket sales is presented as well. Based on the language of the bill, only facilities housing both an art museum and a theater/symphony hall, and which are owned or operated by a non-profit, would be eligible. Potentially-qualifying facilities may exist at various private universities in the state, and it is possible that existing theater/symphony halls could add an art museum component in order to qualify in the future. For the high case, the projections above for a single facility are doubled, with local revenues assuming a 3 percent local rate. Resulting high case projections are presented in Table 6.

Table 6. High Case Current-Law Sales Tax Revenue from Ticket Sales

(*$ millions*)	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**
State	$2.0	$2.1	$2.1	$2.2	$2.2
Local	$1.5	$1.6	$1.6	$1.6	$1.7

Theater Renovations

At this time, only one qualifying facility is known to be planning major renovations during the time that the renovation exemption would be available, beginning July 1, 2017 and expiring January 1, 2019. That facility has planned a renovation with an estimated total cost of $33.85 million, of which an estimated $10.6 million would be for taxable materials. These costs, and the associated state and local sales tax revenues under current law are presented in Table 6 below, broken down by state fiscal year assuming the costs are spread evenly over the 18-month window for the exemption.

It is possible, however, that other qualifying facilities may undergo renovation during the window for the exemption. Nevertheless, given construction lead times and the expectation that other projects would likely be on a considerably smaller scale, it is assumed for the high case that no additional projects would qualify in the first six months of the exemption window and, after that, total taxable costs would be half. Local taxes for any additional projects are calculated assuming a 3 percent local tax rate. Table 7 presents the additional estimated costs and revenues included in the high case estimates.

Table 7. Arts Facility with Major Components Construction Costs Summary

($ *thousands*)	**Total Costs**	**Taxable Costs**	**State Taxes**	**Local Taxes**
Major Arts Facility Project - Low Estimate:				
FY 2018	$22,567	$7,067	$283	$318
FY 2019	$11,283	$3,533	$141	$159
Additional Projects for High Estimate:				
FY 2018	$8,463	$2,650	$106	$80
FY 2019	$8,463	$2,650	$106	$80

The results from Tables 5-7 are combined to produce the summary estimates in Table 2.