DEPARTMENT OF AUDITS AND ACCOUNTS

270 Washington St., S.W., Suite 1-156
Atlanta, Georgia 30334-8400

Greg S. Griffin
STATE AUDITOR
(404) 656-2174

March 13, 2017

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

SUBJECT: Fiscal Note
House Bill 265 (LC 34 5180S)

Dear Chairman Powell:

The bill would amend an existing income tax credit program and add two new sales and use tax exemptions. 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. This bill differs from an earlier version (LC 34 5101S) in that this version allows firms to use a lower benchmark from which to measure the increase in qualifying employment.

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. The exemption would be in effect from July 1, 2017 to July 1, 2020. 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.

Impact on State Revenue
Georgia State University's 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 $3.1 million to $4.6 million in fiscal year 2018, declining to $2.9 million to $4.4 million in fiscal year 2020. FRC assumptions are included in the appendix.

Quality Jobs Tax Credit
FRC expects the bill to result in revenue loss to the state but does not have sufficient information to provide a 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. Because current law allows tax credits for job creation periods established for separate company

units, it is assumed that this provision will be most beneficial to firms for which the employment gains qualify but which are unwilling or able to establish a separate legal entity. Based on discussions with Georgia Department of Economic Development officials, FRC determined that most firms do not meet the requirements to benefit from the bill or already claim the credit for an additional job creation periods by establishing a separate legal entity. Although not anticipated to occur regularly, there are expected to be some taxpayers which will benefit from this provision. There is also the potential for these taxpayers to have relatively large employment gains because the provision is likely to be used by larger employers with more complex organizational structures.

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 $3.1 million to $4.6 million in FY 2018, declining to $2.9 million to $4.4 million in FY 2020. Local revenue reductions would be slightly higher in each year. 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**
State Revenue Effects:			
High	($4.6)	($4.5)	($4.4)
Low	($3.1)	($3.0)	($2.9)
Local Revenue Effects:			
High	($5.0)	($4.9)	($4.8)
Low	($3.4)	($3.3)	($3.2)

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 at least 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 350 with a credit rate of $2,500 per employee.
    - Case 2. Additional annual employment claimed under this tax credit per year equals 1,500 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 = 350/$2,500	$0.9	$2.2	$3.1	$3.9	$4.4
Qualified Employment/Credit rate per worker = 1,500/$5,000	$7.5	$18.8	$26.3	$33.8	$37.5

Section 2

Sales of Admissions

To project ticket sales for FY 2018-20, 2015 fine art performance and exhibition ticket sales were estimated based 501(c)(3) tax return data for 2015. The non-profits included were determined to be qualified fine art related non-profit businesses under the terms of the proposed bill. Based on these data, qualified fine arts non-profit businesses in Georgia had annual revenues of approximately $331 million, with between 20 and 30 percent of that estimated to be generated through sales of admissions. Thus, 20 and 30 percent of $331 million, or $66 and $99 million, represent the low and high case base year estimates of ticket sales for 2015.

Ticket sales will also be exempt from all local sales taxes and the effected local tax rate on these sales is estimated to be 4.32 percent based on the location and size of qualifying non-profits. Growth from FY 2015 through FY 2020 is assumed to be roughly the rate of inflation or 2% per year. High and low projected ticket sales, and estimated state and local revenue effects are provided in Table 4.

Table 4. Ticket Sale Revenue for Qualified Fine Art organizations

(*$ millions*)	**FY 2018**	**FY 2019**	**FY 2020**
Ticket Sales – High	$105.4	$107.5	$109.7
State Revenue (4%)	($4.2)	($4.3)	($4.4)
Local Revenue (4.35%)	($4.6)	($4.6)	($4.7)
Ticket Sales - Low	$70.3	$71.7	$73.1
State Revenue (4%)	($2.8)	($2.9)	($2.9)
Local Revenue (4.35%)	($3.0)	($3.1)	($3.2)

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 5 presents the additional estimated costs and revenues included in the high case estimates.

Table 5. 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 4 and 5 are combined to produce the summary estimates in Table 2.