



DEPARTMENT OF AUDITS AND ACCOUNTS

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November 8, 2016

Honorable Jesse Petrea
State Representative
404-D Coverdell Legislative Office Building
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
House Bill (LC 43 0409)

Dear Representative Petrea:

The bill would provide an income tax credit for employers that hire honorably-discharged veterans. The credit amount equals \$2,500 for each newly hired veteran who remains employed in the state on a full time basis (at least 30 hours per week) for at least 40 weeks during a twelve-month period. To qualify for the credit, employers must pay the veteran employees an hourly wage that is at or above the average hourly wage of the county with the lowest average hourly wage in the state.

Employers may only claim the credit once for each veteran hired and the total value of the credit that can be claimed in any year is capped at \$50,000 per employer. Credits may not be claimed for anyone previously employed in a full-time job with the same employer. Credit amounts claimed cannot exceed the taxpayer's tax liability but unused credits may be carried forward for three years. The credits would apply for new hires between January 1, 2018 and December 31, 2020.

Given the 40-week retention requirement and the first eligible hire date, FY 2019 would be the first state fiscal year affected. The full effect would not occur until FY 2020 when the revenue loss would be \$64.4 million to \$96.3 million in 2020 (see **Table 1**). The attached appendix details the analysis.

Table 1. Estimated State Revenue Loss from LC 43 0409

(\$ millions)	FY 2019	FY 2020	FY 2021	FY 2022
High Revenue Loss	\$16.2	\$96.3	\$125.1	\$92.6
Low Revenue Loss	\$10.8	\$64.4	\$83.7	\$61.9

The Department of Revenue estimated that the tax credit will result in approximately \$4,500 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

The following summarizes the facts and assumptions used in the above estimates:

- According to data from the Bureau of Labor Statistics (BLS), the veteran labor force in Georgia was about 384,000 in 2015. The veteran labor force in the state is projected to the 2018-2020 periods based on VA projections of the veteran population in Georgia.
- The unemployment rate for Georgia veterans in 2015 averaged 4.9 percent, compared to 4.6 percent for veterans nationally, 5.8 percent for all Georgians, and 5.3 percent for the nation generally. The national and Georgia overall unemployment rates have since fallen to 4.9 percent and 5.0 percent, respectively, while the national unemployment rate for veterans has fallen to 4.3 percent as of August (no Georgia veterans' unemployment estimate is available for 2016 at this time).
- Based on the June 2016 Federal Reserve Board projections, the national unemployment rate in 2018 is projected at 4.6 percent (median of range) for 2018 and is assumed to rise to 4.7 percent in 2019 and 4.8 percent in 2020. Given the tendency toward significantly lower unemployment rates for veterans, the unemployment rate for Georgia veterans is assumed to be 4.1 percent in 2018, rising gradually to 4.3 percent in 2020. Labor force and unemployment rate projections combine to project the total employed veterans as shown in Table 2.
- As the legislation is written, credit eligibility does not require the employer to hire a currently unemployed veteran or that the job be a newly-created one. New hires eligible for the credit can therefore come from job switchers among currently employed veterans as well as hiring of unemployed veterans. Thus projecting credits requires projecting the gross number of new hires. Assuming a monthly rate of job separations of 3.5 percent of veteran workers, based on the 2015 average monthly separation rate for all workers as reported by BLS, the implied monthly hire rate necessary to reach the projected veteran employment level is calculated to be 3.46 percent in 2018, declining to 3.39 percent in 2020.
- Veterans, in these data, include all who have served on active duty in the armed forces and been discharged from service, excluding only those dishonorably discharged. The data thus include those honorably discharged, those receiving an "other than honorable" or "OTH" discharge, and those receiving a bad conduct discharge. To be credit eligible, veteran hires must have been honorably discharged (line 29 of the bill), but no data are available as to the share of Georgia veterans meeting this requirement. Various press sources indicate that, in 2015, around 9 percent of discharges were not in the honorable category and suggest that this is a historically high level. For purposes of this fiscal note, it is assumed that 95 percent of veterans hired in any period were honorably discharged.
- BLS data indicate that approximately 75 percent of veterans nationally work in the private sector, thus estimated hires are reduced to account for the approximately 25 percent of

veteran hires assumed to fall in the public sector.

- The credit is only available to employers paying veterans an hourly wage at or above the average hourly wage of the county with the lowest average hourly wage in the state. For tax year 2016, according to the Georgia Dept. of Labor, this wage level is equivalent to about \$24,500 annually. According to Census data, the median individual income of veterans living in Georgia was about \$37,700 in 2015 compared to \$26,600 for all age 18 or older Georgians. Among age 16 or older Georgians with year-round full-time jobs in 2015, 22.5 percent earned less than \$25,000, but given the significantly higher median income of veterans, it is assumed that roughly 10 to 15 percent of veteran hires would not meet the wage threshold.
- To qualify, a newly hired veteran must be employed in the state on a full time basis (at least 30 hours per week) for at least 40 weeks during a twelve-month period. Based on new hire retention estimates made from Georgia Department of Labor (GADOL) data, it is assumed that between 45 and 60 percent of veteran hires are retained for at least 40 weeks.
- Credits for any employers are capped at \$50,000 per tax year, or 20 employees at \$2,500 each. Based on GADOL data, it is estimated that between 10 and 15 percent of hires will not be eligible for the credit due to the cap.
- Qualifying hires are further adjusted assuming, based on experience with other new credits for businesses, a credit take-up rate of 50 percent in 2018, rising to 75 percent in 2019 and 100 percent in 2020.
- The estimates assume that all eligible credits earned in each tax year are utilized in that tax year. Additionally, the estimates do not model differential tax years for employers, assuming for simplicity that the tax year corresponds with the calendar year for all taxpayers. To the extent that credits cannot be immediately utilized and are instead carried forward, or to the extent that employers' tax years differ from the calendar year, the revenue impact would be delayed, though not reduced.

Table 2. Details of Estimates

(\$ amounts in millions)		CY 2018	CY 2019	CY 2020	CY 2021
Veteran Labor Force		375,183	371,192	366,533	
Georgia Veterans UR		4.10%	4.20%	4.30%	
Total Employed Veterans		359,801	355,602	350,773	
Implied monthly hire rate		3.46%	3.40%	3.39%	
Gross Monthly Hires		12,445	12,100	11,880	
Honorably Discharged Hires		11,823	11,495	11,286	
Private Sector Monthly Hires		8,867	8,621	8,465	
Monthly Hires Meeting Wage Threshold					
	High	7,980	7,759	7,618	
	Low	7,537	7,328	7,195	
Monthly Hires Retained 10+ Months					
	High	4,788	4,656	4,571	
	Low	3,392	3,298	3,238	
Annual Qualifying Hires (by calendar year meeting retention requirement)*					
	High	14,365	57,060	55,613	41,138
	Low	10,175	40,418	39,392	29,139
Adjusted for Employer Cap					
	High	6,464	38,516	50,051	37,024
	Low	4,324	25,766	33,484	24,768
Adjusted for Take-up Lag					
	High	7,182	42,795	55,613	41,138
	Low	5,087	30,313	39,392	29,139
Credits Earned by Calendar Year					
	High	\$16.2	\$96.3	\$125.1	\$92.6
	Low	\$10.8	\$64.4	\$83.7	\$61.9

*In calendar year 2018, only those hired in the first 3 months could meet the 40-week requirement. CY 2019 and 2020 include hires for 12 months, while CY 2021 includes hires for 9 months.