



## DEPARTMENT OF AUDITS AND ACCOUNTS

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February 24, 2017

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

SUBJECT: Fiscal Note  
House Bill 72 (LC 43 0542S)

Dear Chairman Powell:

The bill would provide a \$2,000 income tax credit for employers hiring disabled veterans or honorably-discharged veterans who have separated from the service within the past 12 months. To qualify for the credit, the newly hired qualifying veteran must remain 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 and must be paid 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. The legislation does not restrict taxpayers from claiming this credit when also claiming the Jobs Tax credit or the Quality Jobs Tax credit.

### **Impact on State Revenue**

Georgia State University's Fiscal Research Center (FRC) estimated that the bill would reduce state revenue by less than \$1 million in FY 2018, growing to a revenue loss of \$33.6 million to \$39.4 million in FY 2021 (Table 1). Given the 40-week retention requirement and the assumptions regarding the take-up rate of the credit, the state fiscal effect is muted in FY 2018 and FY 2019. The loss declines in FY 2022 due to the fact that the credit does not apply to hires made after December 31, 2020. The assumptions used by FRC are included in the appendix.

**Table 1. Estimated State Revenue Loss from HB 72 LC 43 0542S**

<i>(\$ millions)</i>	<b>FY 2018</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>
Upper bound estimate	(\$0.8)	(\$10.1)	(\$33.6)	(\$39.4)	(\$25.9)
Lower bound estimate	(\$0.6)	(\$8.6)	(\$28.6)	(\$33.6)	(\$22.1)

**Impact on State Agency Costs**

The Department of Revenue estimated that the bill would result in one-time costs of approximately \$13,500. Approximately half of the funding would be used for internal training, while the remainder would be used for taxpayer outreach, updating forms, and IT system changes.

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:

- The forecast of veterans living in Georgia over the 2018-2020 period produced by the Veterans Administration is used to construct the initial population of eligible veterans. Data from the Profile of the Military Community show that approximately 143,000 individuals separated voluntarily or retired from the military annually over the 2013-2015 period. Approximately 4.0 percent of the veteran population is expected to reside in Georgia according to Veteran Administration forecasts. Therefore, the estimate assumes a population of approximately 5,700 recently honorably-discharged veterans in calendar year (CY) 2015. Data from the U.S. Bureau of Labor Statistics (BLS) states that approximately 18 percent of veterans have a service-related disability. The estimate assumes a disabled veteran population of approximately 84,000 in Georgia in CY 2015. These initial population figures are forecast to future years using the forecast of the Georgia veteran population produced by the Veteran's Administration.
- According to the BLS, the unemployment rate for disabled veterans was just slightly higher than the national unemployment rate for CY 2015. Using the national unemployment rate forecast for CY 2018-CY 2020 produced by the Congressional Budget Office in January 2017, the national average unemployment rate was adjusted to reflect the unemployment rate of disabled veterans. Over this time period, the average annual national unemployment rate for all workers is forecasted to equal 4.6 percent, while the estimates presented in Table 1 assume an unemployment rate for disabled veterans equal to 4.7 percent. Furthermore, data from the BLS states that the labor force participation rate of disabled veterans in CY 2014 equaled 49 percent. The estimate assumes this participation rate remains constant through CY 2020.
- The estimate makes a further adjustment to account for veterans hired by nonprofit and government employers who are not eligible for the tax credit. Using data from the BLS, it is estimated that 15 percent of workers are hired by either government or nonprofit employers with no tax liability.
- 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. Only individuals hired in January and February of each year will meet this qualification in the same year. Individuals hired in March or later of a calendar year will meet this requirement in the following year. The revenue effect is adjusted to reflect this pattern.
- 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. According to data from the Georgia Dept. of Labor for CY 2015, this wage level is equivalent to about \$25 thousand in annual earnings. Using data from the Internal Revenue Service Statistics of Income, we determined that approximately 15 percent of workers earned less than this amount. The lower bound estimate presented in Table 1 assumes that 85 percent of eligible veterans meet the wage criteria. The upper bound estimate assumes that 100 percent meet the wage criteria.

- 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. Qualifying Veteran Population**

	<b>CY 2018</b>	<b>CY 2019</b>	<b>CY2020</b>
Recently discharged or disabled labor force	45,461	44,977	44,413
Qualifying veterans hires after adjustments:			
Upper Bound	10,379	15,399	20,256
Lower Bound	8,846	13,124	17,264