DEPARTMENT OF AUDITS AND ACCOUNTS

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January 16, 2018

Honorable Karen Bennett
Representative
Coverdell LOB, Suite 507A
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
House Bill 220 (LC 34 5005ER)

Dear Representative Bennett:

The bill would provide employers with a tax credit, the Georgia Veteran's Work Opportunity Tax Credit, for the hiring of new employees from certain target groups of veterans. Target groups fall into three categories: veterans receiving assistance through the supplemental nutrition assistance program (SNAP), unemployed veterans, and veterans with a service-connected disability (SCD). The amount of the credit is based on the wages paid to the qualifying veteran and the veteran's targeted group. The Georgia Department of Labor (GDOL) would certify that a veteran meets the program criteria. No effective date is given in the bill, but July 1, 2018 is assumed for purposes of the fiscal note.

Impact on State Revenue

Georgia State University's Fiscal Research Center (FRC) estimated that the bill would reduce state revenue between $3.2 million and $6.3 million in fiscal year 2019 (table 1). The revenue loss would increase to between $20.2 million and $41.0 million in fiscal year 2023. Key assumptions are noted below and are discussed in greater detail in the attached appendix.

Table 1: State Revenue Loss from HB 134 LC 34 4362ER

($ in Millions)	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023**
High	$6.3	$22.5	$35.9	$40.0	$41.0
Low	$3.2	$11.2	$17.9	$19.8	$20.2

The bill does not state which taxes the credit can be taken against or whether the credits can be carried forward. FRC's analysis assumes the credit can be applied to income tax only, the credit is nonrefundable, and the credits are used in the tax year in which they are earned. In addition, the bill does not preclude employers from hiring multiple qualified workers in a given year, each for a limited time period, so as to maximize their use of the credit. If this were to occur, the revenue loss to the state would be higher. Finally, the analysis assumes that "long-term family assistance" refers to SNAP benefit recipients only. If the term refers to recipients of other types of assistance, state revenue losses may be higher.

Impact on State Expenditures
As shown in Table 2, the Department of Labor (GDOL) and the Department of Revenue (DOR) would have additional responsibilities and costs under the bill.

Table 2: GDOL and DOR Costs

	One-Time Costs	Annual Costs
Georgia Department of Labor		
IT System Enhancement	$116,188	
Program Staff (two positions)		$149,874
IT Staff/Management (increased salaries)		$54,805
Forms/Materials/Marketing		$19,000
Total GDOL Costs	**$116,188**	**$223,679**
Georgia Department of Revenue		
IT System Enhancement	$134,000	
Auditor (one position)	$2,470	$59,631
Tax Examiner 2 (one position)	$1,800	$48,780
Tax Examiner 3 (one position)	$1,800	$63,172
Total DOR Costs	**$140,070**	**$171,583**

- *Department of Labor* – GDOL estimated additional one-time costs of $116,188 and ongoing, annual costs of about $223,679. In year one, the total costs would be approximately $340,000.

  GDOL's one-time costs are for IT design and implementation necessary to certify that veterans meet program requirements. The agency also estimated an ongoing need for two program staff, additional pay for existing IT staff and management, and funding for forms, material, and marketing. These annual personnel costs include salaries and benefits.

- *Department of Revenue* – DOR estimated additional one-time costs of $140,070 and ongoing, annual costs of $171,583. In year one, the total costs would be approximately $312,000.

  DOR anticipated one-time IT costs for defining requirements, design/development, testing, and quality assurance activities. Other one-time costs are associated with equipment for three additional employees needed within the audit and taxpayer services units. The ongoing, annual costs include salaries and benefits for the three new positions.

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 credit earned is based on the qualified first year wages of a new hire who is a member of a target group, as certified by the Georgia Department of Labor. For one target group, long-term family assistance recipients (an undefined term assumed to refer to SNAP recipient veterans), the employer can earn an additional credit based on qualified second-year wages.

Both the credit rate and the maximum qualified wages are dependent on which targeted group the employee falls in. The credit rate applicable to first year wages also depends on the hours worked, with a minimum of 120 hours and a higher credit rate applying for individuals working 400 or more hours for the employer during the year. For veteran SNAP recipients, the credit rate applied to qualified second year wages is 50 percent and does not depend on the number of hours worked. The credit parameters for each target group are detailed in Table 3.

Table 3: Target Groups and Credits

	Max Qualified Wages:		**Credit Rate by Hours Worked:**		
Group	**1st Year**	**2nd Year**	**400+ hrs**	**120-400 hrs**	**<120 hrs**
Veterans receiving SNAP	$10,000	$10,000	Yr 1: 40%	Yr 1: 25%	Yr 1: 0%
			Yr 2: 50%	Yr 2: 50%	Yr 2: 50%
Veterans with a service connected disability	$4,800	$0	40%	25%	0%
Unemployed Veterans	$4,500	$0	40%	25%	0%

To estimate the effect of this legislation on state revenues, we used data from the American Community Survey for 2016 from the U.S Census to determine the size of the overall population of the targeted groups. In addition, we used information from a 2013 Congressional Research Service (CRS) report on the similar federal Work Opportunity Tax Credit to estimate participation rates of the targeted groups. While this credit has existed at the federal level in various forms since 1996, it has historically experienced very low participation rates. Based on the CRS report, the participation rate for all veterans was estimated to be about 0.2%, and from 3% to 4% for individuals receiving TANF or SNAP benefits. Given these findings, it is assumed that between two and four percent of the targeted groups under the proposed bill will be first year participants. Allowing for the likelihood of some employment turnover, 95 percent of the first year veteran SNAP participants are assumed to earn a credit in their second year of employment. The target group populations in 2016 and hypothetical participation estimates for that year (as if the policy had been in effect then) are detailed in Table 4, with the low being based on two percent participation and the high on four percent participation.

The Georgia Department of Labor projects employment growth in Georgia to average 2.2 percent per year over the next five years. Participation estimates through 2023 assume a high annual growth rate of 2.4 percent and a low of 2.0 percent.

Table 4: Target Groups Estimated 2016 Populations and Participation

		Participation Estimates	
Group	**Population**	**Low**	**High**
Veterans receiving SNAP	63,602	1,272	2,544
Veterans with a SCD – Not SNAP	151,207	3,024	6,048
Unemployed Veterans	143,576	2,872	5,743
Total	358,385	7,168	14,335

Based on existing research published in the National Tax Journal, it is assumed that 58 percent of participants work at least 400 hours, 22 percent work between 120 and 400 hours, and 20 percent work less than 120 hours. Allowing for lags resulting from the time that it takes a new hire to work enough hours to earn a maximum credit and when companies file tax returns, one half of calendar year hires are assumed to affect the revenues in the FY beginning July one of that calendar year, with the remaining hires affecting the FY after that. It is assumed that the full amount of the credit earned will be utilized against tax liabilities for the year in which it is earned.

Finally, the legislation does not preclude employers from hiring many different qualified workers in a given year, each for a limited time period, so as to maximize their use of the credit. A study from the General Accounting Office of the federal credit finds no evidence of this behavior, thus this type of churning activity is not assumed in the estimates. However, the legislation provides no preventive measures regarding this practice and if it were to take place, the revenue loss to the state would increase.