# DEPARTMENT OF AUDITS AND ACCOUNTS

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February 28, 2019

Honorable Brett Harrell
Chairman, House Ways and Means
133 Capitol
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
House Bill 333 (LC 43 1143)

Dear Chairman Harrell:

The bill would change the conditions under which state income tax credits can be earned by certain business enterprises for creating new full-time jobs. The bill would allow employers to qualify for the credit if the wages paid to the lowest employee are at 70 percent of the average wage of the county with the lowest average wage in the state. The employer must be located in one of the 40 least economically developed counties, with a population of less than 50,000, and a poverty rate of at least 10 percent. Tier 1 and tier 2 counties ranked above the 40 could earn the credit with a wage threshold of 90 percent of the lowest average wage county. The bill also increases the credit by $500 in these counties. The bill becomes effective on July 1, 2019 and would be applicable to taxable years beginning on or after January 1, 2020.

**Impact on State Revenue**
Georgia State University's Fiscal Research Center (FRC) estimated that the bill would decrease state revenue by $2.8 million in FY 2020, with the loss growing to $33.6 million in FY 2024 (Table 1). The attached appendix details the analysis.

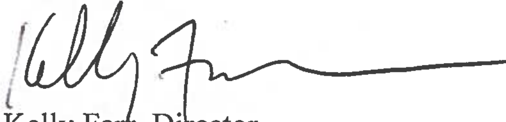
**Table 1. Estimated State Revenue Effects of HB 333 LC 43 1143**

| ($ *millions*) | FY 2020 | FY 2021 | FY 2022 | FY 2023 | FY 2024 |
|---|---|---|---|---|---|
| **State Revenue Effect** | ($2.8) | ($9.8) | ($17.3) | ($25.2) | ($33.6) |

**Impact on State Expenditures**
The Department of Revenue would require an estimated $71,000 annually for one auditor position and a one-time expenditure of $38,000 for changes to its information technology systems.

Sincerely,

Greg S. Griffin
State Auditor



Kelly Farr, Director
Office of Planning and Budget

GSG/KF/mt

## Analysis by the Fiscal Research Center

The analysis of this legislation necessitates the use of data from the Georgia Department of Labor. Specifically, using administrative data files from the Georgia Unemployment Insurance (UI) program, we are able to construct a database of all employers and all employees in the state covered by the UI program for the years 2016 and 2017. Using this database, we identify the employers and employees likely impacted by this legislation. The following steps outline our estimation procedure.

Step 1. To identify the eligible counties, we use county ranking data from the Georgia Department of Community Affairs (DCA).

- Annually DCA ranks the counties in the state from least economically developed to most economically developed. Counties ranked from 1 to 71 are classified as tier 1 counties and counties ranked from 72 to 106 are classified as tier 2 counties.
- In addition, we obtained the 2017 U.S. Census Bureau figures for county population and poverty rates.
- Using this information, we identify 37 counties out of the possible 40 least developed counties that fit the population and poverty rate criteria. These counties meet the criteria for the 70 percent wage threshold. Furthermore, we identify 57 counties out of the possible 67 remaining tier 1 or tier 2 counties that meet the criteria for the 90 percent wage threshold.

Step 2. To identify the eligible employers, we aggregate the quarterly files UI for 2016 and 2017 to construct an annual database of employers across the state by county and industry code.

- This results in an annual file for each year of about 300,000 establishments across the state.
- In general, the following industries qualify for the tax credit: broadcasting, manufacturing, warehousing and distribution, processing, telecommunications, tourism, research and development industries, biomedical manufacturing, and services for the elderly and disabled.
- Using the North American Industry Code (NAICs) information provided on the UI file, we limit the population of potential employers to include only those operating in a qualifying industry.
- Under current law, employment in any industry qualifies if the firm is operating in one of the 40 least developed counties. Thus, all employers operating in a county ranked from 1 to 40 were included.
- Lastly, we merge these annual files to identify those employers operating in the eligible industries and which increased employment by the required amount for that tier. Under both current law and the proposed legislation, employers operating in tier 1 counties (including those ranked as the least 40) must increase employment by at least two jobs to qualify for the credit. Similarly, employers operating in tier 2 counties must increase employment by at least 10 jobs.
- This results in a database of the change in employment by employer across counties and industries in the state. This information is combined with information regarding eligible counties for the lower wage thresholds to determine the set of employers which may have met the criteria in the proposed legislation in 2017.

- From this procedure we identify 414 employers located in one of the 40 least-developed counties with a population of less than 50,000, a poverty rate of greater than 10 percent, and which have increased employment between 2016 and 2017 by at least two jobs.
- We also identify 158 employers in the remaining qualifying tier 1 counties which ranked above the least 40 and which operate in qualifying industries, and which have increased employment by at least two jobs.
- Lastly, we identify 29 qualifying employers operating in qualifying tier 2 counties which increased employment by at least 10 jobs.

Step 3. To identify the workers who may have been eligible for this credit if it had been in effect in 2017, we again use the UI data to create a database of annual wages paid by all employers in the state by employee. We then identify the individuals who changed their employment situations between 2016 and 2017. This produces a population of new hires for 2017. This population of new hires is then merged to the existing list of potential employers described in Step 2. This produces a potential affected population of new employees working for employers in qualifying industries in qualifying counties.

The proposed legislation allows employers in the least 40$^{th}$ counties meeting the other qualifications of poverty and population to offer a wage of at least 70 percent of the average wage of the county which offers the lowest average wage in the state. According to the Georgia Department of Labor 2017 Employment and Averages Report, this is Glascock County with an average weekly wage equal to $484. This equates to an annual wage of $25,168. Seventy percent of this amount equals $17,618 annually and reflects an hourly rate of $9.68, assuming a 35-hour work week and a 52-week year. Thus, individuals earning between $17,618 and $25,168 and working for the employers identified above represent the additional workers that would have been eligible for the credit if it had been in effect for 2017 but would not have qualified for the credit under current law.

Step 4. To produce the number of workers affected by this provision, we merge the list of possible employers with the population of employees making between $17,618 and $25,168. We identify 1,084 individuals eligible for the 70 percent wage exception, representing 7 percent of the total new employment of the potential employers. We also identify 354 employees eligible for the 90 percent exception, representing 3 percent of the total new employment from the potential 90 percent employers. Fifty-six percent or 199 of the 354 employees where located in tier 1 counties.

Step 5. The resulting employment totals by tier are multiplied by the credit amount appropriate to that tier plus $500. This results in a total revenue effect of approximately $5.5 based on 2017 data and employment patterns. We adjust this figure to future years according to the February Economic Forecasting Center projections in employment. In addition, we adjust the figure to account for behavioral effects of this legislation. Passage of this legislation will create an incentive by which employers may be expected to increase the wages offered to employees just below the 70 percent and 90 percent threshold in order to qualify for the credit. Once earned, the JTC may be taken each year for five years. Therefore, the revenue loss accumulates over time at a rate that exceeds the underlying growth in employment. Lastly, the estimate assumes that all of the newly generated credits will be used in the year generated. Under current law, unused JTC can be taken against withholding. Based on our data, 92 percent of the credits generated will be associated with employment in tier 1 counties.