DEPARTMENT OF AUDITS AND ACCOUNTS

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March 4, 2019

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

SUBJECT: Fiscal Note
House Bill 355 (LC 43 1144)

Dear Chairman Harrell:

The bill establishes the conditions under which state income tax credits can be earned by employers for establishing or relocating quality jobs to the state. Under current law, the employment threshold for the credit is 50 quality jobs, regardless of the county where the jobs are located. The bill would allow employers to qualify for the credit by creating five quality jobs in a single tier 1 county or 10 quality jobs with a single tier 2 county, provided the jobs are created within one year of the first date on which the taxpayer withholds wages for employees in the state. Quality jobs must also be located in counties with a population of less than 50,000, and a poverty rate of at least 10 percent. 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 $2.5 million in FY 2020, with the loss growing to $29.9 million in FY 2024 (Table 1). The attached appendix details the analysis.

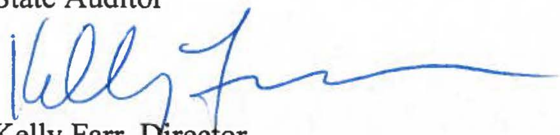
Table 1. Estimated State Revenue Effects of HB 355 LC 43 1144

($ *millions*)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
State Revenue Effect	($2.5)	(8.8)	(15.4)	(22.4)	(29.9)

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

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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 95 counties which meet the conditions of being a tier 1 or tier 2 county with a population of less than 50,000 and a poverty rate of more than 10 percent. Of the 95, 65 were classified as tier 1 counties.

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.
- We merge these annual files to identify those employers which increased employment by the required amount for the tier in which the establishment is located.
- This results in a database of the change in employment by employer across counties in the state. This information is combined with information regarding eligible tier 1 and tier 2 counties to determine the set of employers which may have met the criteria in the proposed legislation in 2017.
- From this procedure we identify 523 employers located in tier 1 counties and 88 in tier 2 counties.

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 counties.

The proposed legislation allows employers in tier 1 and tier 2 counties to qualify for the QJTC by meeting a lower employment threshold of new hires than is allowed under current law. Employers operating facilities in counties with tier 1 qualifying counties would need to hire at least 5 employees and employers in tier 2 qualifying counties must hire at least 10 employees.

The value of the credit earned is not modified by this legislation. Under current law, firms that meet the employment threshold receive a credit based on the wage paid relative to the average wage paid in the county in which the facility is located. Jobs which pay between 110 percent and 120 percent of the current average county wage are eligible for a credit equal to $2,500. Jobs which

pay between 120 percent and 150 percent are eligible for a $3,000 credit. Jobs which pay between 150 percent and 175 percent are eligible for a $4,000 credit. Jobs which pay between 175 percent and 200 percent are eligible for a $4,500 credit. Jobs which pay 200 percent or more are eligible for a $5,000 credit.

Step 4. To produce the number of workers affected by this provision, we merge the list of possible employers with the population of new employees hired in 2017 by the qualifying employers and based on the employee wage rate for 2017, we compute the value of the credit generated. Tables 2 and 3 summarize the results.

Table 2. Qualifying employees by county tier, 2017

	Number of qualifying employees
Tier 1 counties meeting poverty and population conditions	1,956
Tier 2 counties meeting poverty and population conditions	439

Table 3. Qualifying employees and value of credits generated by wage level, 2017

	Number of qualifying employees	Value of Credit per Employee	Total
$2,500 Credit Wage	396	$2,500	$990,000
$3,000 Credit Wage	863	$3,000	$2,589,000
$4,000 Credit Wage	366	$4,000	$1,464,000
$4,500 Credit Wage	270	$4,500	$1,215,000
$5,000 Credit Wage	500	$5,000	$2,500,000
Total	2,395		$8,758,000

Step 5. Before completing the estimate, the figures above must be adjusted to account for the overlap in credit structures between the current law Job Tax Credit (JTC) and the proposed QJTC. For instance, a firm located in a county ranked as one of the least 40th developed counties could qualify for the JTC or the proposed QJTC. If the wages paid by the firm were less than 150 percent of the average paid in that county, but at or above the average wage paid in the county with the lowest average wage, the firm would qualify for a $3,500 JTC credit. Depending on the wage paid to the employee relative to the average wage paid in the county, the firm may also qualify for a QJTC of between $3,000 and $0. We assume the firm will choose the credit structure that maximizes the value of the credit earned. In this example, the firm would choose the JTC and there would be no revenue loss from this proposal.

On the other hand, if the firm paid a wage in excess of 150 percent of the average wage in the county, it could qualify for a credit of between $4,000 and $5,000. In this case, the proposal would generate a revenue loss of between $500 and $1,500 related to that job.

To account for this interaction across all potentially affected employees, we compute the JTC available to the qualifying employees from Table 3 and assign to each one the greater of the earned JTC and QJTC. We then compute the marginal revenue effect associated with each to determine the composite revenue effect, where the marginal effect is the positive difference between the proposed QJTC and the current law JTC. The results are shown in Table 4.

Table 4. Employees affected by credit proposal and marginal effect of credit by county tier, 2017

	Number of employees with increase in credit value	Total Marginal Credit
County rank<40	365	$376,000
Tier 1, county rank>40, qualifying =1	120	$125,000
Tier 1, county rank>40, qualifying =0	848	$3,130,500
Tier 2, qualifying =1	107	$152,500
Tier 2, qualifying =0	310	$1,190,500
Total	1,750	$4,974,500

Step 6. The resulting employment totals are multiplied by the credit amount appropriate to that wage. This results in a total revenue effect of approximately $5.0 million 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 qualifying wage 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. Because current law allows unused QJTCs to be taken against withholding, the estimate assumes that all of the newly generated credits will be used in the year generated.