DEPARTMENT OF AUDITS AND ACCOUNTS

270 Washington St., S.W., Suite 1-156
Atlanta, Georgia 30334-8400

Greg S. Griffin
STATE AUDITOR
(404) 656-2174

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Honorable Shaw Blackmon
Chairman, House Ways and Means
133 State Capitol
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
House Bill (LC 43 1705)

Dear Chairman Blackmon:

The bill would create a state income tax credit for the hiring of new employees from certain target groups of veterans. These groups include veterans receiving assistance through the Supplemental Nutrition Assistance Program (SNAP), unemployed veterans, and those with a service-connected disability. The bill is modeled after the federal Work Opportunity Tax Credit. While the bill has no effective date, it is assumed to be effective for those hired after July 1, 2021.

Impact on State Revenue
Georgia State University's Fiscal Research Center (FRC) estimated that the bill would reduce state revenue between $15.8 million and $22.8 million in FY 2022 (see Table 1). The revenue loss would grow to $28.6 million to $47.5 million by FY 2026. The attached appendix details the analysis.

Table 1. State Revenue Effects of LC 43 1705

($ *millions*)	**FY 2022**	**FY 2023**	**FY 2024**	**FY 2025**	**FY 2026**
High	($22.8)	($38.4)	($44.4)	($45.9)	($47.5)
Low	($15.8)	($24.7)	($27.3)	($28.0)	($28.6)

Impact on State Expenditures
The Department of Revenue (DOR) would be able to implement the provisions of the bill with existing resources.

The Georgia Department of Labor (GDOL) estimated one-time and annual costs associated with its responsibilities under the bill.

- *One-Time Costs* – Changes to the agency's information system would require approximately $300,000 in state funding. This is the portion of existing staff salaries that would be shifted from federal fund sources to state fund sources for the duration of the work.

- *Annual Costs* – GDOL estimated annual costs of approximately $282,300. This includes two additional personnel to administer certification requests ($191,500), allocations of IT staff and management time that cannot be charged to federal funds ($60,300), and forms, materials, and marketing ($30,500).

Sincerely,

Greg S. Griffin
State Auditor

Kelly Farr

Kelly Farr, Director
Office of Planning and Budget

GSG/KF/mt

Analysis by the Fiscal Research Center

The Georgia Veterans Work Opportunity Tax Credit is earned based on the qualified first-year wages of a new hire who is a member of a target group, certified by the Georgia Department of Labor as a "qualified veteran." Target groups of qualified veterans fall into three categories: veterans receiving assistance through the supplemental nutrition assistance program (SNAP), veterans with a service-connected disability (SCD), and veterans who were unemployed for at least four weeks in the 12 months immediately prior to the hire date. For one target group, the employer can earn an additional credit based on qualified second-year wages, though the bill is not clear in defining this target group. This issue and one other are discussed next, followed by a discussion of the estimation of revenue effects.

Notes on issues of interpretation

The group eligible for credits on second-year wages is referred to in the bill simply as "a long-term family assistance recipient," though that term is not defined, nor is the term used in the definition of a qualified veteran. It is possible this is a reference to the not-exclusively-veteran target group in the federal WOTC of recipients of temporary assistance to needy families (TANF), but that is not sufficiently clear. If that is the case, the number of hires in this target group earning federal credits, without limitation to veterans, was 761 in 2019. Interpreting it as applying only to veteran TANF recipients would likely reduce that number to double digits, though the precise number cannot be known. For purposes of this note, an alternate interpretation is assumed. That is, it is assumed to apply to the qualified veteran subgroup of veterans whose families are receiving assistance under the federal supplemental nutrition assistance program (SNAP), thus the estimates assume this target group can earn employers a credit for second-year wages.

The bill also defines another apparent target group outside the definition of qualified veteran, that is "unemployed veteran" as a defined term rather than describing the subgroup of qualified veterans above. This group is defined as those veterans discharged in the five years prior to the hire date who collected unemployment compensation for at least four weeks in the last year. As anyone qualifying as part of this defined group would necessarily also be a qualified veteran, this defined term and target group apparently add no one to the pool of potential credit-eligible hires and are thus hereafter ignored for purposes of this fiscal note.

Estimation of revenue effects

Both the credit rate and the maximum qualified wages are dependent on which target 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 2.

Table 2: Target Groups and Credit Amounts

	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	$4,800	$0	40%	25%	0%

To estimate the effect of this legislation on state revenues, we used data from the Georgia Department of Labor (DOL) and the U.S. Department of Labor (USDOL) on the federal WOTC program that was first established in 1996. The USDOL maintains counts by state of certified hires in the target groups of the federal program, including those groups falling under the qualified veteran definition in the subject bill. DOL was able to share these counts for 2019-20 through their administration of the program. USDOL counts were used for 2017-18. The number of certified target group hires in Georgia in 2017-20, aggregated into the three categories of qualified veterans in LC 43 1705, are detailed in Table 3.

Table 3: Georgia Certifications by Target Group 2017-2020

Group	2017	2018	2019	2020
Veterans receiving SNAP	1,473	3,223	1,200	389
Veterans with a SCD	775	1,346	688	353
Unemployed veterans	7,310	12,020	12,573	6,436
Total	9,558	16,589	14,461	7,178

COVID 19 and its economic impact has reduced the number of veteran credit-earning hires roughly in half in 2020 compared to 2019. The pandemic's economic impact likely also increased the pool of potential credit-earning hires early in recovery, as more veterans have become unemployed or received SNAP benefits. In a recovery, the number of new WOTCs earned can be expected to rebound but may also temporarily spike above pre-pandemic levels before returning to historically more normal levels so high and low recovery scenarios are developed for the estimates. Estimates of the number of certified hires for 2021 and beyond were based on the following data and assumptions:

- From the 2020 base, growth is assumed as follows:
    - The high estimates assume a more robust recovery in 2021, increasing hires temporarily above pre-pandemic levels in 2021 and 2022, returning to a level consistent with the pre-pandemic trend in 2022, and growing 3.4 percent annually thereafter.
    - The low estimates assume a slower recovery, returning halfway to 2019 levels in 2021, fully to 2019 levels in 2022, and growing 2.4 percent annually thereafter.
    - Longer-term growth rates are a half percentage point above and below projected growth of overall employment, according to the U.S. Bureau of Labor Statistics (BLS).
- Based on research into the WOTC published in the National Tax Journal (Hamersma 2003), 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.

- Based on BLS data and estimates from the Work Institute (2019 Retention Report), and estimated 18 percent of new hires leave their jobs in the first year and an additional 8%leave in the second, though many of the latter would work long enough in the second year to generate the maximum second-year credit. The estimates assume that 82 percent of eligible hires remain for a second year of credits at the second-year wage cap.
- The maximum qualified wages under the proposed bill, together with the hours-worked assumptions above, imply the average credits earned in the first year by veterans receiving SNAP of $2,870, and $1,378 for disabled and unemployed veterans. The average credit for veterans receiving SNAP based on their second year of employment is estimated to be$5,000.

Finally, given the assumed July 1, 2021, effective data for new hires to qualify for a credit, it is assumed that only half of the CY 2021 new hires that would qualify for the federal credit would also qualify for the Georgia credit. Table 4 details the new-hire and credits-earned estimates based on the assumptions and data sources above.

Table 4: Projected High and Low New Hires and Credits Earned by Calendar Year

($ *millions*)	**CY 2021***	**CY 2022**	**CY 2023**	**CY 2024**	**CY 2025**
Qualified Initial Hires (*in thousands)*					
High	9.1	20.2	17.1	17.7	18.3
Low	6.5	14.5	14.8	15.2	15.5
Credits Earned on 1st-year Wages					
High	$13.7	$33.3	$29.2	$30.2	$31.2
Low	$9.8	$21.7	$22.2	$22.8	$23.3
Credits Earned on 2nd-year Wages					
High	$0.0	$3.3	$14.9	$15.4	$15.9
Low	$0.0	$2.2	$4.9	$5.0	$5.2

*CY 2021 represents a half year of qualified hires and credits, reflecting the July 1, 2021, assumed effectiveness.

The bill is silent on whether credits may exceed taxpayer liability in the year claimed and if not, whether unutilized credits may be carried forward to be used against future years' tax liability. For purposes of this note, credits are assumed to be nonrefundable, but to be utilized for the tax year in which they are earned. Utilization is assumed to reduce estimated and final tax payments, generally in the fiscal year beginning during the given calendar year, though credits for hires in the first calendar quarter are assumed to reduce estimated payments in the then-current fiscal year.

Note, finally, that the legislation does not preclude employers from hiring many different qualified workers in a given year, each for a limited time period or hours, so as to maximize their use of the credit. A study from the U.S. Government Accountability Office into 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.