DEPARTMENT OF AUDITS AND ACCOUNTS

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March 30, 2021

Honorable Chuck Hufstetler
Chairman, Senate Finance
121 State Capitol
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
House Bill 477 (LC 43 2028S)

Dear Chairman Hufstetler:

The bill would extend the application period of the conservation tax credit for donated land and impose a new cap on aggregate credits. The application period for new credits would be extended from December 31, 2021 to December 31, 2026. The bill also caps the credits issued during the five-year qualifying window to $20 million total. If enacted, the bill would be effective for tax years beginning on or after January 1, 2022.

Impact on State Revenue
Georgia State University's Fiscal Research Center (FRC) estimated that the bill would decrease state revenue by approximately $200,000 in FY 2022, with the loss increasing approximately $500,000 each year through FY 2026 (Table 1). Because only a portion of the credit has been typically used in the year generated, carryforward balances are expected to increase as well. The attached appendix provides details of the analysis.

Table 1. Estimated Effects of HB 477 LC 43 2028S

($ *millions*)	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
State revenue effect	($0.2)	($0.8)	($1.3)	($1.8)	($2.2)
Change in carryforward balances	$0.4	$1.7	$2.9	$3.9	$4.9

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

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 proposed bill would extend the conservation credit for qualifying donations of real property through calendar year 2026. In addition, the bill sets an aggregate cap of $20 million in cumulative new credits that can be authorized from 2022 to 2026. As under current law, these credits are not refundable, but may be carried forward for up to 10 years.

The estimates rely on data from the Georgia Department of Revenue (DOR) on the amounts of land conservation credits generated and utilized for tax years (TY) 2016 to 2019. These estimates also use information provided by the Wildlife Resources Division of the Georgia Department of Natural Resources (DNR) for credits generated in TY 2020.

This estimate relies on the following assumptions:

- DOR and DNR data indicate that conservation tax credits generated have grown by an average of 14% annually from 2018 to 2020. This estimate assumes that growth rate will continue through the expansion period.
- From 2016 to 2018, taxpayers each year utilized 31% of the total available credits on average, including credits carried forward from previous years. This estimate assumes similar utilization levels through the expansion period.

Based on these assumptions, less than $20 million in cumulative credits would be generated over the new eligibility period, so the cap is not expected to be reached before the new sunset date.

Table 2 presents projections of the numbers of new credits generated, credits utilized, and accumulated carry forward amounts under current law and the proposed bill.

Table 2. Tax Year Credits Utilized and Accumulated Carry Forward Balances

($ *millions*)	**TY 2022**	**TY 2023**	**TY 2024**	**TY 2025**	**TY 2026**
Current Law Baseline					
Generated credits	-	-	-	-	-
Utilized credits	$1.1	$0.8	$0.5	$0.4	$0.3
YE carry-forward bal.	$2.5	$1.7	$1.2	$0.8	$0.6
Proposed Law					
Generated credits	$2.1	$2.4	$2.7	$3.0	$3.5
Utilized credits	$1.8	$1.9	$2.2	$2.4	$2.8
YE carry-forward bal.	$3.9	$4.3	$4.8	$5.4	$6.1

According to DOR credit utilization data, between 97 and 100 percent of these credits each year since 2014 are claimed on personal income tax returns. Thus, for the fiscal year revenue effects presented in Table 1, ¼ of credits utilized for a given tax year are assumed to reduce estimated tax payments in the fiscal year ending June 30 of the tax year, the balance reducing estimated and final tax payments during the subsequent fiscal year.