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 50 0129)

Dear Chairman Blackmon:

The bill would supplement the Georgia Job Tax Credit (JTC) by creating an additional credit for medical device and pharmaceutical manufacturers. Companies in these industries would earn an additional $1,250 credit per employee that otherwise qualifies for a JTC; however, no credit can be earned under this provision for jobs that earned a personal protective equipment manufacturer credit. The bill would allow this credit to be used to offset the employer's tax liability for employee withholding, as well as employer income or insurance premium taxes. Unused credits can be carried forward for up to 10 years. The credit is effective for years beginning on or after January 1, 2021.

Impact on State Revenue
Georgia State University's Fiscal Research Center (FRC) estimated that the bill would decrease state revenue by $4.8 million to $5.6 million in FY 2022 (Table 1). The revenue loss would be less in subsequent years. The attached appendix provides details of the analysis.

Table 1. State Revenue Effects of LC 50 0129-EC

($ *millions*)	**FY 2021**	**FY 2022**	**FY 2023**	**FY 2024**	**FY 2025**	**FY 2026**
High	($0.9)	($4.8)	($3.5)	($2.8)	($2.3)	($2.4)
Low	($1.0)	($5.6)	($4.6)	($4.4)	($4.4)	($4.7)

Impact on State Expenditures
The Department of Revenue (DOR) indicated that two additional tax examiners would be needed to process the returns and forms that would result from the bill. This would require $110,843 in annual funds for the salary and benefits of the employees, and $3,600 in one-time, initial funding for computers and supplies.

Sincerely,

Greg S. Griffin
State Auditor

Kelly Farr, Director
Office of Planning and Budget

GSG/KF/mt

Analysis by the Fiscal Research Center

O.C.G.A. §48-7-40 and 40.1 establish a framework for defining each Georgia county into four tiers based on the local unemployment rate, per capita income, and percentage of populations below poverty level for purposes of earning the state job tax credit (JTC), with differing requirements and credit amounts by tier. In tier 1 (the 71 least developed counties), firms are required to add a minimum of two additional employees year over year to qualify for JTCs. After meeting these requirements companies earn a JTC for each additional job created in that year. These credits continue for five years, assuming this new higher level of employment is maintained. In tier 2 counties, the threshold is 10 additional employees, tier 3 requires 15, and tier 4 requires 25. To be counted, employees' must be full time and be offered health insurance. LC 50 0129-EC adds an additional $1,250 credit to the JTCs earned under these requirements for as long as the JTC is allowed for a qualifying job, for companies manufacturing medical devices and pharmaceuticals.

The estimated number of current JTCs being earned by firms in these industries will be the basis for the fiscal impact estimates for the subject legislation. Data obtained from the Georgia Department of Labor (DOL) indicate that 378 companies were operating in Georgia in 2019 in NAICS 3391 and 3254. These data were used to calculate year over year job growth by company for the years of 2015 through 2019 to estimate the number of JTCs each firm could have claimed, accounting for tier 1-4 thresholds by county.

JTC-eligible hiring cohort estimates range from a low of 357 new jobs in CY 2019 to a high of 1,152 in CY 2018, and average 698 per year over the 2016-19 period. The 2020 cohort is assumed to decline by half from 2019 levels to 179; though state and national estimates from DOL through mid-year and the Bureau of Labor Statistics (BLS) through year-end 2020 show negative job growth in these industries, it is assumed that some firms will still increase employment and qualify for the credits. Thus, for hires made in 2017-20, medical device and pharmaceutical manufacturers are estimated to be eligible to claim JTCs for 2,378 jobs created. These cohorts of hires would also qualify for a JTC for the current, 2021 tax year and thus the new credit as well.

From this existing base of estimated JTC-eligible jobs in the relevant industries, projections of subsequent cohorts assume the following:

- For 2021 the low case cohort size is assumed to equal that of 2019, 357 credit-eligible hires. For the high case, the number is assumed to rebound faster, equaling the average credit-eligible hires for 2016-19.
- For 2022 and subsequent years, new cohort sizes are estimated based on projections from the Georgia State University Economic Forecasting Center (EFC) of overall job growth for the state (for 2022) and long-range job growth estimates from the BLS. The EFC projects overall jobs to rebound strongly in 2022, growing by 4.4 percent. BLS projects job growth of 2.4 percent annually in subsequent years.
- Low case cohort sizes equal the numbers implied by those growth rates of total employment. The high case allows for potentially faster growth of employment in the eligible industries and assume cohort sizes twice the low case levels.

- The estimates assume for simplicity that cohort sizes remain constant for the full five years they would be eligible for the credits, i.e. no attrition.
- Given the effective date of January 1, 2021 in the proposed bill and the existing JTC cohorts eligible for the new credit, the estimates assume that 24 percent of the credits earned for tax year (TY) 2021 will impact FY 2021 revenues through reduced estimated income tax and withholding tax payments. The remainder would impact FY 2022 revenues. TY 2022 and subsequent years' credits earned are assumed to impact state tax collections evenly over the year.
- Given that credits may be taken against withholding tax liabilities as well as income and insurance premium taxes, the estimates assume that all credits are utilized within the first calendar year after the tax year for which the credits are earned.

Table two summarizes the estimates for CYs 2021-26.

Table 2. Qualified Jobs for NAICS 3391 and 3254

	CY 2021	CY 2022	CY 2023	CY 2024	CY 2025	CY 2026
New Job Cohorts						
Low	357	448	255	261	268	274
High	698	896	510	523	535	548
Accumulated Credit Earning Jobs						
Low	2,735	2,493	1,596	1,500	1,589	1,506
High	3,077	3,282	2,640	2,806	3,162	3,012