DOAA
Georgia Department
of Audits & Accounts

Greg S. Griffin
State Auditor

January 4, 2022

Honorable Viola Davis
State Representative
404-D Coverdell Legislative Office Building
Atlanta, GA 30334

SUBJECT: Fiscal Note
House Bill (LC 43 1707)

Dear Representative Davis:

The bill has 13 sections that together propose nine revenue impacting changes.

- Low income housing tax credits are reduced by half for both state income taxes and the insurance premium tax.
- The Georgia jobs tax credit taken against the insurance premium tax is reduced by half.
- The GILTI exclusion for state income tax is eliminated.
- The manufacturing and telecom investment tax credit is repealed for tier 1-4 counties.
- The employer's credit for employee retraining programs is reduced by half.
- The research and development tax credit is reduced by half.
- The quality jobs tax credit is reduced by half.
- The sales tax exemption for manufacturers purchasing inputs is reduced by half.
- The state sales tax is reimposed on the purchase of jet fuel.

As drafted, the bill would become effective June 30, 2021. After discussions with the Legislative Counsel's Office, we assumed that the effective date would be revised to June 30, 2022. The estimates below consider a June 30, 2022 effective date.

Impact on State Revenue

Georgia State University's Fiscal Research Center (FRC) estimated that the bill would increase state revenue by $2.3 billion in FY 2023. The revenue gain would increase each year, reaching an estimated $3.3 billion in 2027. Most of the revenue increase is related to the reduction in sales tax exemptions for manufacturing inputs. The appendix provides details of the analysis.

Table 1. Projected Revenue Effects Under LC 43 1707

($ *millions*)	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Secs. 1&4 – Low-Income Housing	$65.7	$202.0	$291.5	$313.8	$325.5
Sec. 2 – Georgia Jobs (IPT)	$0.7	$1.3	$1.8	$2.2	$2.5
Sec. 3 – GILTI Exclusion	$212.0	$229.1	$247.4	$267.1	$288.4
Secs. 5-7 – Manufacturing Investment	$6.5	$19.4	$31.6	$43.2	$54.4
Sec. 8 – Retraining	$5.1	$11.6	$16.6	$20.5	$23.7
Sec. 9 – Research	$7.6	$26.2	$80.5	$59.1	$119.5
Sec. 10 – Quality Jobs	$5.5	$16.0	$36.4	$21.6	$45.8
Sec. 11 – Manufacturing Exemption	$1,929.1	$2,035.2	$2,147.1	$2,265.2	$2,389.8
Secs. 12-13 – Jet Fuel Exemption	$50.3	$51.9	$53.6	$55.4	$57.0
Total	**$2,282.5**	**$2,592.6**	**$2,906.2**	**$3,048.1**	**$3,306.7**

Numbers may not total due to rounding

Impact on State Expenditures

The Department of Revenue (DOR) would be able to implement the provisions of the bill with existing resources. It estimated approximately 12 weeks of IT staff time.

Respectfully,

Greg S. Griffin
State Auditor

Kelly Farr
Kelly Farr, Director
Office of Planning and Budget

GSG/KF/mt

Analysis by the Fiscal Research Center

LC 43 1707 contains nine revenue-impacting provisions in 13 numbered sections, six that amend existing tax credits, two impacting sales tax exemptions, and one repealing an income tax exclusion for businesses.

Tax Credits

The tax credit provisions, by numbered bill section, are as follows:

1 & 4. Reduce the Georgia housing tax credit, for purposes of the state insurance premium tax (IPT), by amending O.C.G.A. §33-1-18 and for purposes of state income taxes, by amending O.C.G.A. §48-7-29.6. Under current law, taxpayers are allowed a credit equal to the federal housing tax credit under IRC Section 42 for qualifying projects in the state of Georgia. Under the proposed law, the credit would be reduced to 50 percent of the federal credit.

2. Reduce the job tax credit for business enterprises located in less-developed areas, for purposes of the state IPT only, by amending O.C.G.A. §33-8-4.1. Under current law, qualified insurers are allowed annual credits for up to five years for eligible new full-time employees, with the amount of the credit based on the Department of Community Affairs designation of the county in which the business is located as a tier 1 to tier 4 county. Under the proposed law, the credit amounts for each tier are reduced by half as follows:
   - For tier 1 counties, $3,500 becomes $1,750.
   - For tier 2 counties, $2,500 becomes $1,250.
   - For tier 3 counties, $1,250 becomes $625.
   - For tier 4 counties, $750 becomes $375.

   The additional credit of $500 for one year for “existing business enterprises”, those operating facilities in this state for the immediately preceding three years, is reduced to $250. The similar income tax credit under Title 48 is unchanged.

5-7. Repeal of the Manufacturer’s Investment Tax Credit for tier 1-4 counties. Under current law, taxpayers making qualified investments in manufacturing or telecommunication facilities can earn income tax credits equal to 5 percent of a qualified investment in tier 1 counties, 3 percent in tier 2, and 1 percent in tiers 3-4.

8. Reduce the income tax credit for approved employee retraining programs by amending O.C.G.A. §48-7-40.5. Under current law, employers are allowed a credit of 50 percent of retraining costs, up to a maximum of $500 per full-time employee for each approved program completed and no more than $1,250 per full-time employee who has completed more than one program. Under the proposed law, these limits would be reduced to $250 and $625 respectively.

9. Reduce the income tax credit for qualified research expenses under O.C.G.A. §48-7-40.12. Under current law, businesses are allowed a credit equal to 10 percent of qualified research expenses over the base amount, as defined in IRC Section 41, provided such expenses are for research conducted in the state. Under the proposed law, the credit rate would be reduced to 5 percent.

10. Reduce the income tax credit for new quality jobs under O.C.G.A. §48-7-40.17 by reducing the amount of the credit allowed annually for up to five years for each new quality job as follows:
    - For each new quality job paying 110 percent or more, but less than 120 percent, of the average wage of the county in which the new quality job is located, the annual credit is reduced from $2,500 to $1,250.
    - For each that pays at least 120 percent, but less than 150 percent, of this average, $3,000 is reduced to $1,500.

- For each that pays at least 150 percent, but less than 175 percent, of this average, $4,000 is reduced to $2,000.
- For each that pays at least 175 percent, but less than 200 percent, of this average, $4,500 is reduced to $2,250.
- For each that pays at least 200 percent of this average, $5,000 is reduced to $2,500.

For each tax credit provision, projected tax expenditure baselines from the forthcoming Tax Expenditure Report for FY 2023 are extended through FY 2027 for purposes of this note and reported in Table 2 below, along with proforma projections giving effect to the reductions in the proposed bill. In all cases, credits generated, utilized, and carried forward (including past carryforwards) are accounted for. Actual utilization of credits in any year and amounts carried forward to future years are based on past relationships with credits generated, adjusting for fluctuations in utilization with the business cycle (i.e., with taxable profits and tax liability). The reduction in the estimated tax expenditure from the bill's reductions and repeals of the credits is reported in Table 1 as a projected revenue gain. Key assumptions for these tax credit provisions are as follows:

- For the jobs tax credit and the quality jobs credit (bill sections 2 and 10), tax expenditure estimates are based on trends in credits generated, utilized, and carried forward, as reported by the Georgia Department of Revenue (DOR) and the Office of the Commissioner of Insurance (OCI) through 2020, and on state job growth forecasts through 2023 from the GSU Economic Forecasting Center (EFC). Credits generated are assumed to grow at the EFC's projected job growth rates for 2021-23, with the 2023 growth rate assumed to continue for the remaining periods. New jobs created before the effective date of the bill are assumed to earn credits at the current law credit rates for the full five years.

- For the Georgia housing tax credit (bill sections 1 and 4), tax expenditure estimates are based credits generated, utilized, and carried forward, as reported by the OCI and DOR through 2020. Growth through FY 2024 is based on growth of the corresponding federal credit as projected by the congressional Joint Committee on Taxation (JCT) for the federal tax expenditure report dated November 2020, the latest available at this time. JCT's 2024 growth rate is assumed to continue for the remaining periods.

- For the manufacturing and telecom investment credits (bill sections 5-7), tax expenditure estimates are based on DOR credit reports through 2020 and the latest EFC economic forecast. As of September 2021, EFC projected state nominal Gross Domestic product (GDP) growth of 7.8 percent for 2021, 6.7 percent for 2022, and 5.5 percent for 2023. For purposes of this note, the 2023 growth rate is assumed to continue through 2027.

- For the qualified research expense credit (bill section 8), tax expenditure estimates are based on DOR credit reports through 2020, with growth in 2021 based on estimates from R&D World magazine's "Global R&D Funding Forecast", dated February 22, 2021, which takes into account the impacts of the pandemic on research spending. After 2021, assumed growth is based on long-run research spending projections from the National Science Foundation.

- For the employee retraining credit (bill Section 9), tax expenditure estimates are based on past growth trends from DOR credit reports through TY 2020, with a post-pandemic rebound in 2021 and 5 percent annual growth in credits generated after 2021.

Table 2. Baseline and Proforma Tax Expenditure Estimates by Tax Credit

($ *millions*)	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Baseline:					
Secs. 1&4 – Low-Income Housing	$300.9	$309.4	$315.6	$321.4	$327.1
Sec. 2 – Georgia Jobs (IPT)	6.9	7.1	7.2	7.3	7.5
Secs. 5-7 – Manufacturing Investment	72.0	77.9	83.7	89.6	95.7
Sec. 8 – Retraining	50.1	51.3	52.9	54.9	57.2
Sec. 9 – Research	201.3	211.3	223.2	235.6	248.7
Sec. 10 – Quality Jobs	95.6	97.7	99.1	99.8	100.4
Baseline Total	**$726.9**	**$754.6**	**$781.7**	**$808.6**	**$836.6**
Proforma:					
Secs. 1&4 – Low-Income Housing	$235.2	$107.4	$24.1	$7.6	$1.5
Sec. 2 – Georgia Jobs (IPT)	6.2	5.8	5.4	5.2	5.0
Sec. 5 – Manufacturing Investment	65.5	58.5	52.1	46.4	41.3
Sec. 8 – Retraining	45.0	39.7	36.4	34.4	33.5
Sec. 9 – Research	193.7	185.1	142.7	176.5	129.2
Sec. 10 – Quality Jobs	90.1	81.7	62.7	78.1	54.6
Proforma Total	**$635.8**	**$478.2**	**$323.4**	**$348.1**	**$265.1**

Numbers may not total due to rounding

Repeal of the Global Intangible Low-Taxed Income Exclusion

Section 3 of the bill, amends O.C.G.A. §48-7-21(b) so as to conform Georgia tax treatment of certain foreign-source corporate income to federal treatment of that income under the Tax Cut and Jobs Act of 2017 (TCJA). Under current state law, corporations subject to tax in Georgia are allowed an exclusion from state taxable income for any income classified as Section 951A income under the Internal Revenue Code of 1986, also referred to as Global Intangible Low-Taxed Income (GILTI). The bill would effectively repeal that exclusion.

Prior to the passage of TCJA, this foreign-source income of US corporations was not taxed until it was paid by a foreign corporation to the US corporation in the form of a dividend. Thus, tax on this income was deferred until it was paid to the US corporate shareholder. TCJA modified the treatment of this income such that it became taxable as if it had been paid as a dividend, but IRC Section 250, in part, allows a deduction of 50 percent of GILTI from federal taxable income. In 2018, Georgia conformed its tax code to many of the new provisions in the federal tax code resulting from the passage of TCJA but did not choose to tax GILTI income at the state level, the exclusion from taxable income thus creating a tax expenditure for the state.

This provision in LC 43 1707 would modify the state tax code to conform to the federal code such that Section 951(A) or GILTI income would be included in state taxable income, but net of the Section 250 deduction. The estimated revenue gains from Section 3 of the bill are thus equal to the current-law tax expenditure estimates (forthcoming in the Tax Expenditure Report for FY 2023) for the exclusion of GILTI, which are based on the JCT estimates of the related federal tax expenditure through FY 2024, shared down to Georgia and extended through FY 2027 at the FY 2024 growth rate. These estimates are included in Table 1.

Note, however, that these estimates should be considered an upper bound of revenue gains. Based on discussions with DOR, it is likely that adoption of this provision would encourage taxpayers to adjust their financial holdings, where possible, such that income made taxable by this provision is attributed to another state for a more favorable tax treatment and, therefore, not subject to tax in Georgia.

Table 3. Repeal of GILTI Exclusion

($ *millions*)	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
State Revenue Effect	$212.0	$229.1	$247.4	$267.1	$288.4

Reduction of the Sales Tax Exemption for Manufacturer's Input Purchases

Section 11 of the subject bill proposes to reduce the existing state sales tax exemption (STE) for purchases of energy and material inputs for manufacturing by half, effectively taxing these purchases at the state level at a rate of 2 percent. Estimates of this provision for the tax expenditure report are based on the following:

- The Bureau of Economic Analysis (BEA) surveys businesses in the United States and publishes data on intermediate input purchases across the various types of manufacturing industries (commonly referred to as the KLEMS data). These data indicate that manufacturers spent $60 billion nationally on energy inputs and $2.6 trillion on material inputs in 2020. Manufacturer's purchases of energy inputs in 2020 were 18 percent below 2019 and material inputs were 9 percent below 2019. Based on state level GDP data, also from the BEA, Georgia's share of these input purchases are estimated at $1.7 billion in energy and $75.5 billion in material inputs for 2020.

- BEA data indicate that between 2019 and 2020, manufacturing output declined by 7 percent, a smaller drop than material and energy input purchases. BEA data also indicate that manufacturing output during the first half of 2021 was 1.96 percent above the same period in2020. The estimate assumes that Georgia's manufacturers drew down inventories over 2020 and that input purchases will return to 2019 levels in 2021.

- The EFC expects nominal GSP to grow by 6.7 percent in 2022 over 2021 and by 5.5 percent in 2023. These annual growth rates, extended to 2027 at the 2023 growth rate, were used to project input purchases in 2022-27. These projections, converted to state fiscal years, are presented in Table 4 below. State tax revenues on these purchases, at a 2 percent rate, are presented in Table 1.

Table 4. Estimated Manufacturing Energy and Material Input Purchases

(*$ billions*)	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Energy	$2.2	$2.3	$2.5	$2.6	$2.7
Materials	$94.2	$99.4	$104.9	$110.7	$116.7
Total	$96.5	$101.8	$107.4	$113.3	$119.5

Reimpose State Sales Tax on Jet Fuel

The subject bill would eliminate the current state sales tax exemption for jet fuel beginning on July 1, 2022, the first day of FY 2023. The bill has no effect on local sales taxes or any revenues related to sales of jet fuel before FY 2023.

The following summarizes the analysis and assumptions made in estimating the revenue effects:

- Georgia Department of Revenue (DOR) reporting of state sales tax collections from the sales of jet fuel is available from July 2015 through July 2018; only county collections data where a local tax applies are available after the current law suspension took effect. These pre-suspension state data, along with jet fuel historical and forecast price data from the U.S. Energy Information Administration (EIA) and jet fuel consumption forecasts for domestic flights from the National Department of Transportation (DOT) form the basis of the estimate.

- National fuel consumption data for domestic flights from the DOT was shared down for Georgia by using the ratio of implied gallons from the DOR jet fuel reports to national fuel consumption for the same periods. Implied gallons are calculated from the sales tax base implied by the DOR reported tax collections and historical price data from EIA. In FY 2018, an implied 579 million gallons of jet fuel were purchased in Georgia, representing 4.9 percent of national jet fuel consumption. This share applied to the national fuel consumption data implies that about 508 million gallons of jet fuel were purchased in Georgia in FY 2020 and 401 million in FY 2021.

- The International Air Transport Association (IATA) is an industry group that monitors and forecasts the airline and air cargo industries. IATA data indicates that air passenger transport has been drastically affected by the COVID pandemic. The latest data indicates that domestic revenue passenger kilometers (RPK's), a key airline metric, was down by 80 percent in 2020 over 2019. RPK's have recovered somewhat from these pandemic lows but remain down by 32 percent in August 2021 against August 2019. Airline industry expectations remain unclear as demand and policy uncertainty remain extremely high. The high consumption estimates assume FY 2023 fuel purchases will be 1.1 percent above FY 2019 and to grow by 0.8 percent thereafter, the FAA's current long run airline forecast. The low consumption estimates assume FY 2023 will be .4 percent above FY 2019 fuel purchases and grow at 0.4 percent thereafter.

- According to the EIA the average per gallon price of jet fuel in October 2021 was $2.31, and prices have increased from their 2020 pandemic lows. The EIA's short-run forecast projects the price of jet fuel to average $2.05 for the second half of state FY 2022. EIA's pre-pandemic long run reference case forecast projects a price of $2.17 per gallon on average in FY 2023, growing to $2.53 by FY 2027 representing approximately 4 percent annual price inflation. The low case estimate assumes an average price in FY 2023 of $1.95, followed by slow price growth of 1 percent per annum. The high case assumes jet fuel prices follow the pre-pandemic reference case, growing from about $2.17 per gallon on average in FY 2023 to $2.53 per gallon in FY 2027.

Table 5 provides the resulting high and low forecasts of jet fuel consumption and prices for FY 2023 through FY 2027. Projected revenue gains in Table 1 represent the midpoint between the high and low cases.

Table 5. High and Low Jet Fuel Consumption and Price Estimates

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Consumption (*millions of gallons*)					
Low Case	608	611	613	616	618
High Case	612	617	622	627	630
Price Per Gallon					
Low Case	$1.95	$1.97	$1.99	$2.01	$2.03
High Case	$2.17	$2.26	$2.34	$2.44	$2.53
Jet Fuel Expenditures ($ *millions*)					
Low Case	$1,187	$1,204	$1,221	$1,238	$1,255
High Case	$1,327	$1,392	$1,458	$1,530	$1,596