DOAA
Georgia Department
of Audits & Accounts

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March 8, 2022

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

SUBJECT: Fiscal Note
House Bill 1197 (LC 43 2248)

Dear Chairman Blackmon:

The bill would create the state work opportunity tax credit (WOTC), an income tax credit for the hiring of new employees from certain target groups. The groups match those of the federal WOTC and fall into three broad categories—veterans, ex-felons, and recipients of program benefits under Title IV-A of the Social Security Act. The bill follows the federal WOTC in amounts and qualifications. The state credits are nonrefundable and cannot be applied to prior or succeeding years' tax liabilities. The bill would be effective for tax years beginning on or after January 1, 2023.

The federal WOTC applies to eligible workers hired on or before December 31, 2025, thus potentially applying to wages paid through CY 2026, but not beyond unless extended.

Impact on State Revenue
Georgia State University's Fiscal Research Center (FRC) estimated that the bill would decrease state revenue by $98.3 million to $109.2 million in fiscal year 2024, the first full year of the bill's effect (Table 1). The amount would rise slightly before falling in fiscal years 2026 and 2027. Absent an extension of the federal credit, the bill's fiscal impact would end in fiscal year 2027. The appendix provides details of the analysis.

Table 1. Estimated State Revenue Loss from HB 1197 LC 43 2248

($ *millions*)	**FY 2023**	**FY 2024**	**FY 2025**	**FY 2026**	**FY 2027**
High cost	$26.9	$109.2	$115.7	$95.9	$16.0
Low cost	$24.2	$98.3	$104.1	$86.3	$14.4

Impact on State Expenditures
The Department of Revenue (DOR) would incur additional costs for two additional tax examiners who with deal with the estimated number of claims that would have errors. The two examiners would cost $110,744 annually, with one-time costs of $3,650 for their computers and equipment.

Respectfully,

Greg S. Griffin
State Auditor

Kelly Farr, Director
Office of Planning and Budget

GSG/KF/mt

Analysis by the Fiscal Research Center

The proposed state work opportunity tax credit (WOTC) is equal to the amount of the federal credit of the same name that is earned by the taxpayer based on the qualified first-year wages of a new hire in Georgia who is a member of a target group. The Georgia Department of Labor coordinates the federal WOTC, including certifying credit applications.

The target groups are the same as the federal WOTC and fall into three broad categories: veterans, ex-felons, and recipients of program benefits under Title IV-A of the Social Security Act (detailed categories are shown in Table 2). The amount of the credit is generally 40 percent of qualified first-year wages provided that the hired individual worked 400 or more hours for the employer during the year, or 25 percent of qualified first-year wages if the individual worked at least 120 hours, but less than 400 hours. Maximum amounts of qualified wages vary across the target groups, as shown below; as a result, maximum credit amounts thus range from $1,200 to $9,600 per qualified employee.

Notably, nonprofit corporations are also eligible to earn the federal WOTC, using it to offset the employer's Social Security payroll tax liabilities instead of income tax. These employers would not benefit from the proposed state-level credit.

Table 2: WOTC Targeted Groups 2021 Georgia Certificates, Rates and Wages

WOTC Target Group	2021 GA Certificates	120-400 hrs	400 hrs	Qualified wages
Non-Veteran Target Groups:				
SNAP Recipients	72,193	25%	40%	$6,000
Ex-felons	1,789	25%	40%	$6,000
IV-A (TANF) Recipients	202	25%	40%	$6,000
Long term IV-A (TANF) Rec.	341	0%	40%*	$10,000
Other non-Veterans	2,065	25%	40%	$6,000**
Veteran Target Groups:				
Unemployed/SNAP Rec.	2,401	25%	40%	$6,000
Disabled Veteran	67	25%	40%	$12,000
Disabled, Unemployed 6 Mos.	131	25%	40%	$24,000
Other, Unemployed 6 Mos.	1,360	25%	40%	$14,000
Total	80,549			

Source: US DOL
* Second year wages qualify at 50%
** Summer youth wages qualified amount is $3,000

To estimate the effect of this legislation on state revenues, US DOL data on WOTC certificates issued in Georgia for federal fiscal years 2017-21 was used. Certifications totaled approximately 68 thousand in 2017 and rose to 92.7 thousand for 2019 before falling during the pandemic to 65.5 thousand for 2020. Growth resumed in 2021 with 80.5 thousand total certifications.

The federal data for Georgia has recipients broken down by eligible group such as veterans, SNAP recipients etc. This is important as different subgroups have different amounts of income that are eligible for the WOTC, as shown in Table 2. To forecast the growth in participation through Georgia Fiscal Year 2027, the growth rate in Georgia certifications from the last pre-pandemic year, 2019, is used. The growth for 2018 was much higher, about 29 percent, driven primarily by growth in veteran enrollment, but the number of veterans in the program fell in 2019, before the pandemic, and has continued to decline since. The annual average growth rate from 2017 to 2021, which includes a sharp downturn due to COVID, is only about 4.3 percent. The average distribution of participants across the subgroups pre-pandemic, 2017-19, is used to project the distribution going forward

Under current federal law, the WOTC is available for wages paid to qualifying individuals who begin work on or before December 31, 2025. It is assumed that workers hired in November and December of

2025 will generate credits for their employers in both 2025 and 2026.

The maximum credit can only be earned if the individual works at least 400 hours in the first year after they are hired. According to existing research published in the National Tax Journal, there is some evidence that this has been a limiting factor in the use of the credit. A more recent study of the WOTC using data from Wisconsin found similar results. The projections assume:

- 58 percent of participants work at least 400 hours and are thus eligible for the full credit,
- 22 percent work between 120 and 400 hours and are eligible for some credit but less than the maximum amount, and
- 20 percent do not work enough hours to be eligible for any credit.

Lastly, not all credits earned by an employer will be used in the year that they are earned. Based on data from the IRS Statistics of Income program on utilization of federal credits and the inability of these credits to be carried forward, it is assumed that 62 percent of credits earned will be utilized. It should be noted that actual utilization for the proposed state credit may be materially lower because, while the state credit is 100 percent of the federal credit, the state tax liability on the same amount of income would tend to be significantly less than federal, all else the same, just because of lower state tax rates. Thus, employers are more likely to have insufficient state tax liability to fully utilize the state credits than in the case of federal credits. However, lacking a solid basis for a different utilization assumption, we make no further adjustment downward.

Regarding the federal credits taken by nonprofit corporations, as noted above, the Georgia Center for Nonprofits estimated that the business activity of nonprofits in the state account for roughly 10 percent of gross state product. Using this estimate of the size of the nonprofit sector in Georgia, we estimate a low case revenue effect that assumes 10 percent of federal credits are earned by nonprofits, which would not benefit from a state credit.

Table 1 provides both the high case, assuming zero nonprofit share of credits, and the low case with the 10 percent share assumption. Credit estimates based on calendar year hiring and wage activity are converted to state fiscal years assuming a one-quarter lag from the hire date before the employer would reduce estimated tax payments to reflect anticipated credits.