DOAA
Georgia Department
of Audits & Accounts

Greg S. Griffin
State Auditor

December 20, 2022

Honorable Bruce Williamson
State Representative
415-B State Capitol
Atlanta, GA 30334

SUBJECT: Fiscal Note
House Bill (LC 43 2476)

Dear Representative Williamson:

The bill would amend the manufacturers' investment tax credit (MITC) to make the credit available for investment in mining facilities, in addition to manufacturing and telecommunication facilities under current law. For taxpayers who have operated an existing facility in the state, the credit is available for new investment in an additional facility or expansion of an existing one. The bill would be effective for new investments made on or after July 1, 2024, provided the firm's tax year beginning on or after January 1, 2024.

Impact on State Revenue

Georgia State University's Fiscal Research Center (FRC) estimated that the bill would result in a reduction in state revenue beginning in FY 2025, as shown in Table 1. FRC noted that the estimates are based on historical mining statistics in Georgia and that a particularly large investment occurring after the bill's effective date could affect the estimates. The appendix provides details of the analysis.

Table 1. Estimated State Revenue Effects of LC 43 2130

($ *millions*)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
High Estimate	$0	($0.6)	($1.1)	($1.6)	($2.2)
Low Estimate	$0	($0.2)	($0.4)	($0.7)	($0.9)

Impact on State Expenditures

The Department of Revenue (DOR) would be able to implement the provisions of this bill with existing resources. DOR noted that implementation would require approximately 8 weeks of IT personnel resources, which equates to approximately $71,000 in staff time.

Respectfully,

Greg S. Griffin
State Auditor

Kelly Farr, Director
Office of Planning and Budget

GSG/KF/mt

Analysis by the Fiscal Research Center

Under current law, O.C.G.A. §§ 48-7-40.2 through 40.4 provide for a tax credit for investment in manufacturing and telecommunications facilities in the state by businesses operating such a facility, or a manufacturing or telecommunications support facility, in the state for the immediately preceding three years. Credit rates vary depending on the county in which the investment is made, based on the tier designation of the county as determined by the Department of Community Affairs, from 5-8 percent in tier 1 counties and 3-5 percent in tier 2 to 1-3 percent in tiers 3 and 4. The higher credit rate for each tier applies to qualified investment in "recycling machinery or equipment, a recycling manufacturing facility, pollution control or prevention machinery or equipment, a pollution control or prevention facility, or the conversion from defense to domestic production." Baseline tax expenditure estimates for the manufacturers' investment tax credit (MITC), from the Georgia Tax Expenditure Report for FY 2024 (forthcoming) and extended through FY 2028, are presented in Table 2 below.

The proposed bill would expand the credit to apply to investments in mining facilities on the same terms as those in manufacturing or telecommunications. The change would be effective for new investments made on or after July 1, 2024, provided such investment is also made in a firm tax year beginning on or after January 1, 2024. For simplicity, investments made on or after July 1, 2024, are assumed to be eligible.

To estimate the increase in the tax expenditure cost of the credit, resulting from the addition of mining, we relied on data from the US Census Bureau's Annual Capital Expenditure Survey (ACES), which provides national capital expenditure (CAPEX) estimates by industry sector (2- or 3-digit NAICS codes), and 2017 Economic Census, which provides several measures of the relative size of the relevant sectors in Georgia versus the US. Key findings from these data that inform the estimates are as follows:

- US CAPEX in mining industries (NAICS code 21) over the latest five years available, 2016-20, averaged about $128 billion, compared to $256 billion for manufacturing (NAICS 31-33) and $90 billion for telecommunications (NAICS 517).
- However, Georgia's share of the mining sector is much smaller than its shares of manufacturing and telecommunication, as follows (as of 2017):
    - Manufacturing: 3.05 percent of sales, 3.2 percent of employment, and 3.11 percent of CAPEX
    - Telecommunications: 4.84 percent of employment (sales and CAPEX not available)
    - Mining: 0.49 percent of sales, 0.89 percent of employment, and 0.31 percent of CAPEX

Sharing down national ACES CAPEX estimates for the five years to Georgia, we estimated the percent increase in CAPEX that would have been eligible for the credit had mining been eligible in those years. Georgia's share is based on the Economic Census CAPEX figures for 2017 where available, i.e., for mining and manufacturing, and based on employment in the case of telecommunications.

These data and assumptions suggest the proforma increase in potentially credit-eligible CAPEX over the five years would have ranged from about 2.4 to 3.8 percent, averaging 3.2 percent. Given this variation and other uncertainties about future mining investment in the state, as well as the possibility that the mix of county tiers in which mining investment is made differs from past eligible investment, the estimates assume an increase in credits generated beginning July 1, 2023, of between a low of 2.0 and a high of 5.0 percent. Assumptions about the rate at which credits are utilized when earned, as opposed to being carried forward and utilized in subsequent years, are based on DOR utilization data for this credit since tax year 2015 and are the same as those made for the baseline. The proforma projected tax expenditure cost of the credit, in high and low cases, is presented in Table 2; the high- and low-case net revenue effects are presented in Table 1.

Note that these estimates are based on historical patterns and statistics on mining industries in Georgia relative to already-eligible industries, specifically manufacturing and telecommunications. Credit-generating activity for the already-eligible industries has historically been volatile, affected by large investment projects coming at irregular intervals. It is similarly possible that one or more particularly large investments in mining are under consideration that, if they occur after the effectiveness of this bill, could increase the tax credits generated and utilized significantly beyond the amounts projected.

Table 2. Baseline and Proforma Tax Expenditure Estimates

($ *millions*)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Current-Law Baseline	$77.0	$81.6	$86.5	$91.7	$97.2
Proforma:					
High	Unchanged	$82.1	$87.6	$93.3	$99.4
Low	“	$81.8	$86.9	$92.3	$98.1