DOAA
Georgia Department
of Audits & Accounts

Greg S. Griffin
State Auditor

January 9, 2023

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

SUBJECT: Fiscal Note
House Bill (LC 43 2490)

Dear Representative Davis:

The bill would repeal the investment tax credit for manufacturers and telecommunications facilities in Georgia under O.C.G.A. §48-7-40.2 through 40.4 and reduce the sales tax exemptions for material and energy manufacturing inputs under O.C.G.A. §48-8-3.2. The exemption would be reduced from 100% to 50% of the state rate. The local sales tax treatment for the purchases of manufacturing inputs is not affected. Both changes would be effective June 30, 2023.

Impact on State Revenue

Georgia State University's Fiscal Research Center (FRC) estimated that the bill would increase state revenue in fiscal years 2024 through 2028, as shown in Table 1. The vast majority of the revenue increase is due to the repeal of the state sales tax exemption. The appendix provides details of the analysis.

Table 1 Revenue Effects Under LC 43 2490

($ *millions*)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Repeal of Mfr's ITC	$10.4	$20.7	$30.9	$40.9	$50.9
Reduction of Mfr's STE	$1,992.5	$2,116.1	$2,247.3	$2,386.6	$2,534.6
Total	$2,002.9	$2,136.8	$2,278.2	$2,427.5	$2,585.5

Impact on State Expenditures

The Department of Revenue (DOR) would not require additional resources to implement the provisions of the bill, but it would require significant time and redirection of resources to make necessary changes to multiple information systems. DOR estimated approximately 47 weeks of work, equating to $692,000 in staff time. This includes determining requirement, programming, and testing.

Respectfully,

Greg S. Griffin

Kelly Farr

Greg S. Griffin
State Auditor

Kelly Farr, Director
Office of Planning and Budget

GSG/KF/mt

Analysis by the Fiscal Research Center

Repeal of the Manufacturer's Investment Tax Credit

Taxpayers making qualified investments in manufacturing or telecommunication facilities can earn income tax credits equal to a percentage of the investment that depends on the county in which the investment is made, as follows:

- 5 percent of a qualified investment in tier 1 counties, as defined
- 3 percent in tier 2 counties, and
- 1 percent in tier 3 or 4 counties.

Sections 1-3 of LC 43 2490 would repeal this credit as of June 30, 2023, for investments made after that date.

Using Georgia Department of Revenue (DOR) credit utilization reports through tax year (TY) 2021 and state economic forecasts from the GSU Economic Forecasting Center (EFC), the Fiscal Research Center has forecasted the state tax expenditure related to this credit for the Georgia Tax Expenditure Report for FY 2024 (forthcoming). The EFC forecast as of August 2022 projected state Gross Domestic product (GDP) growth of 8.6 percent for 2022, 5.6 percent for 2023, and 6.2 percent for 2024. For purposes of this note, the 2024 growth rate of 6.2 percent is assumed to continue through 2028.

The estimated revenue gains from this bill would thus equal the currently projected tax expenditure but for one factor. Under current law, the amount of the credit that may be utilized in any year is generally limited to 50 percent of the taxpayer's tax liability for that year, though taxpayers may apply to DOR to use up to $1 million per taxpayer per year to offset payment of employee state income tax withholding (subject to a $10 million aggregate annual cap). Any remaining unutilized balance of credits may be carried forward for up to ten years. Thus, while the estimates assume no new credits generated after June 30, 2023, accumulated carryforward balances will continue to be used against state tax liabilities for several years, reducing the near-term gains from repeal of the credit.

Table 2 summarizes the baseline tax expenditure cost of manufacturing and telecommunications investment credits projected under current law for FY 2024-28 and the proforma projected tax expenditure cost assuming repeal under this bill.

Table 2. Estimated Manufacturing and Telecom Investment Tax Credits Utilized

($ *millions*)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Current-Law Baseline	$77.0	$81.6	$86.5	$91.7	$97.2
LC 43 2490 Proforma	$66.6	$60.8	$55.6	$50.7	$46.3

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

Section four 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 a rate of 2 percent. This change would become effective on June 30, 2023, applying to purchases after that date.

- 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 manufactures spent $71 billion nationally on energy inputs and $3.2 trillion on material inputs in 2021. Based on state level GDP data, also from the BEA, Georgia's share of these input purchases is estimated at $1.9 billion in energy and $82.4 billion in material inputs for 2021.

- The GSU EFC forecast of state GDP growth, extended to 2028 as discussed above, is used to project input purchases through 2028. These projections, converted to state fiscal years, are presented in Table 3 below.

Table 3. Estimated Manufacturing Energy and Material Input Purchases

($ *billions*)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Energy	$2.2	$2.3	$2.5	$2.6	$2.8
Materials	$97.4	$103.5	$109.9	$116.7	$123.9
Total Exempted Purchases CL	$99.6	$105.8	$112.4	$119.3	$126.7

Multiplying the values in Table 3 above by the proposed 2% sales tax provides the estimated revenue gains from this change in tax treatment.