



DOAA

Georgia Department
of Audits & Accounts

Greg S. Griffin
State Auditor

February 22, 2024

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

SUBJECT: Fiscal Note
House Bill 1167 (LC 50 0720)

Dear Chairman Blackmon:

The bill would raise the limits on donations to the Georgia Foundation for Public Education that qualify for a state income tax credit. The credits would increase from \$1,000 to \$2,500 for individuals and from \$2,500 to \$5,000 for married filing joint returns. For qualifying individuals who are members of limited liability companies, partners in partnerships, or shareholders in subchapter 'S' corporations, the donation limit would increase from \$10,000 to \$25,000. The maximum credit is \$5 million for tax year 2023 and \$20 million for subsequent years. A previous provision to prioritize donations to the lowest performing 5% of schools is removed. The bill would apply to taxable years beginning on or after January 1, 2024, though current law states that the credit will be repealed on December 31, 2026.

Impact on State Revenue

The University of Georgia's Department of Agricultural and Applied Economics estimated that the bill would decrease state revenue by the amounts shown in Table 1. Fiscal year 2025 is the first full year of the additional revenue loss. The appendix provides details of the analysis.

Table 1. Estimated Revenue Effects of LC 43 2079

(\$ thousands)	FY 2024	FY 2025	FY 2026	FY 2027
State Income Tax	(\$257.4)	(\$628.3)	(\$654.4)	(\$279.2)

Impact on State Expenditures

The Department of Revenue would be able to implement the provisions of the bill with existing funding.

Respectfully,

Greg S. Griffin
State Auditor

Richard Dunn, Director
Office of Planning and Budget

GSG/RD/mt

Analysis by UGA Department of Agricultural and Applied Economics

The State of Georgia offers a tax credit, to taxpayers who apply and receive approval, for donations of tax dollars to the Georgia Foundation for Public Education (the Foundation). Previously known as the Qualified Education Donation, and now referred to as the PEACH Education Tax Credit, the existing program offers qualified taxpayers the ability to direct their tax dollars towards public schools, subject to donation caps; it also directs the Foundation to prioritize its awarding of grants supported by these donated funds to the lowest performing 5% of state-wide schools according to the state-wide accountability system.

The proposal we consider raises the donation limit for taxpayer credits, beginning January 1, 2024, from \$1,000 per individual to \$2,500, and from \$2,500 to \$5,000 for joint returns. For qualifying individuals who are members of limited liability companies, partners in partnerships, or shareholders in subchapter 'S' corporations, the proposal increases their donation limit from \$10,000 to \$25,000. The maximum state-wide credit is set at \$5 million for tax year 2023 and raised to \$20 million for all subsequent years. In addition, the proposal removes the requirement that the Foundation prioritize donations to the lowest performing 5% of schools, and also a prohibition on donations to a school attended by a taxpayer's child (although these provisions may increase the number of expected donations, we could not estimate their effect). The proposal does not adjust the corporate, fiduciary, or 'S' corporation limits under the existing law, or the end date of the credit: December 31st, 2026.

The Georgia Department of Revenue (DOR) reports data related to taxpayer donations made under the credit system for the past six calendar years (2018-2023): the number of individual and corporate donations, and the aggregate donations made under each type. The reports do not identify the number of donations made up to the limit, or separate individuals into single/joint/LLC/'S' type/partnership (large) returns. In no year did the state-wide credit approach the \$5 million cap; rather, the data show a pronounced dip in credits in tax years 2019-2021, likely due to the Covid-19 pandemic shock. Total donations fell from just over \$2 million to \$43,260 from tax year 2018 to 2019 and dropped to just \$13,100 in tax year 2020. By tax year 2023, donations recovered to \$1.9 million.

To estimate the likely foregone revenue to the State, given that taxpayers use the credit to direct their taxes as donations to education, we generate forecasts of the likely number of capped donations each tax year. Then, we difference the amount of money those taxpayers would donate under the new limits versus under the old limits.

To estimate the number of capped donations each year from 2018-2023, we fit the donation number and aggregate value to a system of equations that allowed joint returns to donate up to \$2,500, and large returns to donate up to \$10,000. If the system produced an exact solution, we assume those values represent the total number of capped donations. If not, because the system is underidentified we calculate the maximum possible number of joint and large donations that could have been made to produce the aggregate donation figure, and reduce them by half (since the sum of those two capped values will produce the correct donation figure); all other donations that were made are assumed to not reach the statutory cap. Then, we take the average of the likely capped donations, both joint and large, from 2023 and 2024—since these are after the immediate pandemic-shock—and project them forward to future tax years at the expected rate of growth of the State economy, which is calculated based on U.S. Congressional Budget Office projections (CBO, 2024), and the three-year moving average share of the national economy that Georgia represents, according to the U.S. Bureau of Economic Analysis (BEA, 2024a; 2024b). We forecast the aggregate donations made at the new versus old caps using the capped values permissible under the proposal, and then calculate the difference in the forecasts. Because the proposal does not alter the corporate/fiduciary rules, we simply use a similar procedure and take the average of the relevant 2023 and 2024 donations, and project them forward at the same rate of growth. We verified that the sum of the new donations, both individual and corporate/fiduciary, does not approach the proposed aggregate credit of \$25 million in any tax year.

We adjust the calendar year basis in our calculations to a State of Georgia fiscal year basis, and adjust for the proposal effect date of January 1st, 2024, to arrive at the figures in table 1.

Table A1. Forecasts And Foregone Tax Revenue Calculations

	2023	2024	2025	2026
<i>Gross Domestic Product (\$ billions)</i>				
United States	\$27,341	\$28,418	\$29,565	\$30,813
Georgia	\$815	\$847	\$881	\$918
Share	2.98%	2.98%	2.98%	2.98%
Growth rate	6.25%	3.83%	4.10%	4.22%
<i>Individual (\$ dollars, unless otherwise specified)</i>				
Donation #	200	111	115	120
Donations	\$372,298	\$1,099,005	\$1,144,022	\$1,192,276
Avg. Donation	\$1,861	\$9,938	\$9,938	\$9,938
Joint cap	\$2,500	\$5,000	\$5,000	\$5,000
S-type cap	\$10,000	\$25,000	\$25,000	\$25,000
Likely joint capped	74	83	87	90
Likely S-type capped	19	27	28	30
Donations [counterfactual]		\$481,246	\$500,958	\$522,088
Difference		\$617,760	\$643,064	\$670,188
<i>Corporate/Fiduciary (\$ dollars, unless otherwise specified)</i>				
Donation #	44			
Donations	\$1,519,620	\$1,054,892	\$1,098,102	\$1,144,419
Avg. Donation	\$34,537			
<i>Total credit (\$ dollars)</i>				
Donations	\$1,891,918	\$2,153,898	\$2,242,124	\$2,336,695

Note: These figures are presented on a calendar year basis.

References

Congressional Budget Office (CBO). 2024. *The Budget and Economic Outlook: 2024-2034*. February. Accessed at: <https://www.cbo.gov/system/files/2024-02/59710-Outlook-2024.pdf>

U.S. Bureau of Economic Analysis (BEA). 2024a. *Gross Domestic Product [GDPA]*, retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/GDPA>, February 16, 2024.

U.S. Bureau of Economic Analysis (BEA). 2024b. *Gross Domestic Product: All Industry Total in Georgia [GANGSP]*, retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/GANGSP>, February 15, 2024.