DOAA
Georgia Department
of Audits & Accounts

Greg S. Griffin
State Auditor

April 1, 2025

Honorable Chuck Hufstetler
Chairman, Senate Finance
121-C State Capitol
Atlanta, GA 30334

SUBJECT: Fiscal Note
House Bill 136 (LC 50 1259S)

Dear Chairman Hufstetler:

Part I of the bill would make three changes to state income tax credits. It would expand the existing child and dependent care tax credit from 30 percent to 50 percent of the federal credit; create a $250 tax credit for each child under six years old; and create a new tax credit to employers that make childcare payments for employees' childcare expenses.

In Part II, the bill would revise the tax credits for contributions to qualified foster child support organizations. The bill increases the annual tax credit cap from $20 million to $30 million, expands the definition of aging foster children and justice-involved youth, and broadens the scope of qualified expenditures that can be covered by tax-credit-eligible contributions. Additionally, the bill allows these tax credits to be taken against the Insurance Premium Tax (IPT), extending eligibility for the credit to insurance companies. It also modifies the credit rate of 100 percent of contributions to 95 percent if a taxpayer's qualified contribution is less than their preapproved amount. Finally, it modifies the conditions under which a taxpayer may claim the credit and increases the monetary limits for mentorship services and direct cash assistance provided to eligible youth.

The bill would be effective for tax years beginning on or after January 1, 2026, with the exception of the child and dependent care tax credit, which would be effective for tax years beginning on or after January 1, 2025.

Impact on Revenue

Georgia State University's Fiscal Research Center (FRC) estimated that the bill would decrease revenue as shown in Table 1. The appendix provides details of the analysis.

Table 1. Estimated State Revenue Effects of HB 136 LC 50 1259S

($ *millions*)	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Child & Dependent Care Credit	($28.0)	($28.5)	($28.9)	($29.3)	($29.8)
Qualified Child Credit	-	($141.1)	($142.8)	($144.1)	($144.7)
Employer Childcare Credit (upper bound)	($10.0)	($20.0)	($20.0)	($20.0)	($20.0)
Qualified Foster Support Donation Credit	($0.4)	($4.1)	($5.3)	($6.6)	($7.5)
Total	($38.4)	($193.6)	($197.0)	($200.1)	($201.9)

Impact on Expenditures
The Department of Revenue (DOR) be able to implement the provisions of the bill with existing resources. However, changes to information systems would require approximately 16 weeks, equating to $181,000 of staff time.

Respectfully,

Greg S. Griffin
State Auditor

Richard Dunn, Director
Office of Planning and Budget

GSG/RD/mt

Analysis by the Fiscal Research Center

Section 1-1
The first section of the bill proposes to amend O.C.G.A. § 48-7-29.10, the existing qualified child and dependent care expense credit, by increasing the match of the federal credit under IRC Section 21 from 30 percent to 50 percent, beginning on or after January 1, 2025.

To estimate the revenue effects of this provision, the projected tax expenditure baselines from the Georgia Tax Expenditure Report for tax year (TY) 2025 are extended through TY 2030 based on pre-pandemic trend growth. This baseline expected utilization is grossed up to reflect the higher match of the federal credit. Baseline tax expenditures and pro forma projections with the proposed modifications are provided in Table 2. For the fiscal impact estimates in Table 1, the credits are assumed to impact revenues in the following fiscal year, upon filing of returns. Thus, for example, TY 2025 credits would reduce revenues in FY 2026.

Table 2. Baseline and Proforma Tax Expenditures and Net Revenue Impact of Section 1

($ *millions*)	TY 2025	TY 2026	TY 2027	TY 2028	TY 2029	TY 2030
Baseline	($42.0)	($42.7)	($43.3)	($44.0)	($44.7)	($45.3)
Pro Forma	($70.1)	($71.1)	($72.2)	($73.3)	($74.4)	($75.5)
Net Change in Utilized Credits	($28.0)	($28.5)	($28.9)	($29.3)	($29.8)	($30.2)

Section 1-2
The second section of the bill proposes to amend O.C.G.A. § 48-7-29.27 by adding a new tax credit for each qualified child in Georgia under six years old, starting in TY 2026. Full-time resident taxpayers can claim a credit of $250 per qualified child. Part-time or non-resident taxpayers can claim a credit that is prorated based on their non-Georgia income ratio, reported on their tax return. In no event can a credit amount exceed a taxpayer's income-tax liability, and any unused credit amounts cannot be carried forward to future returns.

The estimated revenue impacts of the qualified child tax credit are based on the following data and assumptions:

- The American Community Survey (ACS) for 2022 from the U.S. Census was used to estimate the proportions of dependents that are likely to be under six years old. Based on these data, 28.4 percent of those under age 18 in Georgia are under age six. ACS data were also used to estimate the distribution of eligible (under age six) children within households reporting one or more dependents. Table 3 details this distribution of households by size and estimated number of qualified children. Due to limited survey responses in the ACS, households with more than six children are assumed to have three children under six, on average.

- DOR tax return administrative data were used to simulate the fiscal impact of the proposed credits. The number of credit-qualifying children was imputed to TY 2022 returns with dependents based on the proportions in Table 3, resulting in a final sample of 652,000 Georgia returns with an estimated 775,000 dependents under age six.

- The sample was also constructed to have similar income characteristics to that of parents with young children. The proposed credits, based on each household's estimated number of qualified children, were then compared to their 2024 net tax liability. This predicted $198.7 million in credits generated and, given the non-refundability of the credit and inability to carry credits forward, $141.4 million effectively utilized. Based on this simulation, the estimates assume that 71.2 percent of aggregate generated credits will be effectively utilized.

- The Governor's Office of Planning and Budget's (OPB) population projections by age group, specifically those for the 0–4 and 5–9 age groups, were used to estimate growth in credits generated for TY 2026–30. Finally, 71.2 percent of aggregate credits generated are assumed to be effectively utilized in TY 2026. As tax liabilities grow with inflation, this share is estimated to increase to 72.2 percent by TY 2030.

Table 3. Estimated Number of Qualifying Children by Household Size

Shares	Zero	One	Two	Three	Four	Five	Six
One Dependent	71.9%	28.1%					
Two Dependents	59.4%	24.2%	16.4%				
Three Dependents	44.8%	32.1%	16.9%	6.2%			
Four Dependents	35.9%	31.7%	22.2%	7.9%	2.4%		
Five Dependents	21.7%	29.7%	30.3%	15.0%	2.7%	0.5%	
Six Dependents	19.7%	24.9%	36.8%	14.9%	0.9%	1.9%	0.8%

For the fiscal impact estimates in Table 1, the credits are assumed to impact revenues in the following fiscal year, upon filing of returns. Thus, for example, TY 2026 credits would reduce revenues in FY 2027.

Table 4. Population 0–5, Generated and Utilized Qualified Child Credits

($ *millions*)	TY 2026	TY 2027	TY 2028	TY 2029	TY 2030
Population Under 6	790,785	797,944	803,392	804,209	805,456
Credits Generated	$197.7	$199.5	$200.8	$201.1	$201.4
Credits Utilized	$141.1	$142.8	$144.1	$144.7	$145.3

Section 1-3

Section three of the bill would establish a new tax credit for employers that make childcare payments to licensed childcare providers on behalf of their employees. Eligible payments must have been made to a family-based or childcare learning center licensed by the Georgia Department of Early Childcare and Learning (DECAL). They must total more than $1,000 for each employee per year and must be in addition to, not in lieu of, other compensation.

Beginning with TY 2026, employers can earn tax credits based on eligible childcare payments equal to $500 per child for which payments were made during that taxable year. Increased credits of $1,000 per child are earned in the first year the employer makes qualified childcare payments under this proposal. Aggregate credits under this proposal cannot exceed $20 million per year and are set to sunset on December 31, 2030. Credits cannot exceed a taxpayer's income tax liability, and any unused credits cannot be carried forward.

Under this construction, where the employer minimum payment is an amount per participating employee, but the credit is per child, participating employees with multiple eligible children could result in credits that exceed the per-employee minimum childcare payment. This is particularly true in an employer's initial year participating, when per employee payments generate $1,000 per child supported.

There is considerable uncertainty in estimating this provision's fiscal impact because it is unclear how employers may respond to this policy. Historically, state and federal tax credit programs for employer-based childcare have experienced unexpectedly low utilization. A 2022 report by the federal Government Accountability Office (GAO) indicated that, among other potential reasons, that high upfront costs to participate may be why employers have stayed away. These barriers are reduced under this bill (compared to the employer-provided childcare credit), but to date, no state has been found to have implemented a policy modeled in this way. Further uncertainty is created by the need to have credits preapproved each year, presumably based on a known number, at the time of application, of participating eligible children.

As a result of this considerable uncertainty, the likely revenue cost of this credit cannot be reliably estimated, thus the fiscal estimates in Table 1 are to be considered upper-bound estimates where the annual $20 million aggregate cap is reached. The following data and assumptions, however, may provide some insights into the likelihood of reaching the cap:

- Multiple DECAL economic impact studies since 2019 estimate that over 157,000 children in the state each year attend childcare through private tuition. For simplicity, the estimate assumes that virtually all these children have at least one employed parent or caregiver. It would require 40,000 children—roughly one quarter of the population of under six children attending childcare based on private tuition—earning credits of $500 each to reach the aggregate cap. In practice, many would earn credits of $1,000, especially during the first years after passage.

- The American Community Survey (ACS) for 2022 from the U.S. Census indicate that 70 percent of households in Georgia that have one child under age six have only one such child. The remaining 30 percent of such households have two or more children under age six. These data also indicate that 47.9 percent of children under six are a member of a household with multiple children under six.

These credits are assumed to be taken by employers who, once preapproved for the credits, would reduce quarterly tax payments to reflect the anticipated credits, thus a 50-50 fiscal split is used to convert the tax year cap to the fiscal year upper bound amounts Table 1.

Section 2-1

Under current law, O.C.G.A. § 48-7-29.24 allows taxpayers to claim tax credits for contributions made to qualified foster child support organizations, subject to preapproval and to an aggregate cap of $20 million per year. These organizations provide services that support aging foster children. The law defines aging foster children as individuals aged 16–18 who are expected to benefit from foster support organizations, as determined by the Division of Family and Children Services. Additionally, the definition includes former foster children up to age 21, or age 25 under certain conditions, who have not been adopted or reunited with their families.

The current law places specific credit limits on taxpayers, with preapproval applications required between January 1 and June 30 each year. Credits claimed cannot exceed the taxpayer's tax liability for the year, but unused credits can be carried forward for up to three years. The Georgia Department of Human Services (DHS) is responsible for certifying foster child support organizations, while the Georgia Department of Revenue manages the preapproval of contributions to ensure eligibility for tax credits.

LC 50 1259S introduces several key modifications to the existing tax credit program that are anticipated to affect credit utilization and thus state revenue:

- Raising the annual tax credit cap from $20 million to $30 million in TY 2026.

- Allowing the credit to be taken against the insurance premium tax (IPT), expanding the program to include insurance companies and increasing the number of potential donors. This change is expected to accelerate credit utilization, as insurance providers are now included in the pool of potential utilizers of the credit. Credits earned by business enterprises (i.e., insurers) cannot exceed $10 million annually.

- The credit rate is reduced from 100 percent of the amount donated to 95 percent for taxpayers whose actual qualified donation is less than their preapproved donation amount.

We analyze similar donation-based tax credit programs in Georgia to assess the fiscal impact of the proposed revisions in the current bill on the Qualified Foster Child Donation (QFCD) credit. This includes tracking preapproval amounts and credit utilization rates for the Qualified Education Expense Credit (QEEC) and the Rural Hospital Tax Credit (RHTC). QEEC, established with a credit rate of 100 percent of donations, was established in 2009 and has reached its cap annually since 2011. RHTC preapproval records are not available for 2017 but, based on donations reported in a 2022 performance audit report from the Department of Audits, likely reached only about 20 percent of its cap that first year. The credit rate effective in 2017 was initially only 70 percent, but was increased to 90 percent by SB 180, signed into law on May 8 and effective beginning with TY 2017. In the 2018 legislative session, the credit rate was increased to 100 percent by HB 769, effective beginning TY 2018, and effectively reached the $60 million cap (preapprovals of $59.5 million, according the 2022 performance audit). After falling well short of the cap, approximately 78 percent, in 2019 because of IRS regulation changes that denied an itemized deduction for donations earning these and similar credits, preapprovals in 2020 reached 90.5 percent and have ranged between 98 and 100 percent since.

To model the fiscal impact of the current bill, we estimate the current baseline of expected usage of the program under current law and compare it to the expected usage under the bill. The QFCD credit program, which took effect on January 1, 2023, began with a moderate level of preapproved amounts, reaching approximately 58 percent of its cap in its first year and 68 percent in its second—lower than the RHTC after its first year as well as other similar programs. Preapprovals and credit generation reported by the Department of Revenue (DOR) was nearly $13.5 million for TY 2024. Based on its current trajectory, we anticipate that the QFCD program will reach its current annual cap of $20 million for the first time in TY 2029. This projection assumes moderate annual growth in preapprovals relative to the cap and serves as our baseline scenario.

Based on DOR data on utilization of credits generated from similar programs, QEEC and RHTC, we assume for the baseline that 68 percent of credits generated will be utilized in the year they are generated, 11 percent in the following year, and 6 percent in the third year. These data and assumptions correspond to the current-law estimates detailed in Table 5 below.

The revenue estimates are based on the following assumptions:

- Donations allowed to generate credits under the $10 million increase in annual cap are assumed to increase toward the maximum in the same pattern as previous programs. Based on the donation pattern from during the initial years of this program as well as similar donation-based programs in their early years, donations are assumed to be 58 percent of the maximum in the initial year and reach the cap in year five.

These estimates of donations (credits generated) and credits utilized under current-law and proforma are detailed in Table 5.

Table 5. Estimated State Revenue Effects under Current Law versus Pro Forma

($ *millions*)	TY 2026	TY 2027	TY 2028	TY 2029	TY 2030
Credits Generated:					
Current Law	$15.0	$16.0	$18.0	$20.0	$20.0
Pro Forma	$20.8	$22.7	$26.0	$29.0	$30.0
Credits Utilized:					
Current Law	$12.5	$13.4	$14.9	$16.5	$16.9
Pro Forma	$16.5	$18.6	$21.4	$23.9	$25.2

Historically, 90 percent of credits taken based on donation-based program have been taken against the personal income tax. The remaining 10 percent is assumed to be made by corporate taxpayers. Tax-year utilization of the credit is converted to fiscal years by assuming 10 percent of impact estimated by this bill will impact the current FY and 90 percent will impact the following FY upon filing. Finally, differences from the current-law baseline from the high and low pro forma estimates were used to calculate the net revenue effects presented in Table 1.