

DOAA AND TAX INCENTIVES

Joint Tax Credit Review Panel

June 14, 2023



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What will be covered

- DOAA as a resource
 - Past performance audits and special examinations
 - Tax expenditure report
 - Fiscal notes
 - SB 6 tax incentive evaluations
- SB 6 reports
 - What is included
 - What has been done
 - What is in process
- Items for consideration



Examples of DOAA Reports on Tax Incentives

10+ Years Ago

- Georgia's Economic Development Programs – 2005
- Corporate Income Tax Credits – 2006

More Recent

- Georgia Agricultural Tax Exemption – 2017
- Rural Hospital Tax Credit – 2019-present
- Film Tax Credit – 2020
- GARJA Tax Credit – 2021
- QEEC Tax Credit – this month



Tax Expenditure Report

- SB 206 in 2010 required compilation of tax expenditures
- Allowed DOAA to contract for the creation of the report
- Released with Governor's Budget Report
- Contains three-year estimate of tax forgone revenue
- For credits, shows amount expected to be claimed in a year, not the amount generated/earned in a year



Fiscal Notes

- Varies from 50 to 100 per session – about 40% are tax-related
- For tax-related notes, we
 - Consult with researchers, counsel, or legislators to ensure interpretation
 - Review analyses prior to producing fiscal notes
- Fiscal notes generally do not predict change in economic activity that might result from the bill



Current Tax Incentive Evaluations

- SB 6 passed in 2021 (O.C.G.A. § 28-5-41.1)
- Annual requests from Senate Finance and House Ways and Means
- RPF solicitation resulted in three contractors: Georgia Southern University, Georgia State University, University of Georgia
- DOAA's role
 - Assure independence
 - Assign projects
 - Provide general outline for reports
 - Review research plans and report drafts
 - Create one-page summaries



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Component – Economic Activity

ECONOMIC ACTIVITY

CBAER estimated the economic activity associated with the manufacturing industry. It found that companies receiving the exemption supported an average of 424,333 total jobs over the FY 2018 to FY 2022 period.

Not all economic activity associated with these companies is due to the sales tax exemption. While CBAER noted that the exemption is important in the manufacturing industry, it estimated that only 25% of companies would have made a different manufacturing decision in its absence. As a result, activity attributable to the exemption is reduced ($424,333 \text{ jobs} * 25\% = 106,083$).

O.C.G.A. § 28-5-41.1 requires the analysis to include net economic activity, which includes opportunity cost. If the credited taxes had been collected and expended by the state, CBAER estimated the creation of 34,800 jobs and average economic output of \$10.1 billion.



Note: Economic activity attributable to the tax exemption



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Component – Revenue

- Forgone revenue (also called tax expenditure)
- Add revenue generated because of economic activity generated by the tax incentive
- State revenue always included; local revenue often included

REVENUE

State tax expenditures exceeded \$3.0 billion in each of the last five years, reaching \$3.9 billion in 2022. Local governments had forgone revenue of another \$2.9 billion.

Activity attributable to the exemption resulted in additional state and local revenue. The state collected an average of \$1.7 billion each year, while local governments collected \$1.8 billion.

CBAER estimated that the alternate use of the state tax expenditure would generate \$158 million in state taxes.

\$3.4B
Average Tax
Expenditure

\$1.7B
Average
Revenue
Generated

Note: State averages for
FY 2018 to FY 2022



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Component – Cost

- Primarily administration cost incurred by agencies
- Agencies do not track, so not always calculated if reported time is small
- In limited cases, net cost may include a reduction in state expenditures (e.g., QEEC/SSO could lead to reduced QBE expenditures)

COST

The JTC is administered by both the Department of Community Affairs (DCA) and the Department of Revenue (DOR).

DCA reported annual costs of approximately \$195,000, primarily for salaries and benefits. DOR costs were estimated at \$131,000, also for personnel.



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Component – Public Benefit

- Not all incentives have a primary goal of economic development
 - Grocery stores sales tax exemption
 - Pharmacy sales tax exemption

PUBLIC BENEFIT

The exemption **lowers the price of food**, making the cost for Georgians to feed themselves more affordable.

The exemption on groceries makes Georgia's sales tax less regressive. Lower income households spend a greater portion of their income on food than higher income households. For example, the 4% tax savings represent 1.66% of the income of those making less than \$15,000. By contrast, it represents just 0.19% of the income of households with incomes between \$100,000 and \$150,000.



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List of SB6 Tax Incentive Evaluations

2022 Reports - Released

1. Grocery sales tax exemption
2. Prescription drug sales tax exemption
3. Historic rehab tax credit
4. Low-Income housing tax credit
5. Job tax credit
6. Qualified interactive tax credit
7. R&D tax credit
8. Manufacturing sales tax exemption
9. Computer equipment sales tax exemption
10. High-tech data center sales tax exemption
11. Retirement income exclusion

2023 Reports - Requested

1. Taxes paid to other states credit
2. Social security benefits exclusion
3. Georgia lottery sales tax exemption
4. Agriculture producer sales tax exemption
5. Life insurance premium tax deduction
6. Film tax credit
7. Quality jobs tax credit
8. Musical investment tax credit
9. Non-profit hospital sales, income, and property tax exemptions

<https://www.audits2.ga.gov/reports/summaries/tax-incentive-evaluations>

Reports, FAQs, and common terms



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Items for Consideration

- Tax Expenditure Report
 - Changes that might be useful
- SB 6 Reviews
 - Purpose of the tax incentive
 - Five-year projection for evaluation
 - Specific measures for reviews and comparison across provisions
 - Types of recommendations or observations might be useful



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