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Bill Analysis

"New Markets" Tax Credit is a Bad Investment

Fact Sheet: House Bill 395 (LC 37 1578ERS)

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House Bill 395 (HB 395) would create a complicated new tax break, the Georgia New Markets Tax Credit (NMTC), intended to increase private investment in businesses within low income communities. However, the proposed program's design is a flawed method for helping low income communities. It would be expensive, overly complex and a massive tax break for insurance companies with little to no economic benefit in return. Since state finances are still battered from the Great Recession, Georgia simply cannot afford such a large new business subsidy program – especially one that is highly unlikely to succeed.

The proposal is a hybrid of two different initiatives found elsewhere: the federal version of the New Markets Tax Credit, which some other states have emulated, and CAPCO (short for Certified Capital Companies), a controversial state subsidy program that Georgia rejected in the past. While the Georgia program would borrow the "new markets" name and have some of the same components, it would also include a complicated funding scheme involving state insurance companies. As with CAPCO, this new tax credit would only be available to insurance companies – not individual taxpayers.

Proposed Initiative is Expensive

The Georgia New Markets program would cost the state an estimated $72.5 million over seven years. The foregone revenue would come as a result of tax credits that offset the insurance premium taxes paid by Georgia insurance companies.

New Markets Tax Credits Would Drain State Revenues Through 2020

Fiscal Years	2016	2017	2018	2019	2020	Total Costs 2016-2020
HB 395 Impact (in millions)	$15.00	$15.00	$15.00	$13.75	$13.75	$72.50

Source: Official fiscal note for HB 395 (LC 37 1523ER) and author's calculations based on text of bill

Program Design is Complex and Unaccountable

Congress created the federal New Markets Tax Credit in 2000 to stimulate private investment within poor urban and rural areas, and several states have created their own versions. However, Georgia's initiative would be significantly different and more complicated than models available in other states. More specifically:

- The Georgia New Markets program would use a highly-complex financing process designed to convert the value of future tax credits into up-front cash that can be used to invest in businesses. The state would create deferred tax credits in Georgia's insurance premium tax, which insurance companies could claim in exchange for providing loans to so-called "community development entities" (CDEs) – a special type of financial institution certified under federal regulations. These CDEs would then invest the loaned money in Georgia businesses, with the intention of increasing economic activity and job creation. This process is similar to that of the so-called CAPCO program, a failed model from other states that Georgia lawmakers rejected in both 2011 and 2012.

- The tax break would not directly target entrepreneurs or small businesses – at least not by the commonly understood definition of “small.” Eligible businesses could meet the generous definition of a small business under federal rules, which in most cases would allow program money to go to companies with up to 500 employees.

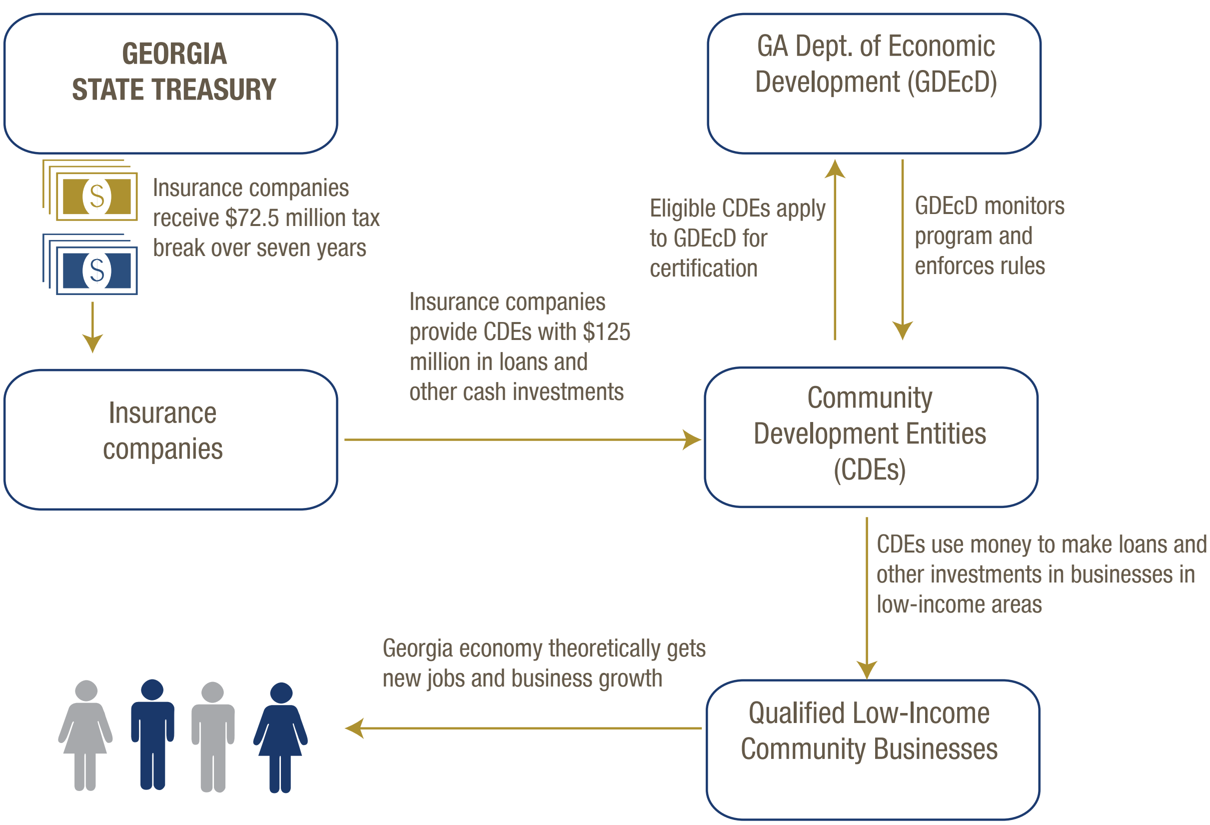
- The program would create a complicated new administrative framework within the Department of Economic Development. This differs from other states, where the program is often a simple add-on to the state’s personal and corporate income tax forms. It also differs from all of Georgia’s existing business subsidy programs, which are administered by the Department of Community Affairs.

- House Bill 395 does not include a review process to determine if the program is increasing investment or creating jobs. This deficiency would make it impossible for lawmakers to know if it was working.

Based on its flaws, lawmakers should soundly reject HB 395 and consider other options to improve the economy and create jobs. Georgia’s New Market program would be a costly and administratively burdensome initiative with few safeguards to ensure tax dollars are used effectively. Lawmakers would have no way to determine if it created jobs or helped businesses, meaning the state could wind up spending millions with little or no benefit in return. In these tight budgetary times, allocating scarce resources to a poorly-thought-out or inefficient program would do more harm than good.

How Georgia’s New Markets Tax Credit Would Work

HB 395 would create a complex financing scheme and administrative framework that would use state insurance companies as a conduit for providing state funds to qualified businesses in low-income areas.



Source: House Bill 395 and accompanying fiscal note (LC 37 1523ER)

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