

## Bill Analysis: House Bill 868 (LC 34 3275)

### House Bill 868 Reforms Georgia's Jobs Tax Credits

Proposals from Governor Deal's Competitiveness Initiative

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#### Overview

House Bill 868 is the first bill to drop as part of a package of proposals in the final report of Governor Deal's Competitiveness Council. Following the report's recommendations, the bill would revise two of Georgia's tax incentives for private sector hiring—the Jobs Tax Credit and Quality Jobs Tax Credit.

#### Cost

As of FY 2012, the combined value of these two tax credits is \$39 million per year. The proposed changes in HB 868 would increase this amount by \$15 million in FY 2013, \$40 million in FY 2014, and \$75 million in FY 2015. However, the actual cost to the state could vary considerably depending on how well the economy performs and how often the credit is claimed—the case with most tax credits.

#### What the Bill Would Do

##### Jobs Tax Credit

Enacted in 1989, the Jobs Tax Credit is available to Georgia businesses in certain industries that<sup>1</sup> create a minimum number of new jobs in a year. In order for new jobs to qualify, they must each pay a wage that is “above the average wage of the county that has the lowest average wage of any county in the state,” which is about \$22,000 per year—slightly less than the federal poverty line for a family of four. Employers are required to make health care available to new hires, though they are not required to pay for coverage unless they do so for existing employees. All qualifying companies can carry their tax credits forward for up to 10 years, and some are eligible to claim them against withholding taxes. The Jobs Tax Credit is based on the state's tier structure, which classifies counties from least developed (Tier 1) to most developed (Tier 4).<sup>2</sup> The lower the tier, the greater the benefit to participating companies.

HB 868 would increase the credit's value in more developed counties, such as in metro Atlanta, and lower the minimum number of jobs in three of four tiers, as shown in Table 1. It would also increase the additional bonus given to firms already located in Georgia from a one-time benefit of \$500 per employee to \$1250 per employee spread over five years.

##### Quality Jobs Tax Credit

Enacted in 2009, the Quality Jobs Tax Credit is available to any Georgia business that creates at least 50 “quality jobs” in a 12-month span. It is not based on the tier system like the standard Jobs Tax Credit, nor is it limited to only certain industries. For jobs to be considered “quality,” each new position must pay at least 110 percent of the average wage in the county they are located and include access to health care, although companies do not have to pay for coverage unless they do so for existing employees. All companies can apply the credits to their withholding and can carry them forward for up to 10 years. The current value of the credit increases depending on the wage level paid to each new employee, as shown in Table 2.

HB 868 would keep benefit levels the same and increase the amount of credits available by lowering the minimum jobs threshold from 50 to 15. Advocates claim this will make the credit available to small businesses, which are unlikely to create 50 jobs in a single year.

**Table 1 Changes in Jobs Tax Credit**

	Current Law		HB 868 Changes	
	Minimum New Jobs	Credit per Job	Minimum New Jobs	Credit per Job
<b>Tier 1 (Least Developed)</b>	5	\$3,500	2	\$3,500
<b>Tier 2</b>	10	\$2,500	10	\$2,500
<b>Tier 3</b>	15	\$1,250	10	\$2,000
<b>Tier 4 (Most Developed)</b>	25	\$750	10	\$2,000

Source: Georgia Department of Community Affairs (DCA); HB 868

**Table 2 Changes in Quality Jobs Tax Credit**

% of County Average Wage	Current Law		HB 868 Changes	
	Minimum New Jobs	Credit per Job	Minimum New Jobs	Credit per Job
<b>110%</b>	50	\$2,500	15	\$2,500
<b>120%</b>	50	\$3,000	15	\$3,000
<b>150%</b>	50	\$4,000	15	\$4,000
<b>175%</b>	50	\$4,500	15	\$4,500
<b>200%</b>	50	\$5,000	15	\$5,000

Source: Georgia Department of Community Affairs (DCA); HB 868

## Policy Considerations

Job creation is a critical priority for all Georgians; however, state jobs tax credits are widely viewed as an ineffective way to create jobs. As one economist put it after a full review of the literature, “studies are nearly unanimous in concluding that state and local tax incentives fail to attract a significant number of new businesses, create numerous jobs, or substantially enhance state economic performance.”<sup>3</sup> The records from other states indicate that businesses are unlikely to hire new employees unless overall demand for their products justifies such hiring. A job tax credit of a few thousand dollars is usually not enough of an incentive to motivate businesses to hire new employees if there is no underlying business reason for doing so. Ultimately, most of the credits are likely to apply to jobs that would have been created regardless of the credit.

Furthermore, Georgia lacks a comprehensive tool for analyzing whether the benefits of tax credits outweigh the costs of lost revenue. Without a tool, the effectiveness of jobs tax credits remains unclear. Future decisions to create, expand, or eliminate job tax credits should be based on a cost-benefit analysis.

Georgia cannot afford to undermine its ability to invest in education, infrastructure, and quality of life, which are far more critical to economic growth and job creation. The significant cost of this legislation should be paid for through the elimination of other tax breaks or by increasing taxes in other ways. At the least, it must be revenue neutral.

## Endnotes

<sup>1</sup>Eligible businesses include those engaged in “manufacturing, warehousing and distribution, processing, telecommunications, broadcasting, tourism or research and development.” HB 868 would expand this definition by adding “biomedical engineering” and manufacturers of “alternative energy products for use in solar, wind, battery, bioenergy, biofuel and electric vehicle enterprises.”

<sup>2</sup>Department of Community Affairs

<sup>3</sup>Lynch, Robert. “Rethinking Growth Strategies: How State and Local Taxes and Services Affect Economic Development.” Economic Policy Institute. 2004.