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Policy Report

Overview: 2015 Fiscal Year Budget for Business Subsidies

State Support for Private Sector Remains High

By Wesley Tharpe, Policy Analyst

Georgia plans to spend about $683 million[1] on various tax breaks and economic development programs to subsidize private businesses in the upcoming 2015 fiscal year. This high level of support for Georgia's private sector is an annual recurrence. Each year, state lawmakers spend hundreds of millions of dollars subsidizing companies that do business in Georgia. Some of it is spent through so-called "deal-closing" programs funded through the annual budget process, but most is spent through special carve-outs in the state tax code.

This report analyzes the governor's 2015 budget proposal and the state's annual Tax Expenditure Report, which estimates the cost of Georgia's tax break programs. Defined as business subsidies are three economic development programs funded through the state budget and 14 business tax breaks.[2] Each of the selected items is designed to bolster a particular industry, increase the amount of private capital available to qualifying companies, or reward businesses for activities such as moving to Georgia or adding jobs.

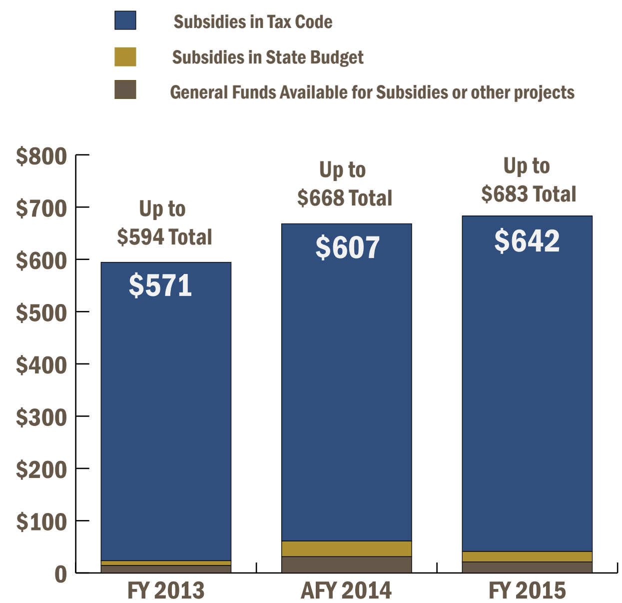
Key findings of the analysis include:

- Ninety-four percent of about $683 million in total subsidy spending is due to business tax breaks rather than line-items within the proposed 2015 state budget.

- Georgia's tax code hands out several generous tax breaks for businesses. The state proposes to grant about $642 million worth of business tax subsidies, both small and large, in the 2015 fiscal year. The six largest tax breaks account for about 94 percent of this total cost. Georgia's most expensive business tax subsidy is its credit for film companies, and the second and third costliest are special deductions for insurance companies.

Georgia's Subsidy Spending Remains High

Relevant budget appropriations and estimated cost of selected tax expenditures, by fiscal year, in millions



Source: Governor's AFY 2014 and FY 2015 Budget Reports; FY 2013 Budget in Brief; author's calculations using FY 2015 Tax Expenditure Report

- The state continues to increase money for budget-side subsidies. The governor proposes to add an extra $25 million to Georgia's two deal-closing programs, REBA and the OneGeorgia Authority, in the amended budget for the 2014 fiscal year. That brings their combined 2014 total for economic development projects to $61 million. These programs would receive another $41 million in the 2015 fiscal year. Because of the way the OneGeorgia Authority is structured, officials could use some of the money on projects that support economic development more broadly than specific subsidies.

Business Subsidies in the State Tax Code

The lion's share of taxpayer money Georgia spends subsidizing businesses is the result of special carve-outs in the state's tax code. Georgia proposes to spend about $683 million subsidizing businesses in the 2015 fiscal year. An estimated 94 percent, or $642 million, of that is due to tax breaks rather than programs in the state budget.

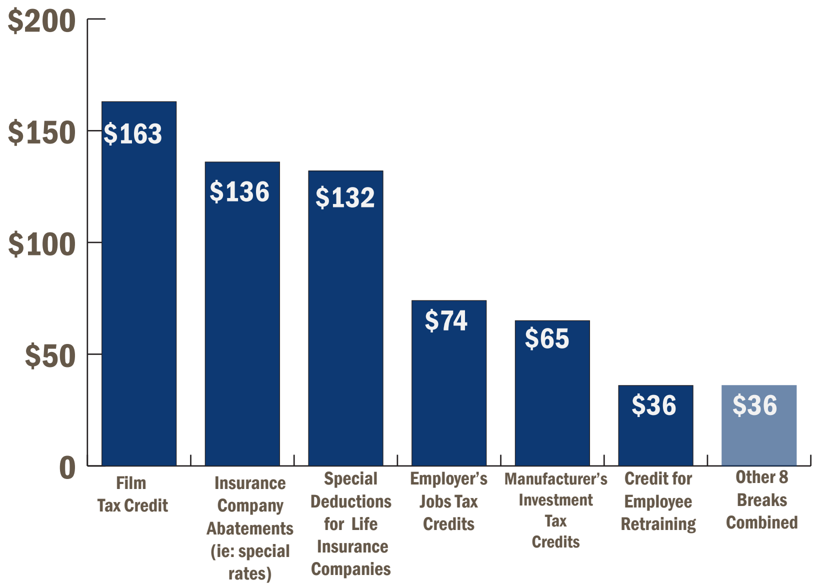
Companies doing business in Georgia can claim a variety of deductions, credits and preferential rates for things like adding jobs or investing in new machinery. Some special treatment is industry-specific. For example, film producers and life insurance companies receive a series of income tax credits and deductions designed to lower their state tax bill. Georgia's tax code contains dozens of provisions to benefit businesses in some way, and identifying which ones qualify as bona-fide subsidies is somewhat subjective. This report includes 14 tax expenditures in its definition. It does not include:

- Sales tax exemptions for businesses, since tax policy experts disagree whether exemptions for business inputs, such as energy used in manufacturing, should be considered subsidies
- Several income tax breaks that remain on the books but have no estimated costs for 2015
- Income tax credits that businesses can claim but are designed to achieve non-economic policy goals, such as credits for investing in low-income housing or private school scholarships.[3]

Most of the costs of Georgia's 14 business tax subsidies come from the six largest tax breaks—listed in the chart along with their estimated costs for the 2015 fiscal year. They include income tax credits[4] for film companies, manufacturers, job creation and employee retraining, as well as two special breaks for Georgia insurance companies. These six account for 94 percent of the costs of Georgia's business tax subsidies.

Largest Tax Breaks Generate Bulk of $642 Million Cost

Estimated costs in millions, FY 2015



Source: Author's calculations using Georgia Tax Expenditure Report for FY 2015.

Business Subsidies in the State Budget

The three programs in Georgia's budget that provide subsidies to targeted companies are the Regional Economic Business Assistance (REBA) grants, the OneGeorgia Authority[5] and Invest Georgia.

REBA and OneGeorgia are among Georgia's largest economic development programs. Both dispense grants, commonly called deal-closing funds, to provide companies with support for costs associated with relocation or expansion, including the purchase of land, supplies or improvement to a site.[6] REBA and OneGeorgia spent $47 million in 2007 when KIA Motors moved to Georgia and $18 million in 2012 when Caterpillar arrived. In the case of REBA, the program's full appropriation is used for deal-closing subsidies. Agency officials can spend OneGeorgia funds on deal-closing subsidies, or on other projects that support rural economic development more broadly, such as upgrading local infrastructure.

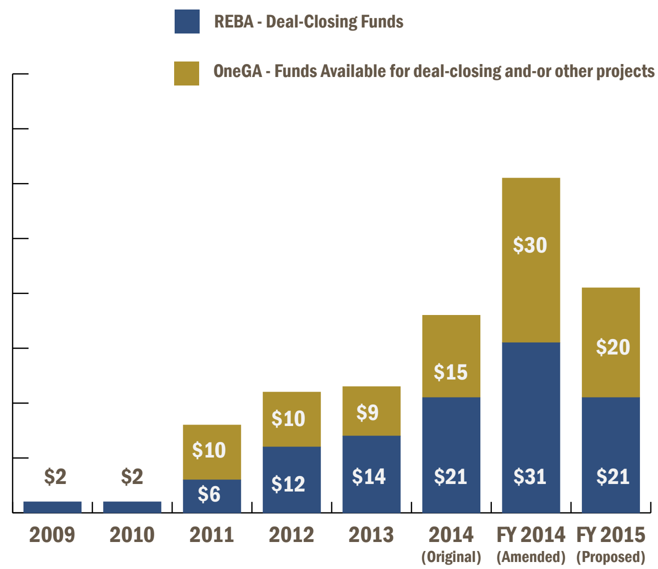
The governor's budget proposal for the amended 2014 fiscal year adds an extra $25 million for REBA and OneGeorgia combined:

- $10 million for REBA. That is on top of the $21 million approved in the original 2014 budget signed by the governor last spring. The additional funds bring REBA's 2014 total to $31 million.

- $15 million in additional "economic development project" funds for the OneGeorgia Authority. That brings OneGeorgia's 2014 total to $30 million in money available for business subsidies or other projects. This total does not include the $25 million included in OneGeorgia's budget to help local school districts upgrade their technology.

Lawmakers Continue to Increase Spending on "Deal-Closing Funds"

Appropriations for "economic development projects" in REBA and OneGeorgia Authority



Source: Governor's AFY 2014 and FY 2015 Budget Reports; Budgets in Brief for fiscal years 2009 – 2013
Notes: Totals for the OneGeorgia Authority only include funds for "economic development projects." The AFY 2014 total for OneGeorgia excludes (a) $25 million in competitive grants to expand the use of technology in rural schools, and (b) $5 million earmarked in the 2013 session to create the New and Beginning Farmer Loan Program. The farmer loan funds are also excluded from the original FY 2014 totals.

The governor includes $21 million in deal-closing subsidies for REBA and an additional $20 million for OneGeorgia in his 2015 budget. This is a drop from the amended funding level for 2014, but still an increase over recent years, as shown in the above chart.

Invest Georgia is a third subsidy program in the budget, created in the 2013 legislative session. The state has yet to fund it.

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[1]The total amount of funds Georgia spends subsidizing businesses should be considered an estimate, due to certain data limitations involved in estimating the precise costs of tax breaks. Specifically:

- The estimated costs of Georgia's various tax breaks are laid out in the annual Georgia Tax Expenditure Report, created in 2011 and prepared by the Department of Audits and Accounts in partnership with the Georgia State University Fiscal Research Center. The report's figures for how much specific tax breaks cost are not as precise as line-items within the state budget, for several reasons. Because they are estimates derived from the best data available, some cost figures are more exact and reliable than others. Estimates will also sometimes change significantly between years as more and better data become available. For a full description of the data limitations related to estimating tax breaks, see pages 4 – 8 of the Georgia FY 2015 Tax Expenditure Report.

- The state's official tax expenditure report does not provide precise estimates for tax breaks believed to cost between $0 and $1 million per year. To include those tax breaks within this analysis, GBPI has assigned each business tax break with an estimated cost between $0 and $1 million per year with a value of $0.5 million. Any distortion from this choice is likely minimal.

[2]The three subsidy programs within Georgia's budget are: Regional Economic Business Assistance Grants (REBA); OneGeorgia Authority; and Invest Georgia. The 14 items selected from Georgia's tax code include: Film tax credit; insurance abatements; special deductions for life insurance companies; employers' jobs tax credit; manufacturer's investment tax credit; credit for employee retraining; quality jobs tax credit; angel investor tax credit; port activity tax credit; research tax credit; optional investment tax credit; seed-capital fund credit; qualified health insurance expense credit; and business enterprise vehicle credit.

[3]For a full list of state income tax credits available to Georgia businesses, see pages 92 – 105 of the Georgia Tax Expenditure Report for FY 2015. Deductions and credits available to Georgia insurance companies can be found in pages 141 – 143 of that report. Please note that "insurance premium tax credits" are not included since evidence indicates those costs are due solely to insurance companies claiming the Low Income Housing Tax Credit, which this report does not define as a subsidy.

[4]Some of the costs of these income tax credits are accrued through Georgia's personal (rather than corporate) income tax. This occurs for different reasons depending on the credit in question. For example, nearly 70 percent of film tax credits are claimed on the individual income tax side, due to the fact film companies are allowed to sell their leftover credits to investors, families and small businesses with personal income tax liability in Georgia. With the jobs tax credit, conversely, employers are allowed to apply any leftover value from their credits (once they zero-out their corporate income liability) to their employees' personal withholding. In other words, they are able to pocket some of their workers' income taxes that, if it were not for the business tax credit, would show up as revenue in Georgia's personal income tax. In cases where a business subsidy generates costs in both the personal and corporate income taxes, both revenue losses are combined to generate the program's total cost.

[5]The OneGeorgia Authority carries out several functions, some of which do not necessarily qualify as business subsidies. The authority's largest initiative, OneGeorgia EDGE, is a textbook subsidy program that helps targeted businesses cover various capital costs, such as land or machinery. OneGeorgia's other main program, Equity grants, help local governments improve their infrastructure, such as water supply or roads.

[6]Due to limitations within Georgia's state constitution, REBA and OneGeorgia technically provide grants to local governments rather than giving money directly to companies. Local governments, however, use these grants to directly subsidize specific companies through agreed upon purchases of land, equipment and other items—lowering business costs in the same way as would a direct payment from the state treasury.