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Bill Analysis

"New Markets" Tax Credit is a Bad Investment

Bill Analysis: House Bill 439 (LC 37 1964ERS)

By Wesley Tharpe, Policy Analyst

House Bill 439 proposes a costly new tax break called the Georgia New Markets credit that would drain state coffers when lawmakers already struggle to find enough revenue for transportation, education and other vital needs. The goal of the credit is to increase private investment in low-income communities, but it's doubtful the program is a sound way to do that. The experiences of other states that experimented with the model raise serious concerns about its effectiveness and accountability. And the high cost of the credit would divert state money from schools, hospitals and other investments critical to Georgia businesses and families.

This year's legislation is a hybrid of two different federal and state initiatives. The first is the New Markets Tax Credit, a federal credit some states emulate. The second is a controversial state subsidy for insurance companies called CAPCO, which Georgia repeatedly rejected in the past. The latest Georgia legislation borrows the "new markets" name and shares some of the same components as the federal program, but it also proposes a complicated funding scheme involving state insurance companies. As with CAPCO, the legislation makes the new tax credit available to insurance companies, but not individual taxpayers.

Tax Subsidy Would Cost State $139 Million by 2023

HB 439 would cost Georgia an estimated $139 million in lost revenue over eight years. The proposed credit delays any lost revenue for two years. But the annual costs rise to as much as $29 million through the 2023 state budget year. Georgia's insurance companies would pay the state less in premium taxes by claiming the new credits.

New Markets Tax Credit Program would Drain State Revenues Through 2023 (fiscal years, in millions)

	2016	2017	2018	2019	2020	Five-Year Costs (2016-2020)	2021-2023*	Eight-Year Costs 2016-2023
HB 439 Fiscal Impact	$0	$0	$16.8	$28.8	$28.8	$74.4	$64.8	$139.2

Source: GBPI calculations based on text of bill and official fiscal note for HB 493 (LC 37 1964ERS).
*Note: Official fiscal note projects cost through 2020. Subsequent years and eight year total based on GBPI analysis of bill text.

Proposed 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. A handful of states followed with their own versions. But the version proposed for Georgia differs significantly from the federal model, and the existing state-level programs have poor track records. Here's how the Georgia New Markets credit proposed in HB 439 would work.

- HB 439 creates a **highly-complex financing process** designed to convert the value of future tax credits into up-front cash for capital investment in Georgia companies. The state would create deferred tax credits in Georgia's premium tax, which insurance companies pay based on the value of their in-state premiums. Participating insurance companies could claim these credits by providing loans and other cash investments to so-called "community development entities" (CDEs), a type of federally-regulated financial institution that serves low-income areas. Participating CDEs, in turn, leverage those funds into loans for qualifying businesses. The program requires companies receiving the funds be in low-income communities and have fewer than 250 employees.

- **Only insurance companies qualify for the credit in the Georgia legislative proposal.** This differs from the federal credit, as well as most state-level credits, which are available to individuals and companies with personal or corporate income tax liabilities. Restricting the credit to insurance companies requires a complex new state administrative framework with ongoing staff and operation costs. In most other states the program is a simple add-on to state income tax forms.

- The program's complex design makes it **hard to monitor and evaluate.** For one, it's unclear how much of the up-front investment actually reaches the businesses in low-income communities it is supposed to bolster. The director of the Arkansas Economic Development Commission explained in a 2013 news article that "The best we've been able to determine looking at this program and similar programs across the country, somewhere between 25 percent and 30 percent of the value of the tax credits make it to the end-project company. That means 70 percent of the value of the tax credit is going someplace else. Where? I'm not sure anyone is completely sure." The Georgia legislation lacks an independent review process to determine whether companies are in fact receiving the envisioned investment or creating jobs.

Checkered History in Other States Raises Questions

Several states passed versions of the New Market credit, only to revise or eliminate them later after disappointing performance. Missouri chose not to renew its program in 2013 after initial reports found it created fewer than half the anticipated jobs. Industry supporters claimed the program created nearly 6,000 new jobs, but an official review from the Missouri Department of Economic Development found the $120 million state investment led to only 823 actual new jobs. Arkansas is also now debating a bill to eliminate its New Markets program and recapture as much of the lost revenue as possible, due to increasing concerns about effectiveness.

Better Ways for Georgia to Boost Businesses and Economy

Lawmakers can use many available tools to boost families and businesses in low-income communities, like fully funding education, supporting rural hospitals or enacting an Earned Income Tax Credit. But the New Market proposal carries a high cost and little accountability. It's an initiative with a poor track record of job creation. The new tax credit also threatens to drain millions of dollars from the state budget in coming years, just as Georgia tries to figure out ways to pay for pressing needs like transportation. Lawmakers should reject HB 439 and focus on solutions more likely to help Georgia's families and economy as a whole.