

**GEORGIA STATE UNIVERSITY  
ANDREW YOUNG SCHOOL OF POLICY STUDIES  
FISCAL RESEARCH CENTER  
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**SUBJECT:** Arts Fund Investment Tax Credit

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## **Overview**

The Georgia Council for the Arts has proposed the creation of the Georgia Arts Trust (GAAT), a cultural trust fund. GAAT would be funded via a \$1 million special appropriation by the state as its partner investments and via private donations. It would also be able to receive, invest and administer state and federal revenues. To create incentives for private donations, the Georgia Arts Council proposes that a 50% income tax credit be created for donations to GAAT provided that the donation is matched with an equal or greater donation to a local non-profit arts organization.

In FY 2004, donations from private individuals and business / corporations to local non-profit arts organizations totaled \$32.7 million. In addition, private foundations contributed an addition \$21.5 million for an overall total of \$54.3 million.

The Fiscal Research Center has previously estimated the revenue impact of the proposed tax credit for a range of levels of the credit. At a 100% credit, the revenue loss is estimated at \$37.5 million. At the proposed 50% tax credit, the revenue loss is \$5.2 million.

## **Issues and Options**

### *Spending Priorities*

The first critical issue is to decide on the priority of the investment in GAAT relative to competing initiatives. While the proposed funding mechanism is a tax credit rather than a direct appropriation (except for the partner investment), the net budget impact is to reduce available budget dollars for other priorities by an estimated \$5.2 million.

### *Funding Mechanism*

The proposed funding mechanism is a tax credit. There are two concerns with using a credit. The first is the policy view that credits narrow the tax base and go against the basic principle of a broad tax base and a low rate. The second issue is that the tax credit mechanism creates additional uncertainty on both the funding side and the tax receipts side of the budget. The estimate is that the 50% credit will reduce tax receipts by \$5.2 million in the first year. This estimate is based on the best available data and sound

unintended consequences and result in actual credits taken quite different from the estimate. Options include:

- 1) Adopt the 50% tax credit as proposed. For any credit level, this option maximizes the potential funding of GAAT.
- 2) Adopt the 50% tax credit with a cap on individual donations. This would help to reduce the potential for actual credits taken to be far in excess of the estimate without seriously impairing funding of GAAT. Based on data supplied by the Woodruff Arts Center, appropriate caps might be \$130,000 for individual donors and \$1,000,000 for business / corporate donors. For individual donors, this cap would affect about 30% of the dollars donated but fewer than 15 of the almost 55,000 individual donors. A cap of \$1,000,000 on business / corporate donations would affect about 40% of dollars donated but only about 5 donors out of over 1,200.
- 3) Direct appropriation. This method provides budget certainty regarding the state's investment in GAAT but would cost the State \$10.4 instead of the estimated \$5.2.