

Policy Memorandum

FISCAL
RESEARCH
CENTER

GEORGIA STATE UNIVERSITY
ANDREW YOUNG SCHOOL OF POLICY STUDIES
FISCAL RESEARCH CENTER
JANUARY 12, 2005

SUBJECT: Note to Terry King

Analysis Prepared by David L. Sjoquist

Terry,

Here is our most recent effort on the small business exemption. First, I need to point out that the previous estimates provided to Chris Clark applied only to firms that pay a Georgia Corporate Income Tax. Thus, despite what the memorandum said, the estimate applies mainly to C corps.

The following estimates are for exemptions of \$15K for income of less than \$100K, \$10K for income between \$100K and \$200K, and \$5K for income between \$200K and \$300K.

For the C corps, the revenue loss is \$12.1 million using 2002 returns and \$17.8 million using 1999 returns.

Using the data we have from the Federal personal income tax returns (schedule E), we estimate that the revenue cost of the exemptions for partnerships, S corps, and some LLCs would be \$44 million in 2001. Given what we determined as the cost for S corps using the Georgia returns, \$44 million seems reasonable. (LLC can report using either schedule E or schedule C). This is an upper bound since we have profits allocated to each partner rather than once to the entire partnership.

As sort of a check on the estimate from Schedule E we did some work using the Georgia Corporate Income Tax return for S corps. S corps are required to file a return even though they generally do not have to pay corporate income tax. The purpose of the return is to show the calculation of profits that are taxable in Georgia. These profits are taxable as personal income. However, the Dept of Revenue does not capture in their file Georgia taxable income. However, DOR does capture Federal ordinary income for S corps. We don't know if this is larger or smaller than Georgia taxable income. However, using Federal ordinary income, we estimate that the exemptions for just S corps would cost \$37.0 million for both 1999 and 2002. Note that this is not in addition to the \$44 million mentioned above, but as a check.

If in addition the exemption applies to income reported on Schedule C is included, the revenue cost increases by another \$129 million. Income reported on Schedule C would include mostly self employed (i.e., sole proprietorships) and some LLCs. Included on Schedule C would be income from full time consultants as well as a faculty member who has a small consulting business, owners of a small retail business and possibly "employees" who are treated as contract workers by the "employer." We have no way of distinguishing among these different individuals.

Hope this is of some help.

Dave