

Policy Memorandum

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SUBJECT: Revenue Estimates for “American Jobs Creation Act of 2004”

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To estimate the revenue implications for Georgia of the “American Jobs Creation Act of 2004” I started with the list of provisions and estimated Federal budget effects provided in the CBO report. First, using a report from Deloitte that provided an overview of the provisions of the Act, I reviewed the nature of each provision. It may be that I have not correctly interpreted all of the provisions. Furthermore, some provisions may be designed to assist a particular non-Georgia firm and thus may not have an effect on Georgia revenue.

Second, based on my review of the provisions, I removed those provisions that I believe will have no effect on Georgia, for example because the provision alters the foreign tax credit, adds a new federal tax credit, or changes a federal excise tax.

Third, I lumped together provisions that had a Federal budget effect of less than \$50 million for both 2005 and 2006. The total Federal budget effect of these provisions is a \$50 million increase in revenue for Federal FY 2005 and a revenue loss of \$27 million for Federal FY 2006. These provisions, taken either individually or as a group, would have an inconsequential revenue effect for Georgia.

Fourth, for the remaining provisions I allocated to Georgia a portion of the budget effect estimated by CBO. Since the Federal corporate income tax rate is 35%, I first divided the CBO federal budget estimate by 0.35 to calculate the effect on taxable income. I then selected some factor, for example exports, that I thought would reflect Georgia’s share of the change in taxable income, and calculated Georgia as a share of the US. This is crude but I could not think of another way of determining the effect of the provisions for Georgia. One of the limitations of this approach is that to the extent that the affected firms are multistate firms, Georgia’s share of any change in taxable income for the firms depends on the effect on corporations nationwide and the value of the apportionment formula for Georgia. Finally, the change in Georgia taxable income was multiplied by 6%, the Georgia corporate income tax rate. (Some of the provisions affect individual income taxes. While the effects are likely to be felt by higher income taxpayers, to the extent that they are not, using tax rates of 35% and 6%, understates the change in the federal taxable income and overstates the effect on Georgia revenue. It is not clear which effect is larger.)

The following table lists all of the provision for which an allocation to Georgia was made, along with the factor used to allocate taxable income, the percentage of the change in taxable income allocated to Georgia, and the estimated revenue effect for Georgia. The revenue effects are reported for federal fiscal years 2005 and 2006 and are in millions of dollars.

CBO Number	Provision	Factor	% Allocated	Fed FY 2005 (in millions)	Fed FY 2006 (in millions)
I.1	Repeal of exclusion for extraterritorial income	Exports	2.2%	\$1.335	\$4.967
I.2	Deduction relating to income attributable to US production activity	Employment in relevant sectors	3.1	-10.916	-16.219
II.A	Small Business Expensing-section 10	Business construction	3.9	0	-25.499
II.B.1	15-year straight-line cost recovery for qualified leasehold improvements	Employment growth	3.1	-0.345	-0.781
II.B.2	15-year straight-line cost recovery for qualified restaurant improvements	Employment in restaurants	3.2	-0.773	-0.181
II.E.2	Modification of application of the income forecast method of accounting	Employment in motion picture production	2.5	-0.780	-0.596
II.E.4	Special rules for certain film and television production	Employment in motion picture production	2.5	-0.351	-0.424
II.B.12	Deduction of the first \$10,000 of qualified reforestation costs	Employment in forestry & logging	7.6	-0.717	-0.482
II.C.6	Extended placed in service date for bonus depreciation for certain aircraft	Average apportionment factor	3.8	-8.240	-1.140
IV.12	Look-through treatment under subpart F for sales of partnership interests	Population	2.9	-0.194	-0.452
IV.22	Incentives to reinvest foreign earnings in the US	Fortune 500 in Georgia	3.6	17.206	-13.077
VII.5	Permit life insurance companies tax-free distributions from policyholder surplus accounts	Employment in life insurance firms	3.2	-0.428	-0.296
VIII.A.1	Tax treatment of expatriated entities*	Fortune 500 in Georgia	1.8	0.296	0.154
VIII.B.11	Limitation of transfer or importation of built-in losses	Fortune 500 in Georgia	3.2	0.280	0.543
VIII.B.14	Clarification of rules for payment of estimated tax for certain deemed asset sales	Fortune 500 in Georgia	3.2	0.302	0.154
VIII.B.16	Prevent mismatching of deductions and income inclusions	Exports	2.2	0.151	0.309
VIII.C.20	Expanded disallowance of deduction for interest on convertible debt	Average apportionment factor	3.8	0.612	0.586

CBO Number	Provision	Factor	% Allocated	Fed FY 2005 (in millions)	Fed FY 2006 (in millions)
VIII.C.21	Reform the tax treatment of leasing transactions with tax-indifferent parties	Average apportionment factor	3.8	3.837	6.084
VIII.D.2	Modify charitable contribution rules for donations of patents and other intellectual property	Population	2.9	1.526	1.581
VIII.D.4	Provide that deduction for charitable contribution of vehicles generally equals sales price	Population	2.9	0.149	1.248
VIII.D.5	Treatment of nonqualified deferred compensation plans	Executive employment	3.2	0.867	0.741
VIII.D.6	Extension of amortization of intangibles to acquisitions of sports franchises	Sport franchises	3.3	0.294	0.498
VIII.D.17	Deny installment sale treatment for all readily tradable debt	Employment in mfg, retail & wholesale sales	3.2	0.280	0.313
VIII.D.22	Provide consistent amortization periods for intangibles	Start-up businesses	4.2	-1.094	2.606
VIII.D.27	Limit deduction for certain entertainment expenses	Security Brokerage employment	1.6	0.471	0.551
VIII.D.29	Dispositions of transmission property to implement FERC restructuring policy	Employment in bulk electricity transmission	2.0	-10.790	-6.250
VIII.D.30	Expansion of limitation on depreciation of certain passenger automobiles	Automobile registration	3.0	0.705	0.699
<i>TOTAL</i>				<i>-6.318</i>	<i>-44.364</i>

50% is treated as assumed to affect foreign tax credit.