

**GEORGIA STATE UNIVERSITY
ANDREW YOUNG SCHOOL OF POLICY STUDIES
FISCAL RESEARCH PROGRAM**

SUBJECT: A Revenue-Neutral Development Incentive for Nonmetropolitan Counties in Georgia: A Preliminary Analysis

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Economic development incentives generally give a tax credit or rebate to firms that either start up or create new jobs in a particular location. The government is essentially paying for a firm to locate in the jurisdiction and/or to create new jobs. This payment often occurs through some sort of payment generally distributed as tax rebates, tax credits or the provision of training, infrastructure or other services. One definition of a revenue-neutral economic development incentive is the payment or tax credit equals the total tax revenues paid by the firm and by individuals working for the firm. These tax revenues come from the individual income tax, sales tax, and property tax payments of workers in new jobs and from the corporate income tax and property tax payments of new or expanding firms.

The basic structure of the proposed (by GDITT) revenue neutral incentive for Georgia is :

- (1) A nonmetropolitan community is negotiating with a company to open or expand in the community and finds that the firm is more interested in another location outside of Georgia.
- (2) The community can apply to the GDITT for the revenue-neutral incentive based on the number of job and payroll that the company would generate.
- (3) The company would agree to create and maintain a certain number of jobs at a specified minimum average salary within a specified timeframe.
- (4) If the company fails to meet the contract, it would be required to pay back the incentive.
- (5) The incentive would be structured as a rebate of a proportion of the company's payroll (or a corporate income tax credit). The rebate is good for ten years as long as the jobs and payroll specified in the contract are maintained.
- (6) The company is required to use the rebate (tax credit) for mutually agreed upon purposes as specified in the contract. These may be capital costs, infrastructure repairs, debt service reduction or training and education or workers.
- (7) The rebate returned to the company will increase as it meets specified payroll plateaus.
- (8) The rebate would depend on the average salary paid to the company's workers (excluding management) and the average salary of the region where the company is located.

- (9) If the company fails to meet the terms of the contract, it may apply for a six to twelve month waiver.
- (10) If the company ultimately fails to meet the terms of the contract or if performance drops below the minimum number of permanent jobs specified by BEST threshold requirements (see tables below), it must repay the state the full amount or rebates plus service fees.

TABLE 1: CURRENT BEST JOB CREATION REQUIREMENTS

	Description	Job Creation Minimum	Credit Amount
Tier 1	Least developed counties ranked 1 st through 53 rd	5	\$2,500 per job
Tier 2	Ranked 54 th through 106 th	15	\$1,500 per job
Tier 3	Most developed counties ranked 107 th through 159 th	25	\$500 per job

TABLE 2: CURRENT BEST INVESTMENT REQUIREMENTS

	Minimum Investment	Credit Amount
Tier 1	\$50,000	5% 8%*
Tier 2	\$50,000	3% 5%*
Tier 3	\$50,000	1% 3%*

*The percentage increases for recycling, pollution control and defense conversion activities.

Source: Georgia Economic Development Association, *Incentives Manual*, June 1997 (revised).

The major problem is defining the incentive amounts available to firms in a revenue-neutral incentive scheme. This involves estimating the payroll that a firm would generate in a given location and the tax revenue that would be generated.

Using data from the 1994 County Business Patterns, we have calculated the average payroll for manufacturing firms and payroll per worker in each Georgia county. We used this data as a starting point to calculate the tax revenue generated by the average manufacturing firm located in a nonmetropolitan county.

We use the following rates and assumptions for calculating the taxes paid by an individual working in the manufacturing industry in a nonmetropolitan county. Calculations are shown in the table below. The average income is \$22,700. The income tax burden for an individual in this income range is about 2.92% (Edwards and Wallace, 1997). This incorporates realistic assumptions about interest income, mortgage payments, etc. The effective sales tax rate is

TABLE 3: ESTIMATES OF CORPORATE AND INDIVIDUAL TAXES AS A PERCENTAGE OF PAYROLL FOR NONMETROPOLITAN MANUFACTURING FIRMS

Tax	Payment
Individual State and Local Taxes	
Income Tax	\$662
Sales Tax	\$568
Property Tax	\$720
TOTAL per Individual	\$1,950
TOTAL for firm = \$1,950 * 63.9 workers	\$124,605
Corporation State and Local Taxes	
Income Tax	\$3,376
Net Worth Tax	\$60
Property Tax	\$35,090
TOTAL	\$38,526
Total Individual and Corporate Taxes	\$163,131
Average Payroll for Firm in Nonmetropolitan Counties	\$1,449,900
Taxes as a % of Payroll	11.3%

Source: Author’s calculations.

approximately 2.5% (Bahl and Hawkins, 1997). The average millage rate is about 20 for nonmetropolitan counties. We assume an assessed property value of \$90,000.

We use the following rates and assumptions for calculating the taxes paid by a manufacturing firm located in a nonmetropolitan county. Average taxable income for firms in Georgia is about \$56,266. (This was calculated using statistics from the Georgia Department of Revenue. Average Taxable Income = Total Net Taxable Income / Number of Corporate Income Tax Forms Filed). The Corporate Income Tax rate is 6%. The Net Worth Tax for this level of income is \$60. To calculate the property tax paid by a firm, we used estimates from the Bureau of Economic Analysis of capital value per worker in the manufacturing industry. We multiply the average number of employees in a manufacturing firm times the capital value per worker to get the property value for the average manufacturing firm nonmetropolitan counties. We used a millage rate of 20. We did not attempt to estimate sales tax paid by corporations.

The average payroll for manufacturing firms in nonmetropolitan areas is around \$1,449,900. As Table 3 shows tax revenues are about 11% of payroll. Thus, a revenue neutral economic development incentive would amount to 11% of a firm's payroll for a new job created. This is an annual amount. If 30% of the new jobs created in nonmetropolitan counties between 1994 and 1995 were attributable to new firms opening in these areas, the total income tax credit would amount to \$5.8 million.¹

Evidence from Georgia's Job Tax Credit

We used data from the Georgia Department of Revenue for corporations taking the Georgia's Job Tax Credit (JTC) between 1993 and 1995 and data from the Georgia Department of Labor to calculate the annual payroll for firms which took the JTC. Table 4A below shows the average, minimum and maximum JTC as a percent of payroll for firms taking the credit. The Job Tax Credit is less than one percent of the average firm's payroll. Tables 4B and 4C show the JTC as a percentage of payroll for firms with a positive tax liability and for manufacturing firms. The JTC is limited to half of a firm's tax liability. Table 4D shows the proportion of payroll that the credit would be without this limitation. For example, if a firm located in a Tier 1 county is eligible to take a credit for 25 jobs in 1994 the total JTC amount would be \$50,000 (25*\$2,000). However, if the firm's tax liability is only \$10,000, the maximum JTC that the firm can take is \$5,000 and a carryforward of \$45,000. If firm's were eligible to take the maximum credit, it would cover about 4.3 percent of payroll for the average firm. The low proportion of payroll covered by the JTC may be one reason why so few firms take the JTC.

TABLE 4A: JOB TAX CREDIT AS A PERCENT OF A CORPORATION'S TOTAL PAYROLL,* PARTICIPATING FIRMS, 1993-1995

	Number	Average (%)	Minimum (%)	Maximum (%)
All firms taking JTC	103	0.62	0	8.1
Tier 1 firms	69	0.24	0	8.1
Tier 2 firms	26	0.44	0	2.1
Tier 3 firms	8	0.24	0	1.2

* Payroll includes part-time and full-time workers.

TABLE 4B: JOB TAX CREDIT AS A PERCENT OF A CORPORATION'S TOTAL PAYROLL,* FIRMS WITH POSITIVE TAX LIABILITY, 1993-1995

	Number	Average (%)	Minimum (%)	Maximum (%)
All firms with positive tax liability	66	0.64	0.003	8.10
Tier 1 firms	44	0.82	0.013	8.10
Tier 2 firms	16	0.28	0.003	0.88
Tier 3 firms	6	0.31	0.028	1.23

* Payroll includes part-time and full-time workers.

TABLE 4C: JOB TAX CREDIT AS A PERCENT OF A CORPORATION'S TOTAL PAYROLL,* MANUFACTURING FIRMS, 1993-1995

	Number	Average (%)	Minimum (%)	Maximum (%)
Manufacturing Firms	96	0.65	0	8.1
Tier 1 firms	66	0.75	0	8.1
Tier 2 firms	25	0.45	0	2.1
Tier 3 firms	5	0.31	0	1.2

* Payroll includes part-time and full-time workers.

**TABLE 4D: JOB TAX CREDIT AS A PERCENT OF A CORPORATION'S TOTAL PAYROLL,*
IF FIRMS COULD HAVE TAKEN THE MAXIMUM CREDIT,** 1993-1995**

	Number	Average (%)	Minimum (%)	Maximum (%)
If firms had taken maximum credit	102	4.37	0	94.95
Tier 1 firms	68	5.86	0	94.95
Tier 2 firms	26	1.81	0	8.57
Tier 3 firms	8	0.09	0	0.36

* Payroll includes part-time and full-time workers.

* * Maximum Credit is defined as Jobs Created * Credit Amount. If a firm in a tier 1 county had created 25 jobs the maximum credit amount is 25 * 2000 if originally claimed in 1993 and 1994 and 25*2500 if originally claimed in 1995.

Notes:

1. According to County Business Patterns, approximately 7800 manufacturing jobs were created in nonmetropolitan counties between 1994 and 1995 and the average pay (per worker) is approximately \$22,700. If 30 percent of these jobs are attributable to new firm start ups and these firms applied for the revenue neutral incentive, the total incentive amount would be $0.3 * 7800 \text{ jobs} * \$22,700 * 0.11 = \$5.8 \text{ million}$.