DOAA
Georgia Department
of Audits & Accounts

Greg S. Griffin
State Auditor

March 11, 2024

Honorable Chuck Hufstetler
Chairman, Senate Finance
121-C State Capitol
Atlanta, GA 30334

SUBJECT: Fiscal Note
House Bill 814 (LC 50 0721S)

Dear Chairman Hufstetler:

The bill would create an income tax deduction based on federal grants received through the Broadband Equity, Access, and Deployment (BEAD) Program, the State Fiscal Recovery Fund (SFRF), and the Capital Projects Fund (CPF). The grants are intended to help expand high-speed broadband internet access into rural or otherwise underserved communities. The bill would be effective July 1, 2024, and applicable to taxable years starting on or after January 1, 2022.

It should be noted that the bill modifies O.C.G.A. § 48-7-27, which pertains to the calculation of taxable income for individuals. For purposes of the analysis, it is assumed that the intent of the bill is to modify O.C.G.A. § 48-7-21 (Taxation of Corporations).

Impact on State Revenue

Georgia State University's Fiscal Research Center (FRC) estimated that the bill would reduce state revenue by the amount shown in Table 1. The range is attributed to assumptions of the portion of the federal grant funds that will be received by taxable entities. Details of the analysis are provided in the attached appendix.

Table 1. Estimated State Revenue Effects of HB 814 LC 50 0721S

($ *millions*)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Upper Bound Estimate	($16.6)	($29.1)	($18.7)	($8.3)	($8.3)
Low Estimate	($6.8)	($12.2)	($7.5)	($2.7)	($2.7)

Impact on State Expenditures

The Department of Revenue would be able to implement the provisions of the bill with existing resources.

Respectfully,

Greg S. Griffin
State Auditor

Richard Dunn, Director
Office of Planning and Budget

GSG/RD/mt

Analysis by the Fiscal Research Center

Since the enactment of the federal Tax Cuts and Jobs Act (TCJA), federal broadband grants are treated as taxable income on a taxpayer's federal return. As a result of Georgia's current-law conformity to the federal tax code, these grants would also be included in Georgia taxable income. The proposed bill would allow individual taxpayers a deduction from federal adjusted gross income (FAGI) in the amount of the grants.

Note that the language of the bill does not limit the deduction to the amount included in federal taxable income. Should federal law change so as to exclude these grants from federal taxable income, Georgia grant recipients would, as this bill is currently drafted, still be allowed a deduction in the full amount of the grant.

Note also that O.C.G.A. § 48-7-27, the code section to which this deduction is added, pertains only to the calculation of taxable income of individuals. Calculation of corporate taxable income is addressed in § 48-7-21, which the bill does not propose to amend. Thus, it appears that Georgia corporate filers would not be allowed a deduction for grants received. Nevertheless, the analysis that follows assumes this is a drafting oversight and that the deduction would be available to corporate taxpayers as well as individuals.

The Georgia Technology Authority (GTA) is responsible for administering the grant programs applicable to the proposed deduction. These programs include the Broadband Equity, Access, and Deployment (BEAD) program as well as two programs created under the American Rescue Plan Act of 2021 (ARPA), the State Fiscal Recovery Fund (SFRF), and the Capital Projects Fund (CPF).

GTA reports that BEAD grants available for investment in Georgia total approximately $1.3 billion, to be awarded to grantees and drawn between 2025 and 2029. SFRF and CPF grants have been allocated and partially drawn already. Based on grants data and other program information provided by GTA, we find the following with regard to these two programs.

- SFRF grants totaling $414.9 million have been allocated and $180.0 million has been drawn through the end of 2023. Of the total, $401.5 million was awarded to governments, EMCs, or other non-taxable entities, while $13.4 million has been awarded to apparently taxable entities. Of the amount drawn to date, all has been drawn by non-taxable entities.
- CPF awards total $246.1 million, with $201.3 million going to apparently taxable entities and $44.8 million to non-taxable ones. Approximately $2.5 million has been drawn through the end of 2023, $0.9 million by taxable entities and $1.6 million by non-taxable ones.
- Grants under these ARPA programs must be drawn by the end of 2026.

Because the BEAD application process has just started as of the date of this fiscal note, it is unknown what shares of the $1.3 billion total will be awarded to taxable versus non-taxable entities.

The estimates are based on the following data and assumptions:

- SFRF and CPF grants destined for taxable grantees, net of the $0.9 million drawn before 2024, total $213.8 million and will be funded evenly over the tax years (TY) 2024, 2025, and 2026.
- Total BEAD grants of $1.307 billion will be awarded across TY 2025–29 as follows: 33 percent in 2025 and 2026 and 11 percent in each subsequent year through 2029.
- The upper-bound estimates are based on all eventual BEAD grants being received by taxable organizations, and the base case estimates are based on 38 percent, the combined taxable share of SFRF and CPF grants.

- In the case of the $0.9 million in CPF grants already drawn by taxable organizations, it is assumed that taxpayers will amend previous returns upon the passage of this bill. For simplicity, we assume refunds, including interest thereon, will be paid in FY 2025.

Table 2 presents the upper-bound and base case estimates for deductible grant income received through these programs during TY 2024–29.

Table 2. Estimated Deductible BEAD, SFRC, and CPF Grants

($ *millions*)	TY 2025	TY 2026	TY 2027	TY 2028	TY 2029	TY 2029
Upper Bound Estimate	$71.8	$506.2	$506.2	$145.1	$145.1	$145.1
Low Estimate	$23.9	$212.2	$212.2	$47.1	$47.1	$47.1

For the revenue impacts in Table 1, the tax rate of 5.75 percent, the current law corporate tax rate, was applied to these grant amounts, while fiscal year effects were estimated using averaging.