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Tax Incentive Evaluation: Georgia's Bank Tax Credit

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Prepared by:

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For:

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Executive Summary

In Georgia, a tax credit for depository financial institutions, also referred as the bank tax credit (O.C.G.A § 48-7-29.7), was enacted in 1983 with the intent to offset the special occupation tax on financial institutions that is levied by the state, counties, and municipalities under O.C.G.A § 48-6-93 and § 48-6-95.

This report was prepared under a contract with the Georgia Department of Audits and Accounts (DOAA). The purpose is to evaluate Georgia's bank tax credit in accordance with O.C.G.A § 48-7-29.7. The report begins with a discussion of the special occupation tax, followed by a brief history of state taxation of banks, background on the credit in Georgia, similar programs in other states, bank tax credit utilization, and the economic and fiscal impact of the credit.

The annual tax expenditure cost of the bank tax credit to the state is estimated at $47.58 million for FY 2020.[1] Utilizing recent years may not accurately capture actual credit utilization due to the accumulated carryforward credits that can distort annual expenditures. Based on the academic literature as well as experiences of other states, the additional costs borne by banks if this credit were repealed would be passed through to consumers, and in *the short run*, we would not expect any change in banking economic activity in the state. We use the IMPLAN input-output model to estimate the economic activity associated with the bank tax credit in Georgia, but note that it does not impact our estimates of economic impact, as the underlying economic activity would take place without the credit—as shown in the first row of Tables ES1 and ES2.

As a result of the bank tax credit, Georgia's general fund expenditures are implicitly reduced by the amount of the tax expenditure. We also model an alternative use of the funds, in the absence of the exemption, assuming an increase in state spending by that amount allocated across various spending categories, based on recent state budgets. Tables ES1 and ES2 show the estimated amount of state and local revenue from this alternative use of funds, the opportunity cost of the exemption. The net fiscal cost to the state, accounting the tax expenditure and opportunity costs, is estimated at $58.34 million for FY 2025. Table ES2 shows the net local revenue effects on the same basis.

Table ES1. State Fiscal Effects of the Bank Tax Credit, FY 2025–29

($ millions)	**FY 2025**	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**
Revenue gains from economic impact	$0.00	$0.00	$0.00	$0.00	$0.00
Less:					
Tax expenditure cost	($57.22)	($58.87)	($60.26)	($61.43)	($62.24)
Alternative use revenue gains	($1.12)	($1.15)	($1.18)	($1.20)	($1.22)
Net Fiscal Effects	**($58.34)**	**($60.02)**	**($61.44)**	**($62.64)**	**($63.46)**

[1] The estimate relies on FY 2020 data because the bank tax credit can be carried forward up to five years.

Table ES2. Local Fiscal Effects of the Bank Tax Credit, FY 2025–29

($ millions)	**FY 2025**	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**
Revenue gains from economic impact	$0.00	$0.00	$0.00	$0.00	$0.00
Less:					
Alternative use revenue gains	($0.47)	($0.48)	($0.50)	($0.51)	($0.51)
Net Fiscal Effects	**($0.47)**	**($0.48)**	**($0.50)**	**($0.51)**	**($0.51)**

Georgia's bank tax credit acts as an intergovernmental transfer from the state to local governments and as such provides several public benefits for state residents. Local bank branches facilitate commerce and economic activity in nearby areas. In the long run, without the tax credit, banks might seek to minimize costs by having fewer branches, particularly in smaller cities or rural areas that produce less revenue. The economic effects of these potential long run effects are too speculative to estimate and beyond the relevant time frame of this analysis.

In addition, the credit "evens the playing field" for banks, preventing banks from being taxed twice—once at the state level through the corporate income tax and again at the local level through the gross receipts tax. This keeps Georgia banks competitive with those in other states and ensures they are not taxed more heavily than other corporations conducting business in the state. In principle, this credit helps align the tax burden of banks with that of other corporations, maintaining competitiveness while securing a balanced approach to state and local taxation. Broadly, the above is deemed to be the purpose of the credit: to tax banks in a similar manner as other Georgia corporations and to ensure banks do not face double taxation.

If the credit was repealed, it seems likely that in the short run banks would pass on their higher costs to Georgia customers. However, over time, these higher costs would likely limit the number of branches across Georgia—as banks work to limit costs and stay competitive with out-of-state banks and branchless banks. This would negatively impact the state's economy and consumer welfare. This type of long-run response from banks would likely have some economic impact in line with the size of the credit, but it is too speculative to estimate with the available data.

The importance of local bank branches for economic activity and consumer welfare suggests maintaining the exemption as it stands. The state could, however, modify the credit so that banks pay only one tax or the other, as many other states do.

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1. Introduction

In Georgia, a tax credit for depository financial institutions, also referred as the bank tax credit (O.C.G.A § 48-7-29.7), was enacted in 1983 with the intent to offset the special occupation tax on financial institutions that is levied by the state, counties, and municipalities under O.C.G.A § 48-6-93 and § 48-6-95.[2]

This report was prepared under a contract with the Georgia Department of Audits and Accounts (DOAA). The purpose is to evaluate Georgia's bank tax credit in accordance with O.C.G.A § 28-5-41.1. The report begins with a discussion of the special occupation tax, followed by a brief history of state taxation of banks, background on the credit in Georgia, similar programs in other states, bank tax credit utilization, and the economic and fiscal impact of the credit.

Georgia's bank tax credit acts as an intergovernmental transfer from the state to local governments and, as such, provides several public benefits for state residents. Local bank branches facilitate commerce and economic activity in nearby areas. In the long run, without the tax credit, banks might seek to minimize costs by having fewer branches, particularly in smaller cities or rural areas that produce less revenue. The economic effects of these potential long-run effects are too speculative to estimate and beyond the relevant time frame of this analysis.

In addition, the credit "evens the playing field" for banks, preventing banks from being taxed twice—once at the state level through the corporate income tax and again at the local level through the gross receipts tax. This keeps Georgia banks competitive with those in other states and ensures they are not taxed more heavily than other corporations conducting business in the state. In principle, this credit helps align the tax burden of banks with that of other corporations, maintaining competitiveness while securing a balanced approach to state and local taxation. Broadly, the above is deemed to be the purpose of the credit: to tax banks in a similar manner as other Georgia corporations and to ensure banks do not face double taxation.

2. Financial Institutions Special Occupation Tax in Georgia

Like all corporations operating in Georgia, financial institutions are subject to taxation, such as corporate income and net worth taxes. The corporate income tax is a flat rate of 5.39 percent, based on a corporation's federal taxable net income, and is levied as a condition for conducting business in Georgia.[3] For S corporations, the income is passed through to shareholders, who then pay the tax on their individual returns. The net worth tax, meanwhile, applies only to corporations with a net worth exceeding $100,000 (effective from 2017), with rates starting at $125 and capped at $5,000 for net worths above $22 million.[4] This tax is assessed annually.

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[2] "Depository financial institution" refers to banks or savings and loan associations (§ 48-6-90).
[3] Georgia Department of Revenue. Accessed October 29, 2024, from dor.georgia.gov/taxes/corporate-income-and-net-worth-tax
[4] Georgia Department of Revenue. Accessed October 29, 2024, from dor.georgia.gov/it-611-corporation-income-tax-instruction-booklet

Additionally, O.C.G.A § 48-13-5 and § 48-13-29 allow cities and counties in Georgia to levy business occupation taxes on businesses and practitioners for the privilege of operating within a specific jurisdiction.[5] This tax is applicable to a wide range of businesses, including financial institutions, and the terms and rates of the tax vary depending on the business type and location.

2.1. What is a business occupation tax?

Business occupation taxes can be imposed by local governments to generate revenue for local services. In Georgia, the term "occupation tax" replaces what was once referred to as a "business license." Local governments now issue an occupation tax certificate to businesses that have paid their annual tax obligations, and these taxes are used to fund the various services provided by municipalities and counties.

The tax can be levied on a variety of entities, including corporations, partnerships, and sole proprietorships, and may include an administrative fee to cover the cost of managing the tax system. Failure to pay the tax can result in penalties, and local governments are required to hold public hearings before adopting ordinances related to occupation taxes.[6] Local governments must classify all businesses and practitioners using the same criteria when determining occupation tax (§ 48-13-10(a)), and such classification can be based on one or more of the following:

- Number of employees calculated as full-time equivalents
- Profitability ratio for the business type, based on national averages
- Gross receipts combined with the profitability ratio, also based on national averages
- A flat fee for which all businesses and practitioners pay the same amount per office or location

Moreover, local governments have the flexibility to structure their rates progressively, with higher rates applied to businesses with larger gross receipts. Local governments may also grant exemptions, reductions, or credits to certain businesses to encourage economic development. Businesses classified as "400 Club Members," including professionals like lawyers, physicians, and accountants, can choose between the local government's tax classification method or a flat fee not exceeding $400.

2.2. How are occupation taxes levied on different types of businesses?

Occupation taxes in Georgia are generally levied based on a business's gross receipts or other measurable activities within the local jurisdiction, but special rules govern how the tax can be applied to different types of businesses:

- *In-state businesses*: Cities can tax businesses with offices or locations in their jurisdiction (§ 48-13-6(b)). For businesses without a local office, such as those leasing property, the

[5] See Georgia Municipal Association (2015); “practitioner” does not include employees of a business, if the business pays the occupation tax (§ 48-13-5(3))
[6] Georgia Municipal Association (2015)

tax may not apply unless the business conducts significant activities beyond property maintenance.

- *Out-of-state businesses*: Cities can impose occupation taxes on out-of-state businesses that either have employees soliciting business locally or own income-generating property within the jurisdiction (§ 48-13-7(b)). However, if the business can prove it has paid occupation taxes in another state for its Georgia-based activities, it may be exempt from the Georgia occupation tax (§ 48-13-7(f)).
- *Real estate brokers*: Local governments can levy a business occupation tax on a real estate broker's principal office and any branch offices located within their jurisdiction. However, brokers and salesperson are already regulated and licensed by the state under O.C.G.A. § 43-40-1, and local governments cannot require additional tax certificates for individual practitioners.
- *Insurance companies*: Insurance companies are exempt from occupation taxes but can be charged annual license fees for conducting business within a municipality (§ 33-8-8).

2.3. Occupation Tax on Financial Institutions

Under O.C.G.A § 48-6-93, cities and counties are authorized to impose a tax of up to 0.25 percent on the gross receipts of financial institutions.[7] Local governments can also set a minimum annual tax for these institutions, but it cannot exceed $1,000 per year. Additionally, § 48-6-95 imposes a special state occupation tax on depository financial institutions. While other businesses are taxed based on their gross receipts from general commercial activities, financial institutions are taxed on their revenue from financial products and services, making the occupation tax for financial institutions a specialized tool for capturing a portion of the economic value they generate locally.

O.C.G.A § 48-7-29.7 allows a dollar-for-dollar credit against the state income liability equal to the amount of taxes paid pursuant to § 48-6-93 and § 48-6-95.

2.4. How does the credit work?

This credit is calculated as the total occupation tax liability and can offset income tax liability fully if the income tax equals or exceeds the occupation tax amount. If the income tax liability is lower than the total occupation taxes paid, the unused portion of the bank tax credit can be carried forward for up to five years. For S-corporation banks, credits may be passed through to shareholders on a pro-rata basis, with a shorter three-year carryforward period for unused credits beginning January 1, 2025.

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[7] Gross receipt refers to total revenue of the business or practitioner. It includes i) total income before cost of goods sold, ii) gain from trading stocks, bonds, and capital assets, iii) commissions on sale of property, goods, or services, iv) Service fees, and v) Rent, interest, royalty, or dividend income. § 48-13-5 (2)(A)

Table 1. Hypothetical Bank Tax Credit Calculation Scenarios

Calculation of Bank Tax Credit	**Amount**
Gross receipts	$1,000,000
Special occupation tax	
State (0.25%)	$2,500
County (0.25%)	$2,500
Municipality (0.25%)	$2,500
Total	**$7,500**
Scenario 1: Income tax exceeds occupation tax liability	
Income tax	$10,000
Bank tax credit utilized	$7,500
Credits to be carried forward	$0
Scenario 2: Income tax is less than occupation tax liability	
Income tax	$5,000
Bank tax credit utilized	$5,000
Credits to be carried forward	$2,500
Scenario 3: Income tax is less than bank tax credit	
Income tax	$2,500
Bank tax credit utilized	$2,500
Credits to be carried forward	$5,000

Note: Carryforward period is limited to five years. For S-corp., the carryforward is limited to three years (HB 1181).

3. Overview of Georgia's Bank Tax Credit

The bank tax credit in Georgia has evolved over time to reflect significant developments in the state's approach to taxing financial institutions. Over the course of several decades, Georgia shifted from a system that taxed bank shareholders based on the market value of their shares to a more integrated approach that directly taxed banks on their income and net worth. The early 1980s mark a critical point in the state's fiscal policy regarding the banking sector when the bank tax credit was introduced.

3.1. Early Taxation of Banks (1930–70)

In the early 20th century, Georgia's taxation of banks was primarily structured around the taxation of bank shares. According to the 1933 Tax Code § 92-2406, banks were largely exempt from taxation on their capital, but shareholders were taxed based on the market value of their shares, which included surplus and undivided profits. This system mirrored general property tax principles, applied to financial institutions. Importantly, banks were also required to report and pay taxes on their real estate holdings, which was taxed separately. In cases where banks

operated multiple branches, the capital employed at each branch was taxed locally, ensuring that tax revenues were distributed across the jurisdictions where banks conducted business.

In 1955, the code was amended to introduce penalties for attempting to transfer deposits to shift tax burdens across counties or districts, while banks doing general banking business remained exempt from income tax. In 1966, changes were made to how the market value of bank shares was calculated for taxation. Banks were allowed to deduct the value of paid-off real estate (either full or partial) from the taxable value of their shares. This ensured that the banks were not doubly taxed on both their physical assets and the market value of their shares.

3.2. Towards Uniform Taxation (1970s)

Throughout the mid-20th century, Georgia's tax policies remained relatively stable, with a focus on shareholder taxation. By the 1970s, however, increasing financial activity along with the growth of national banks and federal savings institutions, highlighted the limitations of this system. Before this time, national (federally chartered) and state-chartered banks were subject to differing tax treatments—national banks were often exempt from state-level taxes. In 1973, Georgia adopted a more uniform approach, ensuring that national and state-chartered banks were taxed similarly, making an early step toward aligning state tax policies with federal practices.

Moreover, these reforms also included the first substantial move toward taxing banks similar to other for-profit corporations. This represented a significant departure from the earlier system of shareholder taxation, gradually integrating banks into the broader tax framework applied to Georgia's commercial sector. In 1975, additional adjustments to the taxation of banks were introduced that were aimed at reducing the overall tax burden on financial institutions and preventing double taxation. These adjustments included deductions for investments in subsidiary banks, undistributed earnings of subsidiary banks, and capital reserves, if the reserves were deemed reasonable.

3.3. Introduction of Georgia's Bank Tax Credit

In 1983, Georgia undertook a comprehensive reform of its bank taxation system. The most significant development occurred with the passage of HB 440, which introduced the bank tax credit—legislation that marked a major shift from the earlier model of taxing banks shares to a more direct taxation approach that applied to banks themselves. The key elements of this reform included:

1. *Repeal of the tax on bank shares:* The longstanding practice of taxing bank shareholders based on the market value of their shares was abolished. Instead, banks were now subject to corporate income tax.
2. *Introduction of the 0.25-percent local business license tax:* In addition to the state corporate income tax, state and local governments were permitted to levy a 0.25-percent tax on the gross receipts of financial institutions (§ 48-6-93(a), 48-6-95(a)). In cases where an institution has multiple branches, 20 percent of the institution's total Georgia

gross receipts was allocated to the principal office. The remaining 80 percent was divided among the other offices based on the number of branches (§ 48-6-93(d)).

3. *Bank tax credit*: To prevent double-taxing banks—once at the state level through corporate income taxes and again at the local level through the gross receipts tax—Georgia introduced a dollar-for-dollar tax credit. This credit allowed banks to offset their state corporate income tax liability by the amount of local tax paid. The credit ensured that financial institutions would not be doubly taxed, paying the higher of the two taxes (either the corporate income tax or the local tax) but not both. Any amount of credit that exceeds the corporate income tax liability can be carried forward to five years (§ 48-7-21 (b) (11)).
4. *Passthrough credit for Subchapter S:* HB 440 also include provisions for Subchapter S banks to elect passthrough treatment. This allowed tax attributes, including income, deductions, and tax credits (like the bank tax credit), to pass through directly to shareholders on a pro rata basis.

3.4. Post-2000 Reforms

Impact of the Tax Cuts and Jobs Act: In 2018, the federal government implemented the Tax Cuts and Jobs Act (TCJA). TCJA made major changes to the tax code, including deductions, credits, and other tax items. Most relevant to the bank tax credit are the changes made to net operating losses (NOLs), which occur when a company's allowable tax deductions exceed its taxable income for the same period. Prior to TCJA, firms were allowed to carryback the NOLs for two years for refund of previous taxes paid and carryforward the NOLs up to 20 years. TCJA removed the two-year carryback provisions but allowed an indefinite carryforward period. However, it limited the carryforward amount to 80 percent of each year's net income.[8]

Reduced carryforward period for bank tank credit: At the state level, the General Assembly's passage of HB 1181 reduced the carryforward period for Georgia's bank tax credit from five to three years for depository financial institutions with Subchapter 'S' status. The bill is effective on Jan 1, 2025.

4. Similar Program in Other States

4.1. Business Occupation Tax

Business occupation taxes exist in many states across the country. While the goal of such taxes is to fund local services, there is variation across states. We next examine several states that charge business occupation taxes and share similar features to the Georgia tax, including Alabama, Florida, Georgia, Kentucky, South Carolina, Tennessee, Washington, and West Virginia. Below is a list of the similar features across theses states and Georgia:

[8] The limitation is set to expire on January 1, 2026.

1. The primary purpose of business occupation tax is revenue generation for state and local governments. The authority to impose these taxes generally stems from state constitutions and is further enabled through legislation.
2. Gross receipts are the predominant basis for calculating the business occupation tax.
3. Tax rates can vary significantly based on factors like the type of business, location, and specific goods or services sold.
4. Various states offer exemptions and incentives to tailor their business occupation tax systems.
5. Complexity arising from the multitude of tax districts, varying tax bases, and apportionment formulas burdens businesses, especially smaller ones, with substantial compliance costs that may exceed their tax obligations.

A few states from this comparative analysis are described in more detail as case studies below.

In Washington State, for instance, the Business and Occupation (B&O) tax is applied based on business activity.[9] This structure ensures different business activities are taxed appropriately based on their nature and revenue. The retail B&O applies to sales or rentals of goods/services to consumers, taxed at 0.471 percent of gross receipts. Retail sales tax generally applies unless an exemption exists. The wholesale B&O is for selling goods/services for resale, taxed at 0.484 percent. Sellers must obtain and keep a reseller permit from buyers for five years. Manufacturers pay 0.484 percent on the value of products made in-state. If these products are also sold in the state, the multiple activities tax credit (MATC) can be used to offset duplicate taxes. Professional and personal services (e.g., notary fees, mailbox rentals) are taxed at 1.5 percent, and no sales tax applies to this income.

In Tennessee, businesses with gross revenue of $100,000 or more must register and pay a business tax, which includes both state and city taxes.[10] The state business tax applies to most businesses selling goods or services within Tennessee, including both in-state businesses with a physical location and out-of-state businesses conducting certain activities in the state. Out-of-state businesses must pay if they have substantial nexus. If the business is located within a city that has enacted this tax, it must also pay the city business tax.

In West Virginia, a business and occupation tax is imposed on any person(s) engaging or continuing within the state in any public service or utility business, except railroads, railroad car, express, pipeline, telephone and telegraph companies, water carriers by steamboat or steamship, and motor carriers.[11]

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[9] Department of Revenue Washington State. Accessed October 22, 2024, from dor.wa.gov/education/industry-guides/private-mailing-business-tax-guide/business-and-occupation-bo-tax

[10] Tennessee Department of Revenue. Accessed October 22, 2024, from www.tn.gov/revenue/taxes/business-tax.html

[11] West Virginia Tax Division. Accessed October 22, 2024, from tax.wv.gov/Business/ExciseTax/BusinessOccupationTax/Pages/BusinessOccupationTax.aspx

Alabama's Act 2020-14 exempts municipalities from implementing occupation taxes without approval from the state legislature.[12] In Kentucky, local occupational license tax rates can reach a combined rate of 3.2 percent in certain areas, incorporating taxes for metro revenue, mass transit, and the school board.[13]

While Florida does not have an explicit business occupation tax, it employs a system of taxes based on gross receipts from different business activities. This system serves a similar revenue-generating purpose as the business occupation taxes in other states.[14]

4.2. Taxes and Tax Credits for Financial Institutions

The practice of providing tax credits specifically for financial institutions is uncommon in the United States. Typically, states seek to avoid double taxation by exempting banks from certain taxes rather than offering tax credits. Georgia stands out in this regard by taxing depository financial institutions at both the state and local levels. Georgia's tax credit for depository financial institutions serves to ensure that banks are not taxed more heavily than other corporations conducting business in the state. In principle, this credit helps align the tax burden of banks with that of other corporations, maintaining competitiveness while securing a balanced approach to state and local taxation.

Financial institutions, like other corporations, are typically taxed on their net income across various states. However, taxation policies can differ significantly based on how states define financial institutions, the choice or inclusion of different tax bases, and the imposition of additional taxes.

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[12] Business Alabama. Accessed October 22, 2024, from businessalabama.com/the-state-giveth-and-the-state-taketh-away-occupational-taxes/
[13] US Tax Disputes. Accessed October 22, 2024, from www.ustaxdisputes.com/kentucky-local-occupational-license-taxes/
[14] Florida Department of Revenue. Accessed October 22, 2024, from floridarevenue.com/forms_library/current/gt300015.pdf

Table 2. Variety of State-level Taxation on Financial Institutions

State	Taxation Framework
Alabama	Financial institutions are exempt from the tax on shareholders but are subject to an excise tax calculated on income.[15]
California	Tax rates vary depending on whether the taxpayer is classified as a financial corporation or other entity.[16]
Pennsylvania	The tax is based on ownership of shares.[17]
Ohio	The tax is determined by equity capital in the institution.[18]
Florida	Financial institutions are exempt from net income tax but are subject to a franchise tax based on net income.[19]
North Carolina	Financial institutions were historically subject to the bank privilege tax until its repeal in 2016.[20]
South Carolina	The state imposes an independent income tax on banks.[21]
Tennessee	Financial institutions file a combined franchise and excise tax, compounded on the net worth and net earnings of the unitary group.[22]

5. Bank Tax Credit Utilization

Figure 1 shows the actual credit utilization of Georgia's bank tax credit for state fiscal years (FY) 2010–20 and the projected costs through FY 2029. The credits may be utilized for up to five years. Beginning January 1, 2025, the credit carryforward period is limited to three years for S-corporations. Thus, credits generated in 2021 and afterwards may still be used.

[15] Alabama Department of Revenue. Accessed September 13, 2024, from www.revenue.alabama.gov/faqs/what-is-financial-institution-excise-tax/

[16] The Tax Adviser. Accessed September 13, 2024, from www.thetaxadviser.com/issues/2023/may/state-tax-considerations-for-financial-institutions.html

[17] Ibid.

[18] Ibid.

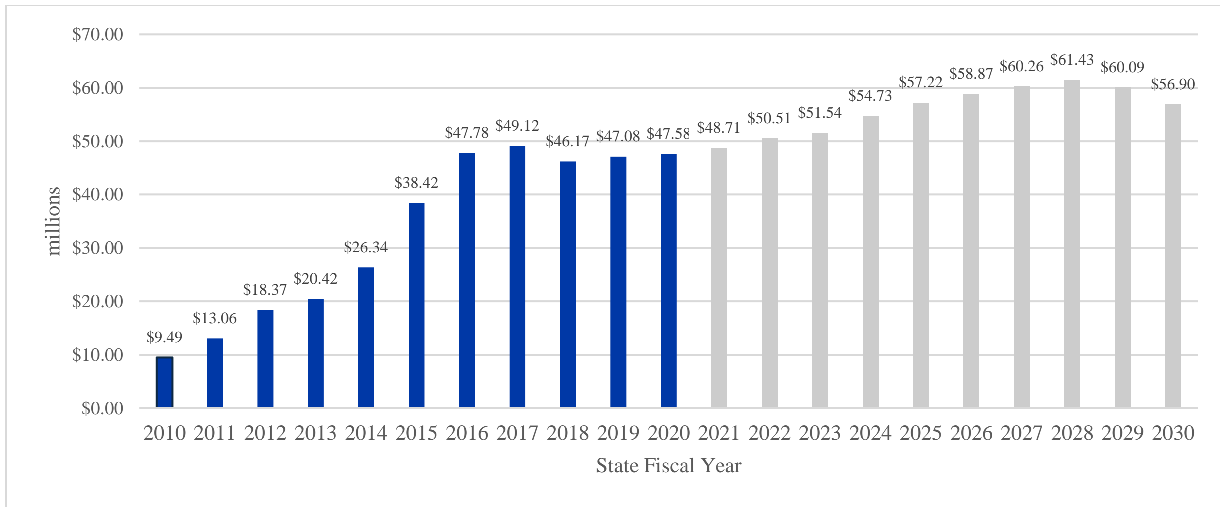
[19] Florida Department of Revenue. Accessed September 13, 2024, from floridarevenue.com/faq/Pages/FAQDetails.aspx?FAQID=1308&IsDlg=1#:~:text=Yes.,prior%20to%20January%20 1%2C%202019

[20] North Carolina Department of Revenue. Accessed September 13, 2024, www.ncdor.gov/taxes-forms/privilege-license-tax/bank-privilege-tax

[21] South Carolina Department of Revenue. Accessed September 13, 2024, from dor.sc.gov/tax/bank

[22] Tennessee Department of Revenue. Accessed September 13, 2024, www.tn.gov/content/dam/tn/revenue/documents/tax_manuals/fae_tax/Chapter%2018%20-%20Financial%20Institutions%20-%20March%202021.pdf

Figure 1. Tax Expenditure for Bank Tax Credit, FY 2010-2030



Source: DOR

5.1. Determinants of Credit Usage (2010–17)

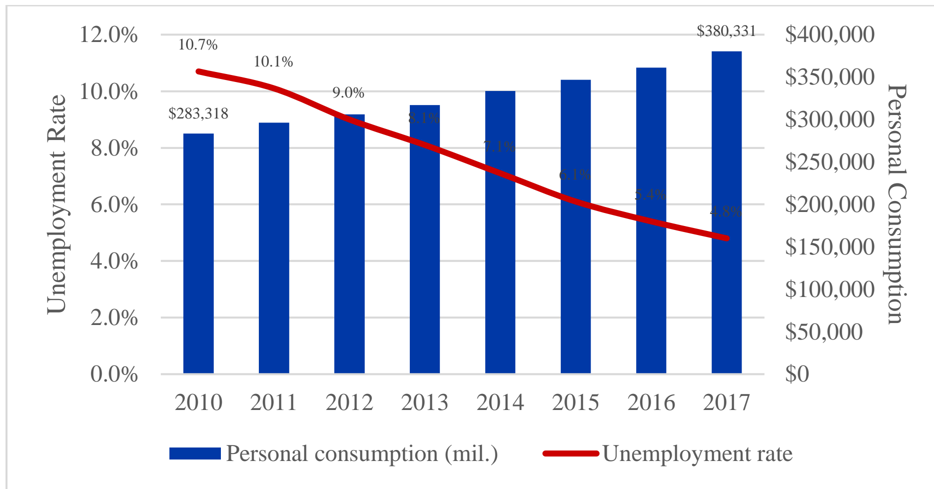
From 2010 to 2017, utilization of the bank tax credit in Georgia experienced substantial growth, rising from $9.49 million to $49.12 million, which aligns with several key economic factors at national and state levels.

Economic recovery and low federal fund rates: Following the Great Recession (2008–09), the Federal Reserve maintained historically low interest rates—near zero from 2009 to 2017. This stimulated borrowing by making credit more affordable, which increased demand for various banking services. National bank revenues remained stable during this period, while in Georgia, the financial services sector expanded, as evidenced by a 6-percent compound annual growth rate in GDP for financial institutions.[23]

Decreasing unemployment and rising consumption in Georgia: As illustrated in Figure 2, Georgia's unemployment rate fell significantly from 10.7 percent in 2010 to 4.8 percent in 2017, indicating a healthier labor market and increased disposable income. Simultaneously, personal consumption expenditure in Georgia grew at 3.5 percent compound annual growth rate, highlighting strong consumer demand.

[23] GDP of Monetary Authorities- central bank, credit intermediation, and related services. Source: BEA

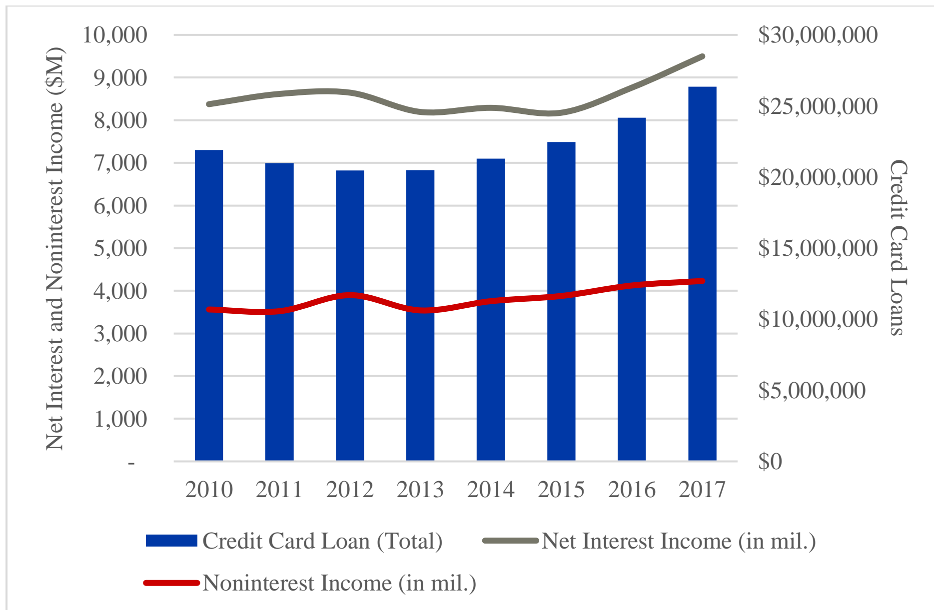
Figure 2. Unemployment and Personal Consumption Expenditures in Georgia, 2010–17



Source: FRED St. Louis

Moreover, total credit card loans over this period also saw an upward trends in Georgia, as seen in Figure 3. Financial institutions may have increased lending and diversified income streams, indicated by the slight growth in net interest income and noninterest income over these years. This expansion in loan activity likely supported higher gross receipts from credit products, qualifying banks for greater credit utilization.

Figure 3. Net Interest Income, Non-interest Income, and Total Credit Card Loans in Georgia, 2010–17



Source: Credit Card Loans are estimated from Federal Reserve Bank of New York. Net interest and non-interest income data are from FDIC State tables.

Overall, the projected values are based on historical credit utilization rate applied to the credit generated each year. We use the average utilization rates from 2015–18 in our fiscal projections, as shown in Table 3 below. The amounts of credit generated are forecasted based on historical growth trends. From tax year (TY) 2015–18, corporations utilized 95 percent of the credit, while the remaining 5 percent was utilized by individuals.[24]

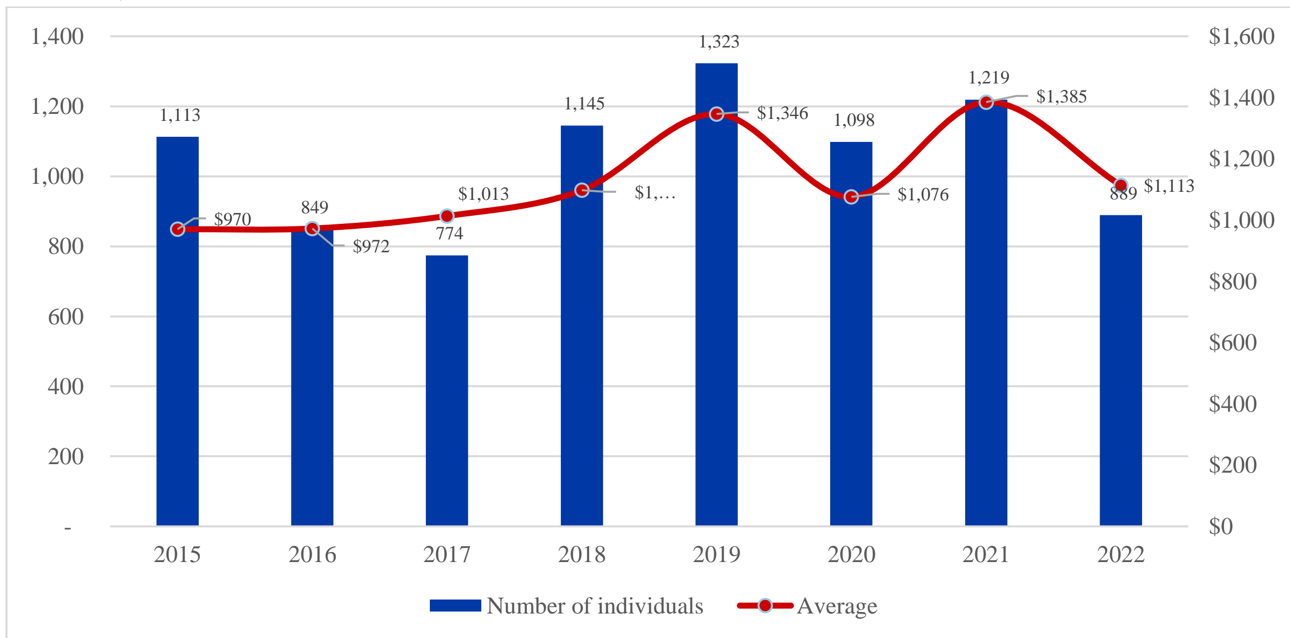
Table 3. Historical Bank Tax Credit Utilization Rate by Year

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Rate	8.85%	31.25%	19.85%	9.68%	5.68%	4.33%

Source: authors' calculations from historical DOR data

Figure 4 provides an overview of bank tax credit from individual tax returns spanning 2015–22. For this report, we do not have access to corporate tax returns, thus individual returns offer the only data window into taxpayer utilization. The number of claimants has fluctuated during this time—peaking at 1,323 in 2019 and dropping to 889 by 2022. The average credit claimed has generally increased over time, rising from $970 in 2015 to a high of $1,385 in 2021, before decreasing slightly to $1,113 in 2022.

Figure 4. Individual Returns Claiming Passthrough Bank Tax Credit and Average Credit Amount, FY 2015–22



Source: DOR tax return administrative data and authors' calculations

[24] Source: DOR tax return administrative data and authors' calculations

For comparison, Table 4 shows that the median credit amount is significantly smaller than the average—at $202 in 2022 compared to the $1,113 average that year—suggesting that more high-income individuals may claim the credit. When looking at the average tax liability of all full-year resident taxpayers, the individuals claiming the bank tax credit have substantially higher average tax liabilities. For example, in 2021, the average tax liability for bank tax credit claimants was $19,351, whereas the average for all full-year resident taxpayers was $3,165.[25] This pattern is consistent across all years, further suggesting that the credit is most utilized by those with higher tax liabilities. The credit consistently offsets between 7 percent and 9 percent of the average tax liability each year, providing a moderate reduction in the tax burden for eligible financial institutions.

Table 4. Average and Median Tax Credit Values, FY 2015–22

Year	Average Value	Average Tax Liability (Taxpayers claiming BTC)	Median	Average Credit per Average Tax Liability	Average Tax Liability (All Full-year Resident Taxpayers)
2015	$970	$10,652	$123	9.11%	$2,113
2016	$972	$13,241	$149	7.34%	$2,187
2017	$1,013	$11,708	$162	8.65%	$2,296
2018	$1,097	$13,488	$185	8.14%	$2,470
2019	$1,346	$14,190	$168	9.49%	$2,414
2020	$1,076	$16,288	$192	6.60%	$2,569
2021	$1,385	$19,351	$218	7.16%	$3,165
2022	$1,113	$12,872	$202	8.65%	$3,021

Source: DOR tax return administrative data and authors' calculations

6. But-for Analysis

A key component of this analysis is to determine whether the associated economic activity is caused by Georgia's bank tax exemption. Based on the academic literature as well as experiences of other states, the additional costs borne by banks if this credit were repealed would likely be passed through to consumers, and in *the short run*, we would not expect any change in banking economic activity in the state.[26] Several characteristics of consumer and small business banking customers support this determination. First, consumers value many different factors in a bank besides lowest costs, including customer and other specialized services. Second, changing banks is cumbersome and inconvenient, as setting up new accounts takes time and there is often a period in which funds are not available as they move from one bank to another. Third, for businesses there may be additional costs in setting up payment processing or other business services at the new bank. Thus, in the relevant range of potential consumer costs, the demand for banking services is likely to be inelastic in the short run. We discuss long-run implications of repealing the credit later in the report.

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[25] Individual tax returns represent only 5 percent of credit utilization.

[26] It is too speculative to estimate the impact that these potential additional costs have on banking customers. For instance, with national banks it is possible that some of these costs could be passed on to consumers in other states.

7. IMPLAN Economic Impact Analysis

In this section, we model the economic impact of the bank tax credit by focusing on three different economic activities from additional funds flowing into the economy. Because the majority of the credit is utilized by corporate entities, it makes sense to model the economic impact primarily as business spending in addition to the household-induced effects. When businesses receive tax credits, they often reinvest these funds into operational activities, such as hiring, expanding infrastructure, or increasing purchases from suppliers. This reinvestment can have a more direct impact on employment, wages, and overall economic output. Therefore, the results include estimated impacts on employment, wages, value added, and total output. Additionally, these economic impact estimates are used to project state and local tax revenue impacts generated from this increased household income. All benefits are assumed to flow directly to consumers, corresponding to the total tax expenditure. The IMPLAN model is detailed further below to explain the focus on induced effects.

Table 5. Net Economic Activity – Bank Tax Credit

($ millions)	**Employment**	**Labor Income**	**Value Added**	**Output**
Gross Activity for Period	178	$14.9	$50.3	$70.5
Less: "But-for" Reduction	-178	($14.9)	($50.3)	($70.5)
Activity Net of "But-for"	0	$0.00	$0.00	$0.00
Less: Alternative Use Impacts	-1,146	($54.1)	($65.3)	($102.9)
Net Economic Impact	**-1,146**	**($54.1)**	**($65.3)**	**($102.9)**

Source: IMPLAN and authors' calculations

7.1. Model Overview

To estimate the economic impact of the bank tax credit in Georgia, we use IMPLAN, a regional input-output model commonly applied in economic impact studies. IMPLAN analyzes how an initial change in spending or revenue in any industry circulates through a regional economy by mapping input-output relationships between industries and their suppliers and customers within or outside the region—in this case, Georgia. The model includes detailed data on industry size by revenue and employment at the state and county levels and applies sector-specific multipliers to estimate the effects of initial spending by firms on suppliers and labor. For this analysis, we use 2022 IMPLAN data, adjusted to reflect average annual revenues and wages in 2023 dollars. Below is an overview of key IMPLAN terms used in the report.

- *Direct effects* are the changes in terms of increased firm output (revenue) that initiate the ripple effects through the economy. For purposes of this analysis, direct effects are zero.
- *Indirect effects* are the economic activity supported by business-to-business purchases in the supply chains of firms increasing *direct* output, which again is zero for the purposes of this analysis.

- *Induced effects* are economic activity that occurs from households spending labor income earned from the direct and indirect activities. This activity results from household purchases on consumption items such as food, housing, healthcare, and entertainment. The labor income spent to generate these effects does not include taxes, savings, or compensation of nonresidents (commuters) as these leave the local economy (leakage). For purposes of this analysis, these induced effects can be thought of as the result of downstream household spending after the initial spending increase by households benefiting from the bank tax credit, or the multiplier effect of the initial increase in spending by eligible households.
- *Output* is the value of production. This includes the value of all final goods and services, as well as all intermediate goods and services used to produce them. IMPLAN measures output as annual firm-level revenues or sales, assuming firms hold no inventory. Estimates of output changes resulting from the additional economic activity are then used to estimate state and local sales tax revenue.
- *Value added* measures the contribution to state gross domestic product (GDP).
- *Labor income* includes total compensation—wages, benefits, and payroll taxes—for both employees and self-employed individuals. Wage-gain estimates are used to estimate incremental state income tax revenue.
- *Employment* includes full-time, part-time, and temporary jobs, including the self-employed. Job numbers do not represent full-time equivalents, so one individual may hold multiple jobs.

7.2. Economic Impact Induced Effects

Table 6 reports the IMPLAN estimates of direct, indirect, and induced impacts for the additional financial institution revenue provided by the bank tax credit of $47.6 million, as estimated for FY 2020. The estimate relies on FY 2020 data, as the Bank Tax Credit can be carried forward up to five years. Utilizing recent years may not accurately capture actual credit utilization due to the accumulated carryforward credits that can distort annual expenditures.

Direct bank tax credit spending supported 60 direct jobs with a total labor income of $7.6 million. Additionally, it supported 117 indirect and induced jobs. It should be noted that these do not necessarily reflect full-time employment. Bank tax credit spending also supported $14.9 million in total labor income, $50 million in value added, and $70 million in total output.

Table 6. Economic Impact IMPLAN Results for Georgia' Bank Tax Credit

($ millions)	**Employment**	**Labor Income**	**Value Added**	**Output**
Direct Effect	60	$7.5	$37.2	$47.6
Indirect Effect	61	$4.1	$6.9	$12.5
Induced Effect	56	$3.2	$6.1	$10.3
Total Effect	**178**	**$14.9**	**$50.3**	**$70.5**

Source: IMPLAN and authors' calculations

7.3. Alternate Use of Forgone Revenue/Tax Expenditure

The induced economic impacts calculated above do not factor in forgone state revenues—the economic impact of alternative uses for funds currently allocated through the bank tax credit. O.C.G.A § 48-7-29.7 mandates that evaluations of tax incentives account for the net economic and fiscal impacts, including potential effects from alternative revenue applications that could support other policy areas, economic incentives, or tax reductions, each capable of generating direct, indirect, and induced impacts.

Alternatives could include other economic incentives, spending on other policy areas across state government, or a reduction in taxes—all of which could also result in direct, indirect, and induced economic effects. Lacking specific direction on how the General Assembly might reallocate these funds, we assume the forgone revenue would instead support an equivalent increase in state government spending proportional to existing expenditures. Accordingly, we distribute the revenue to industry sectors based on their shares in the state budget, with education (55 percent) and healthcare (23 percent) comprising around 78 percent of total spending.

If this forgone revenue were directed back to the state, it could potentially generate $102.9 million in gross output (as shown in Table 7). This estimate includes $47.6. million in direct state outlays—the estimated FY 2020 bank tax credit expenditure—along with additional indirect and induced impacts resulting from these initial expenditures.

Table 7. Summary of Alternative Use Economic Impacts

($ millions)	**Employment**	**Labor Income**	**Value Added**	**Output**
Direct Effect	851	$37.3	$34.0	$47.6
Indirect Effect	81	$4.7	$8.2	$16.0
Induced Effect	214	$12.1	$23.1	$39.3
Total Effect	**1,146**	**$54.1**	**$65.3**	**$102.9**

Source: IMPLAN and authors' calculations

8. Fiscal Impacts

Table 8 below summarizes the fiscal impacts and return on investment. Following this summary, we detail the revenue effects of the bank tax credit's economic impacts and the opportunity cost

of the tax expenditure—representing potential revenues from alternative uses of these funds. The projected estimates have been calculated for future years, and administrative costs are also addressed later in this section.

Table 8. Bank Tax Credit State and Local Fiscal Effects, FY 2024–28

($ millions)	**FY 2024**	**FY 2025**	**FY 2026**	**FY 2027**	**FY 2028**
Tax Expenditure Cost					
State	($54.73)	($57.22)	($58.87)	($61.43)	($62.24)
Revenue Gains from Economic Impact					
State	$0.00	$0.00	$0.00	$0.00	$0.00
Local	$0.00	$0.00	$0.00	$0.00	$0.00
Alternative Use Reduction					
State	($1.07)	($1.12)	($1.15)	($1.20)	($1.22)
Local	($0.45)	($0.47)	($0.48)	($0.51)	($0.55)
Net Fiscal Effects					
State	($55.80)	($58.34)	($60.02)	($62.64)	($63.46)
Local	($0.45)	($0.47)	($0.48)	($0.51)	($0.51)
Total Net Fiscal Effects	($56.26)	($58.82)	($60.51)	($63.14)	($63.97)
State ROI	(0.019)	(0.019)	(0.019)	(0.019)	(0.019)

Note: The ROI value indicates for every dollar invested, an additional 1.9 cents are lost.

8.1. Additional Tax Revenue

Table 9 provides estimates of state and local tax revenues generated from economic activity tied to the base year of FY 2020. Due to the but-for causation analysis, the estimates in Table 9 do not contribute to the net fiscal impacts for the state or local governments. They are provided here to help inform the policy process. State income tax is estimated based on employee compensation data from IMPLAN. This sector includes both service and highly skilled workers, with an average income of approximately $84,000 per job. Using Georgia DOR data on tax liability relative to adjusted gross income (AGI) for taxpayers with AGI between $45,000 and $90,000 in TY 2022, we apply an average effective tax rate of 3.89 percent to labor income for in-state residents, resulting in an estimated state income tax of about $580,000 for all economic impacts.

IMPLAN includes estimates of sales and property taxes, but because it is based on levels of economic activity rather than actual tax rates and bases, these estimates are not preferred. Instead, to calculate sales tax revenue, we use IMPLAN's incremental output for various retail sectors and adjust for the taxable portion of sales in each sector. IMPLAN reports only the gross margin for retail output rather than total retail sales, so we adjust these figures using average gross margin rates from IMPLAN to estimate taxable sales. The state sales tax rate is then applied to these adjusted estimates to determine the expected revenue. Using Georgia's state

sales tax rate of 4 percent and an average local sales tax rate of 3.38 percent (based on a population-weighted average from the Tax Foundation in July 2024), we calculate both state and local sales taxes, as shown in Table 9.

Property tax estimates are derived by adjusting the IMPLAN property tax projections to align with our preferred sales tax estimates. This estimate assumes that economic activity generating IMPLAN's sales tax estimates is like that which generates the property tax—thus, this estimate should be treated cautiously. Meanwhile, the sales tax estimates from IMPLAN rely on the level of economic activity rather than sales tax rates and tax bases.

Finally, given that 80.7 percent of Georgia's state tax revenue comes from personal income and sales taxes, the remaining 19.3 percent is attributed to other taxes, primarily corporate income tax and the title ad valorem tax (TAVT) on motor vehicles. Table 9 reflects the base-year estimates for these additional taxes, assuming that the 19.3 percent distribution remains consistent across economic activities tied to the tax exemption.

Table 9. State and Local Tax Revenue Bank Tax Credit, FY 2020 Base *($ millions)*

Tax Type	State Revenue	Local Revenue
Income Tax	$0.58	$0.00
Sales Tax	$0.15	$0.14
Property Tax	$0.00	$0.25
All Other State Taxes	$0.20	$0.00
Total	**$0.93**	**$0.39**

Source: IMPLAN and authors' calculations

8.2. State and Local Taxes Generated from Alternative Use of Funds

New annual tax revenues resulting from the alternative use case are estimated in a similar manner as those generated by projected expenditures. The alternate use case revenues are nonrecurring because they result from a one-time tax expenditure.

Table 10. State and Local Tax Revenues, Alternative Use of Funds *($ millions)*

Tax Type	State Revenue	Local Revenue
Income Tax	$2.10	$0.00
Sales Tax	$0.52	$0.49
Property Tax	$0.00	$0.84
All Other State Taxes	$0.71	$0.00
Total State and Local Tax Estimates	**$3.33**	**$1.33**

Source: IMPLAN and authors' calculations

9. Public and Ancillary Benefits

Georgia’s bank tax credit acts as an intergovernmental transfer from the state to local governments and, as such, provides several public benefits to state residents. Local bank branches facilitate commerce and economic activity in nearby areas, and without the credit, banks might seek to minimize costs by having fewer branches—particularly in smaller cities or rural areas that produce less revenue.

In addition, the credit evens the playing field for banks, preventing banks from being taxed twice—once at the state level through corporate income tax and again at the local level through the gross receipts tax. This keeps Georgia banks competitive with those in other states. Georgia's bank tax credit also serves to ensure that banks are not taxed more heavily than other corporations conducting business in the state, maintaining competitiveness while securing a balanced approach to state and local taxation.

If the credit were repealed, it seems likely that in the short run banks would pass on their higher costs to Georgia customers. However, over time, these higher costs would likely limit the amount of bank branches across Georgia because banks would work to limit costs and stay competitive with out-of-state and branchless banks. This type of long-run response from banks would likely have some economic impact in keeping with the size of the credit; however, it is too speculative to estimate with the available data.

Overall, the importance of local bank branches for economic activity and consumer welfare suggests maintaining the exemption as it stands. The state could modify the credit so that banks pay only one tax, as many other states do. However, as the implied purpose of the credit is one of tax parity for banks relative to other corporations, it seems that the credit is serving its purpose and additional adjustments to improve the ROI are not relevant here. Comments received from interested parties on the bank tax credit echo the sentiments above (see the appendix).

References

Georgia Banking Association. (n.d.). *Whitepaper: The Necessity of Georgia Income Tax Credit for Depository Financial Institutions.* Retrieved from resources.gabankers.com/PDFs/2020/Georgia%20Bank%20Tax%20Credit%20Whitepaper%20Sept.%202018.pdf

Georgia Municipal Association. (2015). *Occupation Taxes and Regulatory Fees: Make them Work for Your City.* Retrieved from www.gacities.com/gmasite/media/pdf/publications/occupation.pdf

Appendix: Comments from Stakeholders

Georgia Banking Association: “This whitepaper examines the effects of eliminating the Georgia income tax credit for depository financial institutions found in O.C.G.A. § 48-7-29.7. As discussed below, eliminating this credit would expose banks to potential double taxation that no other group of Georgia taxpayers faces. The credit exists only to ensure that Georgia’s unique method of taxing banks operates fairly and properly.”

“Removing the credit for depository institutions in O.C.G.A. § 48-7-29.7 is inappropriate. The credit is not an example of using Georgia’s income tax code to incentivize certain taxpayer behavior. Instead, the credit ensures that banks and other depository financial institutions do not carry an unfairly large tax burden compared to other corporations doing business in Georgia.”