

GEORGIA STATE UNIVERSITY
ANDREW YOUNG SCHOOL OF POLICY STUDIES
FISCAL RESEARCH CENTER
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SUBJECT: Revenue Estimate of an Exemption for Small Corporations

Analysis Prepared by Lakshmi Pandey and David L. Sjoquist

This memorandum provides an estimate of the revenue implications for a proposed exemption for small businesses.

Proposed Exemption

The proposed exemption equals \$25,000 if net income is less than \$100,000, \$12,500 if net income is between \$100,000 and \$199,999, \$5,000 if net income is between \$200,000 and \$499,999, and zero otherwise. The exemption would apply for any C-Corp, S-Corp or LLC headquartered in Georgia.

Estimated Revenue Impact

Using Corporate Income Tax returns for 1999 and for 2002, we find that the proposed exemption would have reduced Georgia Corporate Income Tax revenue by \$24.9 million in 1999 and \$16.9 million in 2002. The smaller reduction in 2002 is due to the reduced corporate profits following the recession. These revenue losses amount to 3.1 percent and 3.0 percent of total Corporate Income Tax revenues in 1999 and 2002, respectively. The proposed exemption would have reduced corporate income tax liabilities for eligible firms by about 25 percent in both years.

Projecting Corporate Income Tax revenue based on growth rates during the 1990s, we estimate that the 10-year revenue lost from the proposed exemption would be \$250.8 million.

Other Considerations

The proposed exemption applies only to firms headquartered in Georgia. We are unable to identify which of the firms in the data we used are Georgia-headquartered firms. However, based on case law, we believe there is a strong probability that the courts would find a tax exemption that is limited to firms headquartered in Georgia to be unconstitutional.

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Publisher(s): Fiscal Research Center of the Andrew Young School of Policy Studies

Author(s): Lakshmi Pandey; David L. Sjoquist

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