

Special Council on Tax Reform and Fairness for Georgians

Tax Policy Related to Life Sciences Industry

Innovation and Economic Development in Georgia

**Georgia Bio
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GEORGIA BIO™
The Life Sciences Partnership

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**Georgia Bio
Charles Craig, President
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Georgia Bio (GaBio) greatly appreciates the important task undertaken by the Special Council on Tax Reform and Fairness for Georgians. As the organization representing the life sciences industry, GaBio offers the following information to highlight the significance of this diverse industry to all Georgians and to outline the positive role state government plays in supporting its growth in the face of enormous competition from other states for 21st century life sciences economic development.

Georgia Bio

Georgia Bio (www.GaBio.org) is a private, non-profit, membership-based association and is the champion for the life sciences industry in Georgia. Members include pharmaceutical, biotech and medical companies, universities, research institutes, medical centers, government groups and other business organizations.

GaBio's mission: Advance the growth of Georgia's life sciences industry and foster strategic partnerships that can create a healthier world.

GaBio members have a record of achievement in three areas critical to Georgia's future:

- Improving the health of people, animals and the environment
- Expanding the number of high paying, advanced technology jobs
- Enhancing K-12 student achievement in science education

Impact of Georgia's life sciences industry

Georgia has a strong, diverse life sciences industry. It includes companies that apply life sciences technologies for improving health care, agriculture, bioenergy and environmental management.

In "Shaping Infinity: The Georgia Life Sciences Industry Analysis 2009," the University of Georgia's Selig Center for Economic Growth reported the first-ever economic impact study on the state's life sciences industry and university research. The study revealed an annual economic impact of \$17.3 billion, with the life sciences industry generating 62,000 direct and indirect jobs in Georgia. The industry pays \$4.2 billion in salaries and \$578 million in state and local taxes. The industry's average salary is \$64,500, which is 50% higher than the average for all other industry sectors.

In 2009, there were more than 300 life sciences companies with more than \$8 billion in annual sales in Georgia. These companies had more than 400 marketed products and another 350 in development, mostly for treatment of human illnesses such as cancer, infectious diseases, heart disease, neurological disorders, diabetes, and inflammatory diseases. There are also companies developing animal health care products, agbiotech crops, and biofuels.

The life sciences industry ended 2009 in much better shape than the average of private industry in Georgia. The life sciences industry actually realized a slight 0.8 percent gain in jobs compared with a 6.7 percent loss in jobs for the state's private industry sector as a whole.

The Selig Center also reported that during the first two quarters of 2010, Georgia's medical device companies received the third largest infusion of venture capital funds since 2000. Between 2000 and 2010, biotechnology and medical device companies attracted more than \$655 million in venture capital.

In 2008, biomedical scientists and researchers from throughout the state were conducting 2,314 clinical tests of potential new medicines, including 709 trials for anti-cancer drugs, more than 300 studies of rare disease treatments, 134 tests of medicines for heart disease and 118 trials of anti-HIV/AIDS drugs.

According to the Selig Center, Georgia's life sciences industry has proven to be an important driver of the state's economy that translates into jobs, higher incomes, greater production of goods and services, and higher revenue collections for state and local governments.

In addition to Georgia's diverse private sector life sciences industry, the state is a recognized center of global health innovation with the U.S. Centers of Disease Control and Prevention, Carter Center, Task Force for Global Health, CARE International, American Cancer Society, Arthritis Foundation, American Red Cross and the state's world renowned research universities: Emory University, Georgia Institute of Technology, Georgia State University, Medical College of Georgia, Morehouse School of Medicine, and University of Georgia.

These organizations and institutions assist Georgia in attracting life sciences industry development.

Incentives for Life Sciences Innovation

The growth of the life sciences industry is supported with existing tax incentives that are critical in keeping Georgia competitive with other states. These tax incentives not only support company creation, expansion and recruitment, but also ensure access by all Georgians to advanced technologies, including life saving medicines and other health care technologies; alternative fuels; animal health care products; and biotech crops.

Below are existing tax incentives Georgia Bio strongly urges the Council to preserve, followed by suggestions for other incentives to make Georgia even more competitive with other states for 21st century life sciences-related job growth.

Corporate Income Tax

Single Factor Apportionment: In 2005, Georgia adopted a Single Factor Gross Receipts apportionment formula, which treats a company's Gross Receipts, or sales factor, as the only relevant factor in determining the portion of that company's income that is subject to Georgia income tax. This new single sales factor apportionment formula significantly reduces the effective rate of Georgia income taxation of Georgia-based manufacturing, distribution and service companies with substantial sales to customers outside Georgia.

Sales and Use Tax Exemptions

Health Care Innovation

Prescription drugs sold, or distributed without charge, to Licensed Healthcare Professionals and Authorized Medical Entities: Those prescription drugs, which are either sold or are distributed without charge to physicians, dentists, clinics, hospitals, or any other person or entity located in Georgia by a pharmaceutical manufacturer or distributor.

Medical products used for clinical trial purposes: The use of investigational drugs, new animal drugs, and medical devices lawfully distributed without charge solely for the purposes of a clinical trial approved by either the United States Food and Drug Administration or by an institutional review board.

Sale of blood measuring devices, other monitoring equipment, or insulin delivery systems used exclusively by diabetics and sales of insulin, insulin syringes, and blood glucose level measuring strips dispensed without a prescription.

Sale of oxygen prescribed by a licensed physician.

Sale or use of hearing aids.

Sale or use of any durable medical equipment or prosthetic device prescribed by a physician.

Sale or use, to or by permanently disabled persons, of wheelchairs and any accompanying equipment, including seating equipment, all of which is manually or mechanically attached or adapted to such wheelchairs.

Sale or use of all mobility enhancing equipment prescribed by a physician.

Manufacturing Innovation

Qualified equipment purchases or leases are exempt from sales tax when the equipment purchased is used in the manufacturing process. Under certain conditions, primary material handling equipment (in warehouses and distribution centers); computer equipment; Class 100 (or less) clean room machinery, equipment and materials; and electricity used directly as a raw material in the manufacturing process can also be exempted.

Alternative Fuels Innovation

Notwithstanding any provision of Code Section 48-8-63 to the contrary, sales of tangible personal property to, or used in or for the construction of, an alternative fuel facility primarily dedicated to the production and processing of ethanol, biodiesel, butanol, and their by-products, when such fuels are derived from biomass materials such as agricultural products, or from animal fats, or the wastes of such products or fats.

Sale or use of biomass material, including pellets or other fuels derived from compressed, chipped, or shredded biomass material, utilized in the production of energy, including without limitation the production of electricity, steam, or the production of electricity and steam, which is subsequently sold.

Agricultural Innovation

Sale to any agricultural commodities commission created by and regulated pursuant to Chapter 8 of Title 2.

Sale of seed; fertilizers; insecticides; fungicides; rodenticides; herbicides; defoliants; soil fumigants; plant growth regulating chemicals; desiccants including, but not limited to, shavings and sawdust from wood, peanut hulls, fuller's earth, straw, and hay; and feed for livestock, fish, or poultry when used either directly in tilling the soil or in animal, fish, or poultry husbandry;

Other Tax Exemptions

Inventory Tax Exemption

Many Georgia counties exempt from property tax up to 100 percent of qualified raw material, work-in-process and finished goods inventory under Georgia's local-option "Freeport" law. In most of these counties, distribution center and warehouse inventories are exempt if the inventory is destined to be shipped out of state. This tax exemption is now applicable to all businesses – with inventory subject to ad valorem taxation – due to House Bill # 482 enacted in 2009 by the Georgia General Assembly.

Enterprise Zone Tax Exemption/Abatement Incentives

Businesses that locate within areas that have been designated by the Georgia Department of Community Affairs (GA DCA) as "Enterprise Zones" can receive the following incentives:

Property Tax Exemption: Business will be exempt from state, county, and municipal ad valorem taxes that would otherwise be levied on the qualifying business and service enterprises not to exceed the following schedule:

- One hundred percent of the property taxes shall be exempt for the first five years;
- Eighty percent of the property taxes shall be exempt for the next two years;
- Sixty percent of the property taxes shall be exempt for the next year;
- Forty percent of the property taxes shall be exempt for the next year; and
- Twenty percent of the property taxes shall be exempt for the last year.

Abatement or reduction in occupation taxes, regulatory fees, building inspection fees, and other fees.

Tax Credits

Investment Tax Credits: Existing Georgia manufacturing or telecommunications companies that have operated a facility in Georgia for at least three years, and which make a minimum \$50,000 additional qualified capital investment, may claim from 1 percent to 5 percent of the new investment as a tax credit.

Optional Investment Tax Credits: The optional investment tax credit can be taken in lieu of the investment tax credit. The credits range from 10 percent to 6 percent of qualified capital investment. This credit is available to taxpayers that qualify for investment tax credits, with the minimum investment ranging from \$5 million to \$20 million.

R&D Tax Credit: Ten percent of a company's increased qualified research and development expense over its gross receipts may be claimed as a tax credit. Georgia taxpayers must qualify for a research credit under the IRS code to be eligible. Emerging companies can apply the credit to offset their payroll withholding once all other tax liability has been exhausted for their first 5 years.

Job Tax Credit: Strategic industries such as distribution, technology, manufacturing, telecom, processing companies and their headquarters qualify for Georgia's Job Tax Credit, depending on the tier status of the community. Tier status refers to an annual four-tier ranking of the economic vitality of Georgia's counties. The highest credits are offered in the counties with the greatest need (Tier 1 and 2 counties), while the most prosperous counties (Tier 3 and 4 counties) offer lesser amounts.

Depending on the community's tier, companies must create between five and 25 net new jobs per year to qualify. For each year (up to five years) the jobs are maintained, qualified companies can claim a tax credit with a value of \$750 – \$3,500 per job, per year. An additional \$500 credit is offered in counties that participate in a multi-county joint development authority. Unused job tax credits may be carried forward for ten years.

Existing Industry Job Tax Credit Bonus: Companies that have been doing business in Georgia for at least three years can claim a one-time additional \$500 tax credit for every net new job they add between 2006 and 2011.

Quality Jobs Tax Credit: Companies that create at least 50 jobs and pay wages at least 110% of the county average are eligible to receive a credit of \$2,500-\$5,000 per job, per year, for up to five years. Credits may be used to offset the company's payroll withholding once all other tax liability has been exhausted and may be carried forward ten years.

Opportunity Zone Job Tax Credits: Local governments which undertake redevelopment and revitalization efforts in certain older commercial and industrial areas can now qualify those areas for the State's maximum state job tax credit of \$3,500 per job. The credits are available for areas designated by the Georgia Department of Community Affairs (GA DCA) as Opportunity Zones.

Port Tax Credit Bonus: Available to taxpayers who increase imports or exports through a Georgia port by 10 percent over the previous year. The port tax credit bonus can be used with either the Job or the Investment Tax Credit program. Unused credits may be carried forward 10 years.

Port Job Tax Credit Bonus for Job Tax Credits: The port tax credit is a \$1,250 per job bonus for taxpayers with qualified increases in shipments through a Georgia port. The \$1,250 is added to the job tax credit.

Port Tax Credit Bonus for Investment Tax Credit: The port bonus increases the investment tax credit to the equivalent of a Tier 1 location regardless of the tier level. The port bonus would therefore be equal to 5 percent of the qualified investment in expenses directly related to manufacturing or providing telecommunications services with the credit increasing to 8 percent for recycling, pollution control and defense conversion. The port bonus is limited to 50 percent of income tax liability.

Mega Project Tax Credit: Companies that employ at least 1,800 net new employees, and either invest a minimum of \$450 million or have a minimum annual payroll of \$150 million may claim a \$5,250 per job per year tax credit for the first 5 years of each net new job position. Credits are first applied to state corporate income tax with excess credits eligible for use against payroll withholding. Credits may be carried forward for 10 years.

Retraining Tax Credits: A company's direct investment in training can be claimed as a tax credit. The total amount of credit cannot exceed \$1,250 per employee per year. Training programs must be approved by the Technical College System of Georgia. This tax credit can be

used to offset up to 50 percent of a company's state corporate income tax liability. The credit is available to all Georgia businesses that file a Georgia income tax return. Unused credits can be carried forward 10 years. These credits can be combined with other tax credits.

Tax Incentive Recommendations

Transferrable Tax Credits: Allow companies to sell credits currently limited to offsetting income tax liability to third parties. One example would be loss-making emerging life sciences companies whose development of advanced medicines and devices is highly regulated by the federal government, requiring as long as 10 to 12 years to bring a single product to patients. Enabling these companies to sell their R&D tax credits would provide much needed funding to not only sustain product development, but also keep these high-paying jobs in Georgia.

Quality Jobs Credit: Reduce the number of high quality jobs created from 50 to 5 for companies to qualify for this tax credit. The average salary of life sciences industry employees is more than \$64,000, which is 50 percent higher than the average of all other industry sectors. Average salaries are even higher for pharmaceutical manufacturing, topping \$90,000.

Expansion of Angel Investment Tax Credit: In the investment tax credit adopted in 2010, qualifying businesses are those that are no more than three years old before the investment is made; have no more than 20 employees; no more than \$500,000 of gross revenue in the year before the investment is made; and cannot have raised more than \$1 million. Taken together these elements eliminate almost all existing loss-making life sciences companies, including almost all of those in university incubators. To include emerging life sciences companies, we recommend that the definition of qualifying businesses be revised to include companies that are no more than 10 years old, have no more than 50 employees, do not have more than \$3 million in annual gross revenue, and have not raised more than \$10 million.

Conclusion

Georgia ranks in the top 10 among U.S. states in life sciences industry development, but the competition is significant as many states have developed strategic plans to translate revolutionary 21st century life sciences technologies into the engines that drive long-term economic growth for their respective states.

GaBio urges the Special Council on Tax Reform and Fairness to consider tax policies that support the welfare of today's citizens as well as future generations of Georgians. A good place to start is to keep existing tax policies that are working, such as those listed above, and to use this opportunity to develop a new tax structure that not only will grow the existing industry in Georgia, but also serve as a catalyst for attracting more companies and creating more high-paying jobs.

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