

A Review of the Tax Credit for Driver Education

Prepared for the Senate Study Committee on Special Tax Exemption

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Summary of Policy

Parents or guardians of a dependent minor¹ participating in a certified driver's education course from a private provider can claim a tax credit on the amount paid to the provider, or \$150, whichever is less (O.C.G.A. § 48-7-29.5).

Findings

Taxpayer data from 2014 indicates that 872 taxpayers claimed the credit for a total of \$118,396.

Evaluation Criteria

Measure	Score
Justification	+
Effectiveness	-
Efficiency	-
Equity	-
Return on Investment	N/A
Credit Structure and Administration	-
Budgetary Risk	-/+
Local Government Impact	N/A
Opportunity Costs	-

Suggested Policy Recommendations

- The state should consider the merits of continuing to provide this program through the tax code. Providing for the credit through the tax code reduces the compliance cost of the program from the perspective of the taxpayer, but it limits the benefits of the program to higher income individuals who can utilize a tax credit.
- If continued, the state should consider providing a refundable tax credit and indexing the \$150 for inflation.
- If continued, the state should consider broadening the eligibility requirements to include programs provided by public school programs for which a fee is charged.

¹ A dependent minor in Georgia must be 18 years of age or below.

Introduction

The purpose of this report is to review the Georgia Driver Education tax credit as part of the work of the 2017 Senate Study Committee on Special Tax Exemption, chaired by Senator John Albers. The committee met several times during the summer and fall of 2017 to discuss the process of evaluating tax incentives. This is one of five reviews produced by the Fiscal Research Center in support of this committee.

The purpose of the tax incentive is to encourage greater participation in driver education programs by reducing the cost of the program. It is assumed that participation results in fewer vehicle accidents and fatalities. Because participation in these programs can improve safety outcomes for all drivers, there may be an underinvestment in these projects in the absence of government intervention. Therefore, providing the credit serves to address this underinvestment.

There are many measures by which a tax incentive may be evaluated, but perhaps the most common is the return on investment. That is, an incentive is deemed successful if it provides a positive net return on investment or, stated differently, if the tax dollars generated from the activity exceed the cost of the tax incentive. While this is an important consideration, it may not be the only measure by which incentives should be judged. For instance, incentives that seek to alter behavior may not result in the generation of additional tax revenues but may still be considered worthwhile. Because administration and concerns of state budgeting are also important factors, the program is measured against several criteria. The criteria used in this evaluation were originally developed by Murray and Bruce (2017) and adapted for use by the committee.

The report continues as follows: Section 1 describes the tax credit and discusses the use of other incentives that are typically used in combination with the state tax credit. Section 2 presents information the relevant usage statistics of the Georgia credit. Section 3 concludes with the set of criteria by which the credit is measured, followed by recommendations for improvement and continuation of the program.

Section 1. Georgia's Driver Education Tax Credit

Joshua's Law

Senate Bill 226, also known as “Joshua’s Law”, passed in 2005 to improve driver outcomes for teenagers (Drivesmartgeorgia, 2016). The bill is named for Joshua Robert Brown, a 17-year old from Cartersville, who was killed after the vehicle he was driving hydroplaned into a tree. This law requires all 16-year-olds applying for a Class D² driver’s license to complete a driver

² Class D licenses are provisional/intermediate licenses that are given to teenagers between the ages of 16 and 17. The Class C license (full driver’s license) is only available for those who are above the age of 18. Teenagers who are 15 years old can get an

education course that is approved by the Georgia Department of Driver Services (GDDS), and complete a total of 40 hours of supervised driving, 6 hours of which must be at night³ (Georgia Department of Driver Services, n.d.). Specifically, the driver education course that qualifies under Joshua's law should consist of,

- a. 30 hours of instruction which can be done online or via a public school or private instructor.
- b. 6 hours of behind the wheel driving at a public school or private provider, or 40 hours of a parent taught comprehensive driving course approved by GDDS. (Georgia Department of Driver Services, 2017).

Tax credit for Driver Education

Parents or guardians of a dependent minor⁴ participating in a certified driver's education course from a private provider can claim a tax credit on the amount paid to the provider, or \$150, whichever is less. This credit has been available since 2001 and is administered by the Department of Revenue.

The cost of driver education programs varies widely. If the teenager uses the virtual instruction program and the accompanying parent taught driving course, then the final cost is \$30-\$80⁴. If the teenager purchases both the in-class instruction and behind the wheel training from a private provider, the typical cost can range from \$350-\$500⁵. However, the latter option enables participants to receive a 10 percent reduction in insurance premiums (O.C.G.A. § 33-9-42). In addition, some public school systems offer driver education courses to their students free of charge but many other systems offer the class for a fee.

There are 157 certified private companies in Georgia offering driver education classes. Fifty-two percent of the private companies are located in Gwinnett, Fulton, DeKalb, Cobb, Cherokee, and Henry counties and the remainder are distributed across 39 counties. One hundred and fourteen counties in Georgia do not have a private provider for driver education training⁶. These non-served areas consist of an estimated 28 percent of Georgia's young (15-19-year-olds)⁷. Figure 1 displays the distribution of private driver education providers across Georgia. Areas that have

instructional permit. This is part of Georgia's graduated licensing program under the 1997 enacted Teenage and Adult Driver Responsibility Act (TADRA).

³ If the teenager is 17 years old, she/he is exempted from completing a driver's education course, but is not exempted from completing the requirements pertaining to supervised driving.

⁴ A dependent minor in Georgia must be 18 years of age or below.

⁵ Retrieved from a sample of several private provider websites. The reference links are a)

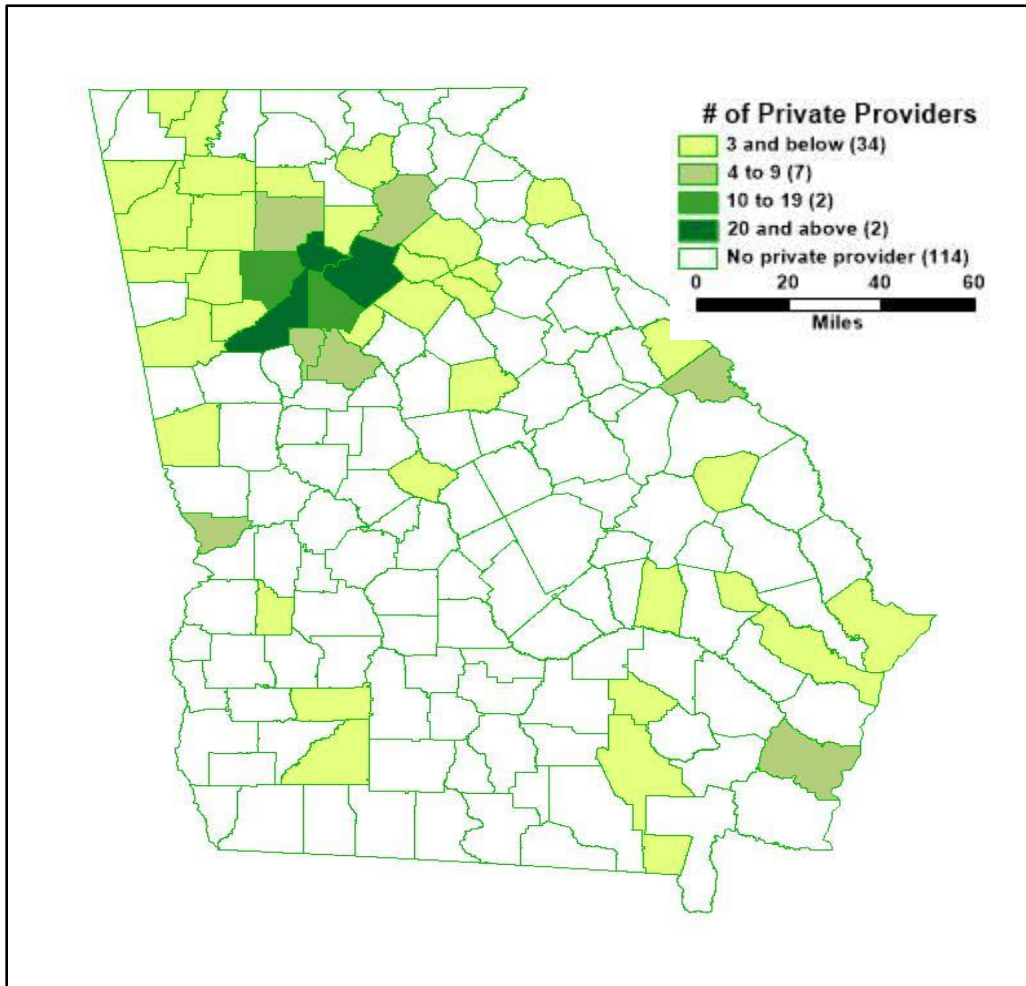
<https://www.1statlantaduischool.com/drivers-education/>; b) <https://www.1ststopgtda.com/enroll>; c) <https://www.a1drivingschools.com/driving-lessons>; d) <http://www.brockdriverschool.com/DriversEd.html>; e) <https://drivesmartgeorgia.com/courses/drivers-ed/>; f) <http://www.georgiadrivingschool.com/driving-classes/joshua-law/>; g) <http://www.rockdalenevtondriving.com/drivertraining>; h) <http://www.smartdriversed.com/>; i) <http://www.tri-countydriving.com/driver-s-education.html>

⁶ Gathered from analyzing information provided by the Georgia Department of Driver Services (n.d.).

⁷ U.S. Census Bureau, 2011-2015, American Community Survey 5-Year Estimates

relatively more private providers typically have a relatively higher number of teenagers aged between 15 and 19 years of age⁸.

Figure 1. Map of private driver education providers in Georgia, 2017



Source: Based on data available the Georgia Department of Driver Services

Alternative support for driver education

In 2017, the Georgia Driver’s Education Commission implemented the Georgia Driver’s Education Grant Scholarship Program. This program is primarily targeted toward dependent teens of public safety professionals or members of the U.S. military killed in the line of duty (tier 1), and secondarily targeted toward teens whose family can demonstrate a need based on family income (tier 2)⁹. Third priority is given to all applicants who do not meet the criteria set forth for

⁸ Correlation co-efficient between no. of private providers and 15-19-year-old population is 0.96.

⁹ 125 percent of the eligibility guidelines used to determine eligibility for free and reduced priced meals in the State of Georgia. For example, for a family of four the maximum family income level under which the teenager may qualify to be a tier 2 applicant is \$56,193.75.

tier 1 and tier 2 applications (tier 3). Scholarship allocations for these tier 3 applicants are evenly distributed among Georgia’s congressional districts. If more grant scholarship applications are received than the grant scholarships that are available in each priority level, then the scholarships are awarded by use of a computer generated random selection method from the priority level applications. The number of scholarships that are awarded on a monthly basis are limited, but students can reapply for the scholarship up to 6 times if denied in the first month of application. These scholarships cover the entire cost of driver education training by all certified public and private providers. The cost of reimbursement is limited to \$500 per scholarship.

Section 2. Usage of the Tax Credit

Based on data for the 2014 tax year¹⁰ from the Georgia Department of Revenue, 872 filers claimed the driver education tax credit for a total sum of \$118,396. The average credit claim was \$134. Usage statistics of the credit by Adjusted Gross Income (AGI) is shown in Table 1. To put things in perspective, 32,331 and 35,611 16-year-olds became licensed drivers in 2014 and 2015, respectively¹¹.

Table 1. Credit utilization of the Driver Education tax credit for tax year 2014 by AGI

Income Group	Percentage of Credit Claims	Percentage of Total Credit Claimed
AGI < \$25,000	7.45%	7.27%
\$25,000 < AGI < \$50,000	7.57%	6.85%
\$50,000 < AGI < \$75,000	9.29%	8.72%
\$75,000 < AGI < \$100,000	14.68%	13.45%
\$100,000 < AGI < \$250,000	49.31%	51.05%
\$250,000 < AGI	11.7%	12.66%

Source: Georgia Department of Revenue, computed by Fiscal Research Center

Alternatively, 5,011 students utilized the scholarship program totaling to \$1.96 million for FY2017. The weighted¹² average rate claimed by each student was \$391. The distribution of the scholarships by tier type are shown in Table 2.

Table 2. Distribution of Awards for the Driver Education Scholarship program, FY2017

Type of Priority Level	% of Approved Applicants
Tier 1 – Dependent of deceased service member	0.05%
Tier 2 – Need based	51.61%
Tier 3 – Neither tier 1 or tier 2	48.31%

Source: Based on data provided by the Georgia Driver’s Education Commission

¹⁰ Only tax year 2014 data was available for this analysis.

¹¹ Data gathered from Federal Highway Administration (2016)

¹² Weighted by percentage of the count of specific rate, among the count of all claimed rates.

Of the 5,011 students, 47 percent purchased driver education from private providers (weighted average rate paid was \$435) and 53 percent purchased driver education from public providers (weighted average rate paid was \$351).

Section 3. Evaluation

Justification

The credit could be justified on social grounds to the extent that participation in driver education programs improves the performance of young adult drivers which is a benefit to all. It is less clear why this subsidy needs to be provided through the tax code. Providing the credit through the tax code skews the usage to higher income taxpayers with tax liabilities sufficient to use the credit, while the benefits of the credit are likely to be spread evenly across all taxpayers.

Effectiveness

It is not clear that any incentive is required over and above the 10 percent discount on insurance premiums. Based on our research, there are likely thousands of students taking driver education and many of those are incurring a cost but not claiming the tax credit. It is likely that these students (or their parents) perceive a benefit from the education regardless of the presence of the subsidy.

Efficiency

Because a taxpayer is only eligible if they utilize the program from a private provider, this may cause individuals to choose the program of a private provider simply to qualify for the credit. In addition, it may create a situation where the provider increases the cost of the program by the amount of the subsidy so that the beneficiary of the credit is ultimately the program provider and not the taxpayer.

Equity

A significant portion of the tax credit is utilized by high income tax filers because these filers can utilize a tax credit on their return. On the other hand, drivers of all income levels are likely to benefit equally from a driver education course. In addition, a significant number of Georgia counties do not have a private education provider and therefore, students from those counties are at a disadvantage in qualifying for the credit.

Return on Investment

Because this is a social credit and not an economic development incentive, the return on investment criteria is not an appropriate standard and any attempt to quantify the benefits are likely to underestimate them.

Credit Structure and Administration

As currently structured the credit seems straightforward to administer. When reviewing the information provided to DOR by taxpayers claiming the credit in 2014, though, we found that some taxpayers listed a public school as the program provider. Current information on the Department of Driver Services website clearly states that public school programs are not eligible for the program. It may be that this problem has been resolved with improved understanding of the eligibility requirements for more recent tax years.

It is not obvious why the credit rate is \$150 and not a value higher or lower. In addition, because the credit value is not indexed for inflation, the current subsidy rate will be reduced as the cost of these programs increase.

Lastly, it is not obvious why the credit is only available to students utilizing the services of a private provider, as several public school systems also provide this service for a fee.

Budgetary Risk

The credit can only be used once per individual but there is no annual cap on the total amount that can be claimed annually. Given the low usage of the credit, there is currently little budgetary risk. In addition, the lack of carryforwards reduces the administrative costs and reduces the budgetary risk. But the lack of an annual cap on total awards represents a risk if utilization of the credit increases.

Local Government Impact

There is no direct local government impact.

Opportunity Costs

The most obvious opportunity cost of the program is the use of the funds by the grant program. If the tax credit funds were used instead in the grant program, an additional 302 students would be awarded funds.¹³

Suggested Policy Recommendations

- The state should consider the merits of continuing to provide this program through the tax code. Providing for the credit through the tax code reduces the compliance cost of the program from the perspective of the taxpayer, but limits the benefits of the program to higher income individuals who can utilize a tax credit.

¹³ Assumes that each student qualified for the average cost of \$390.

- If continued, the state should consider providing a refundable tax credit and indexing the \$150 for inflation.
- If continued, the state should consider broadening the eligibility requirements to include programs provided by public school programs for which a fee is charged.

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