DEPARTMENT OF AUDITS AND ACCOUNTS

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February 13, 2017

Honorable Jay Powell
Chairman, House Ways and Means
133 Capitol
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
House Bill 193 (LC 34 5046)

Dear Chairman Powell:

The bill requires the Department of Revenue to establish and maintain rules governing annual cost of living adjustments for use in determining taxable net income for state income taxes. The rules would provide for annually adjusting the standard deduction amounts allowed for taxpayers who do not itemize nonbusiness deductions. The adjustments would reflect the effects of inflation or deflation in Georgia. The bill is effective for taxable years beginning on or after January 1, 2018.

The language of the bill only requires the creation of an index for adjustments and does not provide for actual adjustment of the deduction amounts. Based on the stated intent of the sponsor, the fiscal analysis assumes that a technical amendment of the bill will be made to provide for the intent to make such adjustments beginning in TY 2018.

Georgia State University's Fiscal Research Center (FRC) estimates that the bill will result in state revenue losses of $5.4 million to $16.3 million in FY 2019 (Table 1), the first full fiscal year impacted by the bill. The revenue loss would be between $19 million and $58.6 million in fiscal year 2022. Details of FRC's analysis are attached.

Table 1: Projected Revenue Effects* of Indexing for Inflation under HB 193 (LC 34 5046)

($ millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
High (3% inflation) Case	($4.8)	($16.3)	($29.0)	($43.1)	($58.6)
Low (1% inflation) Case	($1.6)	($5.4)	($9.6)	($14.1)	($19.0)

* net of gains in state sales tax revenues

The Department of Revenue estimated that establishing rules and regulations governing annual cost of living adjustments will result in approximately $32,000 in one-time costs and $130,000 in annual costs. One-time costs include $22,000 to update IT systems and approximately $10,000 for training and taxpayer outreach. Annual costs include $130,272 for two additional employees ($40,000 each plus benefits) and $2,300 for annual updates to forms.

Sincerely,

Greg S. Griffin
State Auditor

Teresa A. MacCartney, Director
Office of Planning and Budget

GSG/TAM/mt

Analysis by the Fiscal Research Center

Estimates were arrived at from microsimulations using tax return data from DOR for 2014, with the resulting aggregate percent change in tax liabilities from the model applied to baseline projections of state personal income tax revenues, beginning with budgeted revenues for FY 2018 and growing at the rates shown in Table 2. The FY 2018 effect reflects a partial-year effect, assuming collections are affected primarily through withholding in Jan-June of 2018. For subsequent fiscal years, tax year effects are split across fiscal years based on the same assumption. Revenue effects in all periods also reflect marginal gains in state sales tax revenues from increased disposable income, such gains reaching only about $0.7 million in the high case in FY 2022.

Table 2: Projected Revenue Effects* of Indexing for Inflation under HB 96

($ millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Baseline PIT Revenues	$11,455	$12,015	$12,572	$13,124	$13,667
Growth Rate	*5.1%*	*4.9%*	*4.6%*	*4.4%*	*4.1%*
High (3% inflation) Case	($4.8)	($16.3)	($29.0)	($43.1)	($58.6)
Low (1% inflation) Case	($1.6)	($5.4)	($9.6)	($14.1)	($19.0)

* net of gains in state sales tax revenues