DEPARTMENT OF AUDITS AND ACCOUNTS

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February 15, 2017

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

SUBJECT: Fiscal Note
House Bill 66 (LC 41 0964S)

Dear Chairman Powell:

The bill would impose a fee for out-of-state money transmission transactions carried out by or on behalf of individuals, with the fee fully refundable on individual income tax returns. Several types of transactions are exempted, including those completed for corporations, members or retired members of the U.S. Armed Forces or Georgia National Guard, or H-2A visa holders, as well as third-party payments (e.g., bill payment, debit card), check cashing, and sales of money order checks.

The proposed fee is $10 for financial transfers up to $500 and 2 percent for transfers in excess of $500. As compensation for collecting and reporting the fees, financial institutions are allowed to retain 5 percent of the total fees collected. No effective date is provided in the bill, but an effective date of July 1, 2017 is assumed for purposes of the fiscal note.

Impact to State Revenue

Georgia State University's Fiscal Research Center (FRC) estimated that the bill would result in state revenue gains, after credits and reimbursements, of $36.7 million to $96.6 million in FY 2018, with the range growing to $44.7 million to $117.4 million by FY 2022 (Table 1). The difference between the high and low revenue estimates is largely due to assumptions about the portion of citizens and legal residents that file for a credit or reimbursement. Details of FRC's analysis are included in the appendix.

Table 1. Estimated State Revenues, Net of Credits and Reimbursements

($ *millions*)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Low Revenue Case	36.7	38.6	40.5	42.5	44.7
High Revenue Case	96.6	101.4	106.5	111.8	117.4

Impact to State Agency Costs

The Department of Banking and Finance (DBF) would incur costs related to its collection of the fee revenue from financial institutions and regulation of the transmitters. DBF will be responsible for payment processor and merchant services fees associated with each transmission of the new fee revenue sent to the agency. DBF estimated the payment processing fee at $0.47 per transaction, but the number of monthly transactions is unknown. Agency officials estimated that the number could be between 150 and 200 if a business remits a single payment each month; however, the number would be significantly higher if each money transmitting business location submits the fee payment separately. The merchant services fee averages $0.004 per dollar transmitted to the agency. Based on FRC's estimates of collections, the merchant services fees in FY 2019 would range from approximately $150,000 to $400,000. DBF also estimated ongoing staffing costs. These include $4,000 for a part-time IT employee or contractor and $24,000 for a part-time employee or contractor in accounting. If an auditor is needed to ensure that payments are properly collected and remitted, the costs would be $80,000 for salaries/benefits and $5,000 for operating expenses.

DBF would also incur one-time costs associated with the bill. Updates to IT systems are estimated at $89,000, which includes $54,000 for consultants to design, implement and test changes to the current system and $35,000 in change orders for a new system already planned to go live in 2018. If an auditor is hired, the position would require one-time costs of $18,000 for a vehicle and $5,000 for computer and office equipment.

Sincerely,

Greg S. Griffin
State Auditor

Teresa A. MacCartney, Director
Office of Planning and Budget

GSG/TAM/mt

Analysis by the Fiscal Research Center

The proposed money transmission fee is to be charged only to individuals (natural persons) and not on any money transmission made for any corporation. Also exempted would be the following:

- Members or retired members of the US armed forces or Georgia National Guard,
- H-2A visa holders (temporary work visas for agricultural workers),
- Transfers that are both initiated and received within the state,
- "Third-party payments", defined to include bill payment services, credit and debit card transfers, use or sale of prepaid debit or stored value cards, and automated clearing house (ACH) transfers, and
- Check cashing transactions or sales of money order checks.

"Money transmission" is defined by O.C.G.A. §7-1-680 to mean "receiving money or monetary value for transmission or transmitting money or monetary value within the United States or to locations abroad by any and all means, including, but not limited to, an order, wire, facsimile, or electronic transfer." Money transmitters are licensed by the state under Title 7 of the code.

The applicability only to individuals, along with the third-party payments exemption above, suggests that other, non-corporate business entities would also effectively not be subject to the fee. Thus the law would apply the fee (2 percent of the amount transmitted or $10, whichever is greater) to any money transmission originated in Georgia on behalf of a natural person to any recipient outside of Georgia, unless eligible for one of the exemptions above.

No data are available from which to estimate the amounts of *domestic* transactions that would or would not be eligible for one of the exemptions above. Thus the estimates herein are of transmissions made for (outgoing) international remittances only. Of the amounts of international remittances, the share attributable to H-2A visa holders is also not available, but according to reports from the Department of Homeland Security, the number of H-2A visas approved for Georgia in federal FY 2016 was only 422, so the impact of this exemption is assumed to be nominal. The following summarizes the data, methodology, and assumptions used in the above estimates:

- According to data from the World Bank (World Bank Bilateral Remittance Matrix, 2015) total outward remittances from the US in 2015 was about $135 billion.
- According to data from Banco de Mexico, about $24 billion in remittances were sent from the US to Mexico in 2015 (consistent with the World Bank estimate of US-to-Mexico remittances), with about $896 million or 3.78 percent of the total originating in Georgia.
- Assuming Georgia accounts for a similar (3.78 percent) share of total outward remittances (Georgia's Mexico-born share of foreign-born residents, at 57 percent, is roughly the same as the national share), an estimated $5.11 billion in outward remittances are assumed to have originated in Georgia in 2015.
- Data from the Migration Policy Institute (MPI) estimates Georgia's foreign-born

population at about 1.02 million in 2014, with about 377,000 or 37 percent 'unauthorized' (non-citizens lacking legal residency). It is assumed that the share of unauthorized foreign born individuals remains constant over the period of analysis and that 37 percent of Georgia's outgoing remittances are sent by unauthorized individuals. Thus Georgia-originated remittances by unauthorized foreign-born persons are estimated at about $1.88 billion for 2015 while those by authorized persons are estimated at $3.23 billion.

- It is assumed that unauthorized individuals do not file tax returns and would not have means of obtaining a credit for, or refund of, fees paid.
- For foreign-born citizens and legal residents, it is assumed alternately that all or only 10 percent would receive a tax credit for fees paid as provided in the bill. The 10 percent assumption (the high revenue case) is based on data on the similar money transmission fee structure in Oklahoma. That state reports $12.7 million of net revenues from its fee (greater of $5 or 1 percent), but only $615,000 of tax credits approved, less than 5 percent of fee revenue (8 percent of the portion estimated by the same methodology as herein to be paid by authorized persons).
- For the low revenue case, a transmission fee of 2 percent is applied to the estimated value of all remittances, yielding estimated gross fees of about $102.1 million in 2015. Fees paid on remittances by authorized persons, estimated at $64.5 million, are assumed to be fully credited or reimbursed. Also deducted is the 5 percent compensation paid to money transmitters, $5.1 million in total. The net-of-credits/reimbursements revenue gain to the state in this low case is thus estimated at $32.5 million for calendar 2015.
- For the high revenue case, again, only 10 percent of fees paid on remittances by authorized persons are assumed to be credited or reimbursed, resulting in estimated high case net revenues of $85.5 million for calendar 2015.
- Based on data from the World Bank, outward remittances from the US grew at an annual average rate of 5 percent between 2012 and 2015. The same growth rate is assumed going forward.

Resulting projected net revenue gains are presented in Table 1. Note that the methodology applied herein, when applied to comparable input data for Oklahoma, results in a revenue estimate for 2015 only 1.1 percent above reported revenues, net of credits, from a similar fee in that state. Oklahoma explicitly exempts money transmissions to US businesses as well as all ACH transfers.

The estimates do not account for real behavioral effects, such as reductions in remittances originating in the state, which could reduce anticipated revenue gains. The estimates, again, also do not include revenues from domestic money transfers.