DEPARTMENT OF AUDITS AND ACCOUNTS

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December 14, 2016

Honorable Steve Henson
State Senator
121-B State Capitol
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
Senate Bill (LC 43 0423)

Dear Senator Henson:

The bill would allow a credit on personal income tax returns equal to 10 percent of any federal Earned Income Tax Credit (EITC) allowed in the same year. It would be allowed if the taxpayer would have received the credit after adding back any net operating loss carryforward deducted in determining eligibility for the federal credit. The state credits would be fully refundable and available for tax years beginning on or after January 1, 2018.

Georgia State University's Fiscal Research Center (FRC) estimated that the bill would reduce state revenue by approximately $355 million in fiscal year 2019 (see Table 1). The loss would increase to approximately $408 million by fiscal year 2022. Details of FRC's analysis are included in the attachment.

Table 1. State Revenue Loss from LC 43 0423

(*$ millions*)	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**
Georgia EITC	$0	$354.8	$371.7	$389.5	$408.2

Research did not indicate that the bill would have an impact on state agency expenditures.

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 subject bill proposes to allow a credit on personal income tax returns equal to 10 percent of any Earned Income Tax Credit (EITC) allowed on a taxpayer's federal return for the same year, provided that such taxpayer would have received the credit after adding back any net operating loss (NOL) carryforward that was deducted in determining eligibility for the federal credit. Such state credits would be fully refundable and available for tax years beginning on or after January 1, 2018.

Based on IRS Statistics of Income (SOI) data for Georgia, state taxpayers received approximately $3.06 billion of EITC for tax year 2014 (the latest year available), up from $2.64 billion in TY 2013. This would imply total Georgia EITC for TY 2014, had the law been in effect then, of about $306 million. However, the NOL provision cited above would tend to reduce the credits available in Georgia below 10 percent of the federal credit. Nebraska has an identical provision in its state EITC, which otherwise also provides a credit at 10 percent of the federal credit. Based on SOI data and data from Nebraska tax expenditure reports, this provision (possibly combined with other effects) appears to reduce the total of Nebraska EITCs allowed to about 9.61 percent of the federal credit total. The same effect in Georgia would reduce the TY 2014 proforma credit total to $294.4 million, which if in effect at the time would have impacted FY 2015 revenues, reducing personal income tax revenues by about 3.0 percent.

This 3.0 percent impact is assumed going forward and applied to projected personal income tax revenues, which are assumed to grow by 4.9 percent annually from actual FY 2016 levels. The first fiscal year affected would be FY 2019, with a revenue loss of about $355 million. Projected revenue losses through FY 2022 are presented in Table 1.