DEPARTMENT OF AUDITS AND ACCOUNTS

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January 10, 2017

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

SUBJECT: Fiscal Note
House Bill (LC 43 0437)

Dear Chairman Powell:

The bill would modify the state personal income tax by replacing the graduated tax rate structure with a flat rate of 5 percent and by eliminating the itemized deduction for Georgia income taxes paid. The changes, if enacted, would be effective beginning on January 1, 2018.

Georgia State University's Fiscal Research Center (FRC) estimated that the bill would decrease state revenue by approximately $833 million in fiscal year 2019, the first full year impacted by the bill. As shown in Table 1, the revenue loss would grow to $947 million in fiscal year 2022. These revenue losses already consider the fact that a small portion of the state income tax revenue loss would be offset by an increase in state sales tax revenue due to increased consumption. Details of FRC's analysis are included in the appendix.

Table 1. Estimated State Revenue Effects of LC 43 0437

($ *millions*)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Baseline PIT Revenues	$11,455	$12,015	$12,572	$13,124	$13,667
Change in State Revenues*	($364)	($833)	($871)	($910)	($947)

* Net of gains in state sales tax revenues

The Department of Revenue will need to develop a new individual income tax form and internal and external training as a result of the bill. One-time costs for contract and part-time personnel for these tasks is estimated to be $18,125.

Sincerely,

Greg S. Griffin
State Auditor

Teresa A. MacCartney, Director
Office of Planning and Budget

GSG/TAM/mt

Analysis by the Fiscal Research Center

To estimate the state revenue effects of the bill, the proposed changes were simulated using tax year 2014 personal income tax data from the Department of Revenue. Because these data do not include details of itemized deductions, the reported itemized deductions for filers who itemized are reduced by the taxpayers reported Georgia tax liability as a proxy for the taxes paid deduction. The net effect of both proposed changes on TY 2014 aggregate tax liabilities was a reduction of approximately 7.01 percent.

Note that the additional disposable income resulting from the proposed changes can be expected to marginally increase state sales tax collections, to the degree the added income is spent on taxable consumption. Assuming a 5 percent average savings rate and that 31 percent of consumption spending, on average, is taxable in the state, state sales tax gains would reduce the estimated revenue loss to about 6.93 percent of baseline income tax revenues each year.

To project this net effect forward to FY 2018-22, a personal income tax collections baseline is projected based on current budget projections for FY 2018 with subsequent years assuming growth rates from about 4.9 percent in 2019 declining to about 4.1 percent in FY 2022. The 6.93 percent estimated revenue loss factor is then applied to project the net revenue effects of the bill. FY 2018 is adjusted for the partial-year effect of the bill assuming 5.5 months of collections in FY 2018 (or about 46 percent of the FY total) are TY 2018 withholdings and estimated payments.