DEPARTMENT OF AUDITS AND ACCOUNTS

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February 1, 2017

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

SUBJECT: Fiscal Note
House Bill (LC 43 0512)

Dear Chairman Powell:

The bill would modify the state personal income tax by replacing the graduated tax rate structure with a flat rate of 5.4 percent and by eliminating the itemized deduction for Georgia income taxes paid. The bill would also create a non-refundable income tax credit equal to 10 percent of any Earned Income Tax Credit (EITC) allowed on a taxpayer's federal return for the same year. The changes would be effective beginning on January 1, 2018.

Georgia State University's Fiscal Research Center (FRC) estimated that the bill would result in a state revenue reduction of $18 million in FY 2019, the first year of the bill's full effect. The state reduction increases slightly in subsequent years. The 5.4 percent flat rate provision increases state revenue, while the EITC provision reduces revenue by a greater amount, resulting in a net reduction. Details of FRC's analysis are contained in the appendix.

Table 1. Estimated State Revenue Effects of LC 43 0512

(*$ millions*)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Flat tax, no state tax deduction	$39	$90	$94	$98	$102
State EITC	-	($108)	($113)	($118)	($123)
Total Change	$39	($18)	($19)	($20)	($21)

The Department of Revenue estimated that the tax exemption will result in approximately $18,000 in additional agency costs. These include approximately $14,000 for training and outreach and $4,000 to update tax returns.

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 to the tax rate structure and itemized deductions 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 an increase of approximately 0.75 percent.

This 0.75 percent estimate revenue gain is applied to projected personal income tax revenues as shown in Table 2, which are assumed to grow from budgeted FY 2018 levels by the rates shown, to estimate the effects of these two changes over these periods. The estimate for FY 2018 is adjusted to reflect a partial fiscal year effect, given the effective date of the bill, assuming collections are effected primarily through changes in withholding and estimate tax payments due by the end of the fiscal year.

Table 2. Baseline Personal Income Tax Revenue Projections

($ *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 from prior year	*5.14%*	*4.89%*	*4.64%*	*4.39%*	*4.14%*

The DOR data also do not include information on EITCs claimed by Georgia taxpayers. 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 non-refundability and no carryforwards provisions of the bill's state EITC would tend to reduce the credits available in Georgia below 10 percent of the federal credit.

Oklahoma and Delaware have similar provisions in their tax codes for a non-refundable state EITC, Oklahoma's at 5 percent of the federal credit and Delaware's at 20 percent. Based on data from SOI and from tax expenditure reports from both states, the tax expenditure cost of the state's EITCs are estimated to run at about 29.4 percent and 24.4 percent, respectively, of the amount of state credit calculated at the state percentages of the federal credit. That is, Oklahoma's 5 percent of federal EITC nets an effective credit of only about 1.47 percent of the federal credit because of non-refundability. For Delaware, 20 percent of the federal credit becomes about 4.88 percent because of non-refundability. For purposes of this fiscal note, it is assumed based on these estimate from these other states that the effective amount of a non-refundable 10 percent of federal EITC gross credit would be about 2.64 percent of the federal EITC.

This effective credit rate would reduce the TY 2014 proforma credit total to about $80.8 million, which if in effect at the time would have impacted FY 2015 revenues, reducing personal income tax revenues by about 0.9 percent. This -0.9 percent impact is assumed going forward and applied to projected personal income tax revenues to estimate future revenue losses. As a credit, the effect on collections is assumed to occur at the time of filing of returns, in the fiscal year beginning July 1 of the given tax year, thus given the effective date, the fiscal impact would first be felt in FY 2019.