



DEPARTMENT OF AUDITS AND ACCOUNTS

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January 25, 2017

Honorable Chuck Hufstetler
Chairman, Senate Finance
121-C Capitol
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
Senate Bill (LC 28 8189)

Dear Chairman Hufstetler:

The bill would exempt certain retired military pay from Georgia income tax through a tiered exemption structure based on the age of the retired military personnel. Beginning at age 50, 10 percent of retirement pay would be eligible for the exemption; at age 51, 20 percent of retired pay would be eligible. The percentage of retirement pay eligible for the exemption increases 10 percent per year until age 59 when 100 percent would be eligible. For all military retirees over the age of 58, all retirement pay would be exempt. This exemption would be effective for all tax years beginning on or after January 1, 2018.

Impact on State Revenue

Georgia State University's Fiscal Research Center (FRC) estimated that the bill would decrease state revenue by \$24.3 million to \$65.9 million in FY 2019, the first year of the bill's full impact. The revenue decrease is estimated to be between \$23.5 million and \$75.7 million in FY 2022. Details of FRC's analysis are included in the appendix.

Table 1. Estimated State Revenue Loss from Exempting Certain Military Retired Pay
(\$ millions)

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
High Loss Estimate	\$32.2	\$65.9	\$69.0	\$72.3	\$75.7
Low Loss Estimate	\$12.2	\$24.3	\$24.0	\$23.8	\$23.5


Impact on State Agency Costs

The Georgia Department of Revenue estimated one-time expenditures of approximately \$15,000 as a result of the bill. The costs include \$6,000 for internal and external training, \$5,000 for form creation, and \$4,000 for IT to develop a new exemption schedule.

Sincerely,

A handwritten signature in blue ink that reads "Greg S. Griffin". The signature is fluid and cursive.

Greg S. Griffin
State Auditor

A handwritten signature in blue ink that reads "Teresa A. MacCartney". The signature is fluid and cursive.

Teresa A. MacCartney, Director
Office of Planning and Budget

GSG/TAM/mt

Analysis by the Fiscal Research Center

To estimate changes in expected tax revenue, it is necessary to take into account military retired pay that is already exempt under current Georgia tax laws. For Georgians age 62-64, \$35,000 of retirement income is already exempt. For those 65 and older, \$65,000 of retirement income is already exempt. According to the Department of Defense Statistical Report on the Military Retirement System, 96,276 persons who are retired from the U.S. military reside in Georgia as of September 2015; of those 89,446 receive military retired pay. Of those, approximately 42 percent are over the age of 65 and thus already eligible for tax exemption on \$65,000 of retirement income. Based on national military retiree data, 9.1 percent of military retirees are between the ages of 62-64 and thus eligible for exemption of up to \$35,000 of retirement income under current law. Thus, the total share of Georgia recipients of military retired pay who are already either partially or fully exempt is slightly more than 51 percent.

Growth rates of Georgia recipients of military retired pay were also taken into account. The over-65 age group has grown by an average of 3.1 percent per year over the past ten years. The under-65 age group has grown by about 0.3 percent per year over the last ten years and decreased by about 0.9 percent last year. For purposes of projecting military retired pay, the growth rate of persons aged 65 and older is assumed to be between 2.5 percent and 4.0 percent annually, while the growth rate of those aged 65 and under is assumed to be between -1 percent and 0.5 percent annually. The estimates for the group under age 65 is then split between those age 62-64, who are eligible for the \$35,000 retirement income exclusion, and those under age 62. Projections for retired pay recipients in the three age groups in Georgia for tax years 2018 through 2022 are provided in Table 2.

Table 2: Military Retirees Receiving Retired Pay, Projected by Age Group

		TY 2018	TY 2019	TY 2020	TY 2021	TY 2022
Over age 65	High	42,555	44,257	46,027	47,868	49,783
	Low	40,740	41,758	42,802	43,872	44,969
Age 62-64	High	9,355	9,401	9,448	9,496	9,543
	Low	8,807	8,675	8,545	8,417	8,290
Under Age 62	High	43,039	43,254	43,470	43,687	43,906
	Low	40,520	39,912	39,313	38,724	38,143
Total	High	95,924	97,918	99,983	102,121	104,259
	Low	89,414	89,706	90,034	90,399	90,764

Average military retired pay also differs with age. The average for Georgia recipients age 65 and over was \$27,201 and for those under the age of 65 was \$25,139 as of September 2015. Average retired pay per group has grown by about 2.7 percent and 3.3 percent, respectively, per year over the last 10 years. Payments are adjusted annually based on the prior year's consumer price index (CPI) inflation rate.

The official COLA rates for 2016 and 2017 were set at zero and 0.3 percent respectively, based on the CPI of the previous year. COLA rates for 2018 and beyond are assumed to be in the range of 0 to 2.5 percent annually. The resulting average pay figures combined with the number of retirees receiving pay from Table 2, result in high and low nationwide total pay projections by age group in Table 3.

Table 3: Total Military Retired Pay, Projected by Age Group

(\$ millions)		TY 2018	TY 2019	TY 2020	TY 2021	TY 2022
Under age 62	High	\$1,112	\$1,146	\$1,180	\$1,216	\$1,253
	Low	\$1,022	\$1,006	\$991	\$976	\$962
Age 62-64	High	\$242	\$249	\$257	\$264	\$272
	Low	\$222	\$219	\$215	\$212	\$209
Age 65+	High	\$1,190	\$1,269	\$1,352	\$1,442	\$1,537
	Low	\$1,111	\$1,139	\$1,168	\$1,197	\$1,227
Total	High	\$2,544	\$2,663	\$2,789	\$2,922	\$3,061
	Low	\$2,355	\$2,364	\$2,374	\$2,386	\$2,398

The retirement income exclusion available to the 62-64 and 65+ age groups requires different assumptions to predict tax revenue effects. For all Georgia full-year resident taxpayers (excluding those with negative Federal AGI), the average effective tax rate—net tax divided by taxable income—was 5.5 percent in tax year 2014. Thus for military retirees under age 62, a range of 5.25 percent to 5.75 percent is assumed through 2022. For those eligible for the retirement exclusion, much of their military retired pay (if not all) is already excluded, so this range would overstate average effective tax rates for those age 62 or older. Instead, net tax is divided by federal adjusted gross income, which would include military retired pay. On this basis, the average effective tax rate for all Georgia retirees in 2012 was 1.18 percent. Those retirees with AGI below the exclusion limits will still have tax liabilities to the extent they have earned income in excess of \$4,000, but no liability associated with their retirement income. Those with higher retirement income, on the other hand, may be taxable on some or all of their military retired pay or survivor benefits. It is conceivable, then, that no military retired pay or survivor benefits received by age 62 or older taxpayers is currently taxable, so high and low effective tax rates of 2 percent and zero are assumed for both the 62-64 age group and those age 65 or older. From these assumptions and the retired pay figures in Table 3, projected tax liabilities on military retired pay under current law are as shown in Table 4.

Table 4: Projected Taxes on Military Retired Pay, by Age Group

(\$ millions)		TY 2018	TY 2019	TY 2020	TY 2021	TY 2022
Under age 62	High	\$64.0	\$65.9	\$67.9	\$69.9	\$72.0
	Low	\$53.6	\$52.8	\$52.0	\$51.3	\$50.5
Age 62-64	High	\$6.0	\$6.2	\$6.4	\$6.6	\$6.8
	Low	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Over age 65	High	\$29.8	\$31.7	\$33.8	\$36.0	\$38.4
	Low	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Total	High	\$99.8	\$103.8	\$108.1	\$112.6	\$117.2
	Low	\$53.6	\$52.8	\$52.0	\$51.3	\$50.5

The projected tax figures above for those age 62 and older would represent the revenue loss from the proposed bill for those age groups as they would be exempt on 100 percent of their retired pay. For those under age 62, however, further analysis is necessary to account for the stepped increase in the percentage of retired pay that would be exempted for retirees of different ages.

For this analysis, the age distribution in Georgia of military retired pay recipients is assumed to mirror the national age distribution. Average annual retired pay is the same as assumed above, including the high and low COLA assumptions. Table 5 shows the high and low estimated number

of military retirees in Georgia for each age from 50 to 61 as well as the high and low estimates of military retired pay for those ages.

Table 5: Estimated Retirees in Georgia and Retired Pay by Discrete Age for Age 50-61
(\$ in millions)

Age	Retired	TY 2018	TY 2019	TY 2020	TY 2021	TY 2022
50	Number: High	1,975	1,985	1,995	2,005	2,015
	Low	1,888	1,869	1,851	1,832	1,814
	Total Pay: High	\$51.0	\$52.6	\$54.2	\$55.8	\$57.5
	Low	\$47.6	\$47.1	\$46.7	\$46.2	\$45.7
51	Number: High	2,193	2,204	2,215	2,226	2,238
	Low	2,097	2,076	2,055	2,034	2,014
	Total Pay: High	\$56.7	\$58.4	\$60.2	\$62.0	\$63.8
	Low	\$52.9	\$52.3	\$51.8	\$51.3	\$50.8
52	Number: High	2,313	2,325	2,337	2,348	2,360
	Low	2,211	2,189	2,167	2,146	2,124
	Total Pay: High	\$59.8	\$61.6	\$63.4	\$65.4	\$67.3
	Low	\$55.8	\$55.2	\$54.6	\$54.1	\$53.6
53	Number: High	2,383	2,395	2,407	2,419	2,431
	Low	2,278	2,255	2,233	2,210	2,188
	Total Pay: High	\$61.6	\$63.4	\$65.4	\$67.3	\$69.4
	Low	\$57.4	\$56.9	\$56.3	\$55.7	\$55.2
54	Number: High	2,479	2,491	2,504	2,516	2,529
	Low	2,370	2,346	2,322	2,299	2,276
	Total Pay: High	\$64.1	\$66.0	\$68.0	\$70.0	\$72.1
	Low	\$59.7	\$59.1	\$58.6	\$58.0	\$57.4
55	Number: High	2,465	2,477	2,489	2,502	2,514
	Low	2,356	2,332	2,309	2,286	2,263
	Total Pay: High	\$63.7	\$65.6	\$67.6	\$69.6	\$71.7
	Low	\$59.4	\$58.8	\$58.2	\$57.6	\$57.1
56	Number: High	2,464	2,476	2,489	2,501	2,514
	Low	2,355	2,332	2,308	2,285	2,263
	Total Pay: High	\$63.7	\$65.6	\$67.6	\$69.6	\$71.7
	Low	\$59.4	\$58.8	\$58.2	\$57.6	\$57.0
57	Number: High	2,409	2,421	2,433	2,445	2,457
	Low	2,302	2,279	2,257	2,234	2,212
	Total Pay: High	\$62.3	\$64.1	\$66.1	\$68.0	\$70.1
	Low	\$58.1	\$57.5	\$56.9	\$56.3	\$55.8
58	Number: High	2,388	2,400	2,412	2,424	2,436
	Low	2,283	2,260	2,237	2,215	2,193
	Total Pay: High	\$61.7	\$63.6	\$65.5	\$67.5	\$69.5
	Low	\$57.6	\$57.0	\$56.4	\$55.9	\$55.3
59-61	Number: High	8,463	8,505	8,548	8,590	8,633
	Low	8,090	8,009	7,929	7,849	7,771
	Total Pay: High	\$218.7	\$225.3	\$232.1	\$239.1	\$246.3
	Low	\$204.0	\$201.9	\$199.9	\$197.9	\$195.9
Total	Number: High	29,533	29,680	29,829	29,978	30,128
	Low	28,230	27,947	27,668	27,391	27,117
	Total Pay: High	\$763.3	\$786.3	\$809.9	\$834.3	\$859.5
	Low	\$711.8	\$704.7	\$697.6	\$690.7	\$683.7

Table 6 shows the estimated reduction in tax liability resulting from the proposed stepped exemption for the under 62 age group, assuming as explained above, an average effective tax rate of 5.75 percent in the high case and 5.25 percent in the low case.

Table 6: Reduction in Tax Liability from Proposed Exemption by Discrete Age Under 62

Age / % Exempt	Case	(\$ millions)				
		TY 2018	TY 2019	TY 2020	TY 2021	TY 2022
50 10%	High	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3
	Low	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2
51 20%	High	\$0.7	\$0.7	\$0.7	\$0.7	\$0.7
	Low	\$0.6	\$0.5	\$0.5	\$0.5	\$0.5
52 30%	High	\$1.0	\$1.1	\$1.1	\$1.1	\$1.2
	Low	\$0.9	\$0.9	\$0.9	\$0.9	\$0.8
53 40%	High	\$1.4	\$1.5	\$1.5	\$1.5	\$1.6
	Low	\$1.2	\$1.2	\$1.2	\$1.2	\$1.2
54 50%	High	\$1.8	\$1.9	\$2.0	\$2.0	\$2.1
	Low	\$1.6	\$1.6	\$1.5	\$1.5	\$1.5
55 60%	High	\$2.2	\$2.3	\$2.3	\$2.4	\$2.5
	Low	\$1.9	\$1.9	\$1.8	\$1.8	\$1.8
56 70%	High	\$2.6	\$2.6	\$2.7	\$2.8	\$2.9
	Low	\$2.2	\$2.2	\$2.1	\$2.1	\$2.1
57 80%	High	\$2.9	\$2.9	\$3.0	\$3.1	\$3.2
	Low	\$2.4	\$2.4	\$2.4	\$2.4	\$2.3
58 90%	High	\$3.2	\$3.3	\$3.4	\$3.5	\$3.6
	Low	\$2.7	\$2.7	\$2.7	\$2.6	\$2.6
59-61 100%	High	\$12.6	\$13.0	\$13.3	\$13.7	\$14.2
	Low	\$10.7	\$10.6	\$10.5	\$10.4	\$10.3
Total	High	\$28.6	\$29.5	\$30.4	\$31.3	\$32.2
	Low	\$24.4	\$24.1	\$23.9	\$23.7	\$23.4

Finally, tax year reductions in tax liability under the bill are split across fiscal years assuming tax withholding payments are spread evenly over the year. Given the January 1, 2018 effective date of the bill, FY 2018 would thus realize a half-year impact from the bill. The total reductions in tax liabilities (revenue loss for the state) for FY 2018-22 are shown in Table 1.