



DEPARTMENT OF AUDITS AND ACCOUNTS

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Greg S. Griffin
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February 6, 2018

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

SUBJECT: Fiscal Note
House Bill 749 (LC 34 5267)

Dear Chairman Powell:

The bill would make income received by a surviving family member based on the service record of a deceased service member exempt from state income tax. Payments under the Department of Defense (DoD) Survivor Benefit Plan or other DoD benefit payments to military survivors would qualify for the exemption. The bill also adds military retirement and disability pay to the definition of retirement income under the current retirement income exclusion (O.C.G.A. § 48-7-27). The bill would apply to all taxable years beginning on or after January 1, 2018.

Impact on Revenue

Georgia State University's Fiscal Research Center (FRC) estimated that the bill would lower state revenue by \$1.4 million to \$5.2 million in FY 2019, the first full year of the bill's effect (Table 1). The loss would not significantly change over the next several years. Details of the analysis are in the attached appendix.

Table 1: Estimated State Revenue Effects of LC 34 5267

(\$ millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
High Revenue Loss	\$1.1	\$5.2	\$4.7	\$4.9	\$5.1	\$5.3
Low Revenue Loss	\$0.3	\$1.4	\$1.2	\$1.3	\$1.3	\$1.3

Impact on Expenditures

The Department of Revenue estimated approximately \$31,000 in one-time expenditures associated with the bill. The funds would pay for vendor certification, system testing, training, and form updates.

Sincerely,

A handwritten signature in blue ink that reads "Greg S. Griffin". The signature is written in a cursive style with a prominent initial "G".

Greg S. Griffin
State Auditor

A handwritten signature in blue ink that reads "Teresa A. MacCartney". The signature is written in a cursive style with a prominent initial "T".

Teresa A. MacCartney, Director
Office of Planning and Budget

GSG/TAM/mt

Analysis by the Fiscal Research Center

Taxpayers age 62 to 64 are already exempt from Georgia income taxes on up to \$35,000 of retirement income, including up to \$4,000 of earned income, and those over age 65 are exempt on up to \$65,000. SBP¹ would already be classified as unearned income for beneficiaries in these age groups and exempt from income tax up to the relevant limit. It is not known what amounts of SBP payments are received by Georgia taxpayers in these age groups in excess of these limits, but such currently-taxable payments are assumed to be immaterial to the estimates herein.

According to the Department of Defense Statistical Report on the Military Retirement System for FY 2016 (the latest available), there are a total of 13,007 survivor beneficiaries who reside in Georgia as of September 2016. Of these Georgia beneficiaries, 11,250 or 87 percent are over 65 years of age. Based on the detailed age groupings in national figures, it is assumed that 3 percent of the under-65 beneficiaries in Georgia are 62-64 years of age, bringing the total share of beneficiaries currently eligible for the existing retirement income exclusion to approximately 90 percent.

Growth in the numbers of Georgia recipients of survivor benefit pay have differed by age group in recent years, with the over-65 group growing by about 0.6 percent annually, on average, since 2011 and the under-65 group growing -1.4 percent annually over the same period. In 2016, the number under age 65 actually fell from 2015 by 2.3 percent while the number over 65 grew by 0.1 percent. For purposes of projecting survivor beneficiaries, it is assumed that the number above age 65 will grow by between 0.5 percent and 2 percent annually while those below age 65 will grow by -0.5 percent to 1.5 percent annually. Projected numbers of survivor benefit recipients in Georgia for tax years 2018 through 2023 are provided in Table 2.

Table 2: Projected Survivor Benefits Recipients, by Age Group

		TY 2018	TY 2019	TY 2020	TY 2021	TY 2022	TY 2023
Under age 62	High	2,286	2,320	2,355	2,390	2,426	2,462
	Low	2,197	2,186	2,175	2,164	2,153	2,142
Age 62-64	High	572	580	589	598	607	616
	Low	549	547	544	541	538	536
Over age 65	High	11,715	11,949	12,188	12,432	12,681	12,935
	Low	11,373	11,430	11,487	11,544	11,602	11,660
Total	High	14,573	14,849	15,132	15,420	15,714	16,013
	Low	14,119	14,163	14,206	14,249	14,293	14,338

Average SBP payments differ by age as well, with the average for Georgia beneficiaries over age 65 at \$12,090 annualized as of September 2016 and for those under age 65 at \$9,518. Payments are adjusted annually based on the prior year's consumer price index (CPI) inflation rate. The official COLA rate for 2016 was set at 0.0 percent, based on CPI inflation for the preceding year; COLA rates for 2017 and 2018 were set at 0.3 percent and 2.0 percent, respectively. COLA rates for 2019 and beyond are assumed to be in the range of 1.5 to 2.5 percent annually. The resulting

¹ SBP refers to Department of Defense Survivor Benefit Plan and other DoD benefit payments to military survivors.

projected average pay figures, together with the projected retiree and survivor figures from Table 2, result in high and low total survivor benefit projections, by age group, as shown in Table 3.

Table 3: Projected Survivor Benefits, by Age Group

(\$ millions)		TY 2018	TY 2019	TY 2020	TY 2021	TY 2022	TY 2023
Under age 62	High	\$22.6	\$23.5	\$24.5	\$25.5	\$26.5	\$27.6
	Low	\$21.8	\$22.2	\$22.6	\$23.1	\$23.5	\$24.0
Age 62-64	High	\$5.7	\$5.9	\$6.1	\$6.4	\$6.6	\$6.9
	Low	\$5.4	\$5.6	\$5.7	\$5.8	\$5.9	\$6.0
Over age 65	High	\$147.3	\$154.0	\$161.1	\$168.4	\$176.1	\$184.1
	Low	\$143.0	\$147.4	\$151.8	\$156.4	\$161.1	\$165.9
Total	High	\$175.6	\$183.5	\$191.7	\$200.3	\$209.2	\$218.6
	Low	\$170.2	\$175.1	\$180.1	\$185.2	\$190.5	\$195.9

For all Georgia full-year resident taxpayers (excluding those with negative Federal AGI), the weighted average effective tax rate—net tax divided by taxable income—was 5.78 percent in tax year 2015. For survivor beneficiaries in Georgia under age 62, a range of 5.5 percent to 5.85 percent is assumed going forward. For those over 62 most or all their SBP payments are already excluded from taxation, so this measure of effective tax rates would be misleading. Instead, net tax is divided by federal adjusted gross income, which would include SBP payments. On this basis, the effective tax rate for all Georgia retirees in 2015 was 2.0 percent. Those SBP beneficiaries 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 SBP income. Those with higher retirement income, on the other income, may be taxable on some or all their SBP payments. It is conceivable, then, that no SBP payments received by age 62 or older taxpayers are 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 survivor benefits figures in Table 3, projected tax liabilities on survivor benefits payments under current law are as shown in Table 4.

Table 4: Projected Taxes on Survivor Benefits, by Age Group

(\$ millions)		TY 2018	TY 2019	TY 2020	TY 2021	TY 2022	TY 2023
Under age 62	High	\$1.3	\$1.4	\$1.4	\$1.5	\$1.6	\$1.6
	Low	\$1.2	\$1.2	\$1.2	\$1.3	\$1.3	\$1.3
Age 62-64	High	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1
	Low	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Over age 65	High	\$2.9	\$3.1	\$3.2	\$3.4	\$3.5	\$3.7
	Low	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Total	High	\$4.4	\$4.6	\$4.8	\$5.0	\$5.2	\$5.4
	Low	\$1.2	\$1.2	\$1.2	\$1.3	\$1.3	\$1.3

These figures are adjusted to fiscal year basis assuming that tax collections are substantially all through withholding or estimated tax payments, and thus are spread evenly over the year, with the first five and a half calendar months of payments collected in the fiscal year ending June 30 of that calendar year and the balance collected in the following fiscal year. The results on a fiscal year basis are shown in Table 1.