



DEPARTMENT OF AUDITS AND ACCOUNTS

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Greg S. Griffin
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March 1, 2018

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

SUBJECT: Fiscal Note
House Bill 599 (LC 43 0656)

Dear Chairman Powell:

The bill would exempt from state income tax all income received from a public pension or similar retirement fund for non-civilian service as a member of the armed forces of the United States or a reserve component. It is assumed that the exemption would apply to both military retired pay and Department of Defense Survivor Benefit Plan payments. The bill would be effective on January 1, 2018.

Georgia State University's Fiscal Research Center (FRC) estimated that the bill would result in a state revenue loss of \$32.23 to \$121.77 million in FY 2019, the first year of the bill's full effect (Table 1). The loss would be \$56.49 to \$125.61 in FY 2023. Details of the analysis are in the attached appendix.

Table 1. Estimated State Revenue Loss from Exempting Military Retired Pay

(\$ millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
High Loss Estimate	\$25.69	\$121.77	\$110.10	\$115.02	\$120.19	\$125.61
Low Loss Estimate	\$13.81	\$32.23	\$55.67	\$55.94	\$56.22	\$56.49

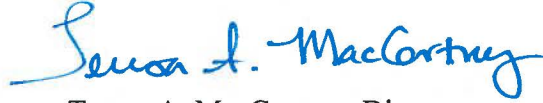
Impact on Expenditures

The bill would result in one-time expenditures for the Department of Revenue (DOR) of approximately \$63,000. Most of the funding (\$46,800) is needed for IT system updates and testing, with the remainder for form updates and training and education.

Sincerely,

A handwritten signature in blue ink that reads "Greg S. Griffin".

Greg S. Griffin
State Auditor

A handwritten signature in blue ink that reads "Teresa A. MacCartney".

Teresa A. MacCartney, Director
Office of Planning and Budget

GSG/TAM/mt

Analysis by the Fiscal Research Center

Military Retirement Payments

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 up to \$65,000. Military retired pay would already be classified as unearned income for beneficiaries in these age groups and exempt from income tax up to the applicable limit.

According to the Department of Defense (DoD) Statistical Report on the Military Retirement System for FY 2016 (the latest available), there are a total of 90,077 individuals in Georgia receiving military retired pay as of September 2016. Of these, 38,758 or 43 percent are over 65 years of age. Based on the detailed age groupings in national figures, it is assumed that 17.9 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 60.9 percent.

Growth in the numbers of Georgia recipients of military retired pay have differed by age group in recent years, with the over-65 group growing by about 3.1 percent annually, on average, since 2011 and the under-65 group declining by .8 percent annually over the same period. For purposes of projecting those receiving military retirement pay, it is assumed that the number above age 65 will grow by between two percent and four percent annually while those below age 65 will grow by minus one percent to one percent annually. Projected numbers of those receiving military retiree pay in Georgia for tax years 2018 through 2023 are provided in Table 2.

Table 2: Projected Retired Pay Recipients, by Age Group

		TY 2018	TY 2019	TY 2020	TY 2021	TY 2022	TY 2023
Under age 62	High	43,434	43,868	44,307	44,750	45,197	45,649
	Low	40,904	40,495	40,090	39,689	39,292	38,899
Age 62-64	High	9,440	9,535	9,630	9,726	9,824	9,922
	Low	8,891	8,802	8,714	8,627	8,540	8,455
Over age 65	High	43,597	45,341	47,155	49,041	51,003	53,043
	Low	41,130	41,953	42,792	43,648	44,521	45,411
Total	High	96,471	98,744	101,092	103,517	106,024	108,614
	Low	90,925	91,250	91,596	91,964	92,353	92,766

Also according to the DoD report, there are a total of 13,007 survivor beneficiaries who reside in Georgia as of September 2016. Of these Georgia beneficiaries, 11,260, or 84 percent, are over 65 years of age. Based on the detailed age groupings in national figures, it is assumed that 4 percent of the 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 88 percent.

Growth in the numbers of Georgia recipients of survivor benefit pay have differed by age group in recent years as well, 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 3: 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 annual retired pay and Survivor Benefit Plan (SBP) payments also differ by age. For Georgia retirees over age 65, average retired pay was \$27,152 as of September 2016, while for those under age 65 it was \$25,271. Average SBP payments for Georgia beneficiaries over age 65 was \$12,090 annually as of September 2016 and for those under age 65, it was \$9,518.

Military retired pay and SBP 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 projected average pay figures, together with the projected retiree and survivor figures from Tables 2 and 3, result in high and low total survivor benefit and military retirement payments projections, by age group, as shown in Table 4.

Table 4: Projected Retirement and Survivor Benefits Pay, by Age Group

(\$ millions)		TY 2018	TY 2019	TY 2020	TY 2021	TY 2022	TY 2023
Under age 62	High	\$1,151	\$1,192	\$1,234	\$1,278	\$1,323	\$1,369
	Low	\$1,052	\$1,057	\$1,063	\$1,068	\$1,073	\$1,078
Age 62-64	High	\$245	\$254	\$263	\$272	\$282	\$292
	Low	\$229	\$230	\$231	\$232	\$233	\$234
Over age 65	High	\$1,217	\$1,297	\$1,383	\$1,474	\$1,572	\$1,675
	Low	\$1,137	\$1,177	\$1,219	\$1,262	\$1,306	\$1,352
Total	High	\$2,613	\$2,743	\$2,880	\$3,024	\$3,176	\$3,336
	Low	\$2,418	\$2,464	\$2,512	\$2,561	\$2,612	\$2,665

For all Georgia full-year resident taxpayers (excluding those with a negative federal adjusted gross income), the weighted average effective tax rate—net tax divided by taxable income—was 5.78 percent in tax year 2015. For those receiving military retirement payments 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 military retirement 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 military retirement payments. On this basis, the effective tax rate for all Georgia retirees in 2015 was 2.0 percent. Those SBP beneficiaries with an adjusted gross income 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 military retirement payments. It is conceivable, then, that no military retirement 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 military retirement payment figures in Table 3, projected tax liabilities on military retirement payments under current law are as shown in Table 4.

Table 5: Projected Taxes on Retirement Pay and Survivor Benefits, by Age Group

(\$ millions)		TY 2018	TY 2019	TY 2020	TY 2021	TY 2022	TY 2023
Under age 62	High	\$66.2	\$68.5	\$70.9	\$73.5	\$76.1	\$78.7
	Low	\$55.2	\$55.5	\$55.8	\$56.1	\$56.3	\$56.6
Age 62-64	High	\$6.1	\$6.3	\$6.6	\$6.8	\$7.0	\$7.3
	Low	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Over age 65	High	\$30.4	\$32.4	\$34.6	\$36.9	\$39.3	\$41.9
	Low	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Total	High	\$102.7	\$107.3	\$112.1	\$117.1	\$122.4	\$127.9
	Low	\$55.2	\$55.5	\$55.8	\$56.1	\$56.3	\$56.6

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. FY 2018 is impacted because of the retroactive effectiveness of the exemption; the estimates assume the bill becomes law with sufficient time to affect withholding and estimated tax payments in April through June 2018. The results on a fiscal year basis are shown in Table 1.