



DEPARTMENT OF AUDITS AND ACCOUNTS

270 Washington St., S.W., Suite 1-156
Atlanta, Georgia 30334-8400

Greg S. Griffin
STATE AUDITOR
(404) 656-2174

January 22, 2020

Honorable David Wilkerson
State Representative
409-G Coverdell Legislative Office Bldg.
Atlanta, Georgia 30334

SUBJECT: Revised Fiscal Note
House Bill 199 (LC 43 1053)

Dear Representative Wilkerson:

This fiscal note is a revised version of the one published on January 23, 2019. The original fiscal note included a revenue forecast that assumed a 5.5 percent income tax rate beginning in tax year 2020. This revised version includes an updated revenue forecast with the 5.5 percent rate, as well as an alternate scenario with the rate at the current 5.75 percent for the period covered by the analysis.

The bill would allow personal income taxpayers to choose whether to itemize deductions or take the standard deduction on their state tax returns, regardless of the choice made on the federal return. Under current law, Georgia taxpayers are required to use the same method (e.g., itemize or standard deduction) when filing their state return as they did on their federal return. As currently written, the bill would be effective for all tax years beginning on or after January 1, 2019; however, the analysis assumes that a substitute bill will be drafted with an effective date beginning January 1, 2020.

Impact on State Revenue

Georgia State University's Fiscal Research Center (FRC) estimated that the bill would reduce state revenue by approximately \$344 million in fiscal year 2021, the first year of the bill's full effect (**Table 1**). The revenue loss would drop in fiscal year 2022 before rising to \$343 million by fiscal year 2025. Consistent with the Governor's Office of Planning and Budget's revenue baseline, FRC's analysis assumes that the second personal income tax rate cut to 5.5 percent is ratified to be effective January 1, 2021. An alternate baseline scenario in which the top personal income tax remains at 5.75 percent is shown in **Table 2**. Details of FRC's analyses are in the appendix.

Table 1. Estimated State Revenue Effects of LC 43 1053 with 5.5 Percent Tax Rate

(\$ millions)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Revenue Loss	(\$47)	(\$344)	(\$283)	(\$320)	(\$331)	(\$343)

Table 2. Estimated State Revenue Effects of LC 43 1053 with Current 5.75 Percent Tax Rate

(\$ millions)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Revenue Loss	(\$47)	(\$348)	(\$315)	(\$327)	(\$339)	(\$350)

Impact on State Expenditures

The Department of Revenue stated that the bill would result in additional one-time costs of approximately \$63,000. Approximately \$40,000 would be required for information technology modifications and another \$23,000 for tax form and documentation changes, as well as staff training.

Sincerely,



Greg S. Griffin
State Auditor



Kelly Farr, Director
Office of Planning and Budget

Analysis by the Fiscal Research Center

Estimates presented herein are derived from a microsimulation model of Georgia taxpayers using an anonymized sample of tax year (TY) 2017 tax return data, consisting of approximately 3.56 million returns representing about 79 percent of all filers in the state for that year. Adjustments are made to the sample results to make them approximately representative of all filers. Modeled changes in aggregate tax liabilities are then applied to baseline PIT revenue projections for the state fiscal years affected, through FY 2025. Baseline projections were provided by the Office of Planning and Budget (OPB). The current law baseline, according to OPB, assumes that this second rate cut is ratified in accordance with HB 918 except taking effect January 1, 2021.

The model first accounts for tax changes resulting from the federal Tax Cut and Jobs Act (TCJA) and Georgia HB 918, simulating tax liabilities under current law. TCJA changes modeled include the following:

- Itemized deduction changes
 - Limitation on state and local tax (SALT) deductions to no more than \$10,000 per year
 - Elimination of casualty and theft loss deduction
 - Elimination of miscellaneous deductions subject to the 2 percent of AGI floor
 - Repeal of Pease limitations on itemized deductions
- Increased federal standard deduction, including induced switching from itemized to standard deductions (taxpayer chooses deduction type that minimizes combined state and federal taxes)
- Repeal of the moving expense deduction (taken before as a reduction in AGI)

Because of data limitations, certain changes could not be modeled, including the following:

- Reduced limit on the size of new mortgages for which interest may be deducted
- Elimination of deduction for home equity loan interest
- Increased limit for deduction of charitable contributions
- Changes to deductibility or exclusion of alimony payments
- Changes to or clarification of the deductibility of certain gambling-related expenses

Modeled HB 918 modifications to the Georgia PIT are as follows:

- Georgia standard deduction amounts of \$4,600 for Single and Head of Household filers, \$6,000 for Married Joint filers, and \$3,000 for Married Separate filers
- Top marginal tax rate of 5.75 percent
- Effective January 1, 2021, top marginal tax rate of 5.50 percent

The model then determines each filer's tax-minimizing choice of itemized or standard deductions for federal and state taxes independently, as the subject bill would allow. Tax liabilities are recalculated with the new deduction choices and the sample results are gross-up to represent the estimated reduction in tax liabilities for all filers as a percent of baseline liabilities. The estimated reductions are applied to the OPB baseline forecast to calculate the projected state revenue impacts, with timing adjustments to reflect the retroactive effectiveness of the proposed bill and to adjust to fiscal years.

Table 3 provides details of the timing adjustments, with tax year liability changes split across the fiscal years in which the impacts of the bill on state collections would be realized. Table 4 provides baseline revenue projections as well as proforma projections reflecting the proposed decoupling.

Table 3. Timing Assumptions for FY Impact of TY Changes to PIT

Tax Year of Change in Liability:	Fiscal Year Impacted:					
	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
TY 2020	17%	75%	8%			
TY 2021		42%	50%	8%		
TY 2022			42%	50%	8%	
TY 2023				42%	50%	8%
TY 2024					42%	50%
TY 2025						42%

Table 4. Baseline and Proforma Projected State PIT Revenues

(\$ millions)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
OPB Baseline Revenue	\$12,299	\$12,653	\$13,096	\$13,554	\$14,029	\$14,520
% Change over prior year	1.00%	2.88%	3.50%	3.50%	3.50%	3.50%
Proforma PIT Revenues	\$12,252	\$12,309	\$12,813	\$13,234	\$13,698	\$14,177
% Change over prior year	0.61%	0.47%	4.13%	3.29%	3.50%	3.50%
% Change from OPB baseline	-0.39%	-2.72%	-2.16%	-2.36%	-2.36%	-2.36%
Effect of Decoupling	(\$47)	(\$344)	(\$283)	(\$320)	(\$331)	(\$343)

Alternate Baseline Scenario

The OPB baseline for the estimates above assumes, as noted, that the second reduction of the top marginal tax rate, from 5.75 to 5.50 percent, as contemplated in HB 918 (2018), is ratified to be effective for tax years beginning on or after January 1, 2021. In the event this does not occur, both the baseline revenue projections used to calculate the cost of this bill and the decisions of some taxpayers as to itemizing deductions or taking the standard deduction would be different. Table 5 presents the alternate baseline revenue, without the tax rate cut, and the effects of decoupling the deduction decision under this bill as the projected revenue loss from that alternate baseline.

Table 5. Alternate Baseline and Proforma Projected State PIT Revenues

(\$ millions)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Alt. Baseline Revenue	\$12,299	\$12,879	\$13,611	\$14,136	\$14,631	\$15,143
% Change over prior year	1.00%	4.72%	5.68%	3.86%	3.50%	3.50%
Proforma PIT Revenues	\$12,252	\$12,532	\$13,297	\$13,809	\$14,293	\$14,793
% Change over prior year	0.61%	2.29%	6.10%	3.86%	3.50%	3.50%
% Change from alt. baseline	-0.39%	-2.70%	-2.31%	-2.31%	-2.31%	-2.31%
Effect of Decoupling	(\$47)	(\$348)	(\$315)	(\$327)	(\$339)	(\$350)