



## 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

February 26, 2019

Honorable Brett Harrell  
Chairman, House Ways and Means  
133 State Capitol  
Atlanta, Georgia 30334

SUBJECT: Fiscal Note  
House Bill (LC 43 1107)

Dear Chairman Harrell:

The bill would exempt from state income tax all active duty pay of U.S. military personnel otherwise taxable in Georgia. Currently, members of the U.S. military whose state of legal residence is Georgia are subject to state income tax on all military pay that is includable in their federal adjusted gross income, regardless of where the service member is currently stationed. Combat zone pay is not included in federal adjusted gross income and is therefore not taxed. Military earnings for personnel who are stationed in Georgia but are legal residents of other states are exempt from Georgia state income tax. The bill would apply to tax years beginning on or after January 1, 2019.

### Impact on State Revenue

Georgia State University's Fiscal Research Center (FRC) estimated state revenue reductions of \$81.3 million to \$86.7 million in FY 2021, with the loss growing slightly in subsequent years. In FY 2020 the loss is larger because it includes a larger time period of reduced taxes. The entire tax year 2019 revenue loss would occur in FY 2020, while most of the effect would be through monthly withholdings in other years. Details of FRC's analysis are included in the appendix.

**Table 1. Estimated State Revenue Effects of LC 43 1107**

(\$ millions)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
High Estimate	(\$128.4)	(\$86.7)	(\$88.5)	(\$90.4)	(\$92.2)
Low Estimate	(\$119.3)	(\$81.3)	(\$80.5)	(\$79.6)	(\$78.8)

### Impact on State Expenditures

The Department of Revenue would not require additional funding as a result of the bill.

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 "Kelly Farr".

Kelly Farr, Director  
Office of Planning and Budget

GSG/KF/mt

### **Analysis by the Fiscal Research Center**

No data are available as to the active duty pay earned by personnel whose state of legal residence is Georgia. The estimates that follow are thus based on U.S. Department of Defense (DoD) reports as to personnel stationed in Georgia, assuming that non-resident personnel stationed in Georgia are roughly offset by resident personnel stationed elsewhere.

Based on the Pentagon's FY 2018 Budget request, the Center for Strategic and Budgetary Assessments calculated basic pay for the U.S. military to be approximately \$56 billion, or approximately 38 percent of military personnel pays and benefits. Basic pay is that portion of income for active duty personnel which is taxable under U.S. tax law, excluding such things as combat pay, and housing and other allowances. Table 2 summarizes the analysis on a tax (calendar) year basis. Key estimate assumptions are as follows:

- Active duty personnel projections begin from 65,873 as of federal fiscal year end (FYE) 2018, according to DoD reporting, are projected to grow by between -0.5 percent to -2.5 percent per year. The average rate of change over the last five years was about -1.8 percent per year. For simplicity, the federal FYE personnel counts are taken as a proxy for tax year average counts.
- Georgia's share of aggregate basic payroll is assumed equal to its share of active duty personnel stationed here, resulting in about \$2.75 billion of Georgia active duty basic pay for TY 2018.
- Official rates of military pay increase over the 2015-19 period ranged from 1.0 percent in 2015 to 2.6 percent in 2019, averaging about 1.9 percent. A range of 1.5 to 2.6 percent is assumed for the projected periods. The proportional distribution of personnel rank within Georgia is assumed to remain the same as in 2018 such that average pay grows based only on the official rate of pay increase.
- Average effective tax rates applicable to military basic pay are assumed to be between 3.1 and 3.3 percent for TY 2019, and between 3.0 and 3.2 percent for later years, based on simulated net tax liabilities as a percent of federal adjusted gross income (FAGI) for taxpayers in roughly the 60<sup>th</sup> through 80<sup>th</sup> percentile of taxpayers (about \$36-93 thousand of FAGI in 2016). Tax liabilities were simulated using 2016 tax return data to reflect current law after changes made in the federal Tax Cut and Jobs Act and Georgia House Bill 918 (2018), assuming the reduction of the top marginal tax rate to 5.5 percent is ratified for TY 2020 and beyond.
- Adjustment to state fiscal year effects assume the effect is realized primarily through withholding, except that TY 2019 effects will be realized entirely in FY 2020.

**Table 2. Projected Military Personnel, Pay, and Current Law Tax Liability in Georgia**

<i>(\$ millions except avg pay)</i>	<b>TY 2019</b>	<b>TY 2020</b>	<b>TY 2021</b>	<b>TY 2022</b>	<b>TY 2023</b>	<b>TY 2024</b>
<b>Active Duty Personnel</b>						
High	65,544	65,216	64,890	64,565	64,243	63,921
Low	64,226	62,621	61,055	59,529	58,040	56,589
<b>Average Active Duty Pay</b>						
High	\$42,820	\$43,933	\$45,075	\$46,247	\$47,450	\$48,683
Low	\$42,820	\$43,462	\$44,114	\$44,776	\$45,447	\$46,129
<b>Total Active Duty Pay</b>						
High	\$2,807	\$2,865	\$2,925	\$2,986	\$3,048	\$3,112
Low	\$2,750	\$2,722	\$2,693	\$2,665	\$2,638	\$2,610
<b>Tax Liability</b>						
High	\$92.6	\$86.0	\$87.7	\$89.6	\$91.4	\$93.4
Low	\$85.3	\$81.6	\$80.8	\$80.0	\$79.1	\$78.3