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February 28, 2019

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

SUBJECT: Fiscal Note
House Bill 432 (LC 43 1250)

Dear Chairman Harrell:

The bill would replace the graduated personal income tax rate structure with a single, flat rate of 5.30 percent. It would also create a personal income tax credit equal to 3 percent of up to $3,000 of earned income included in a taxpayer's Georgia taxable income, repeal the state low income credit, and eliminate the itemized deduction for Georgia income taxes. Finally, the bill would reduce the state's corporate income tax rate to 5.30 percent. If enacted, the bill would be effective January 1, 2020, and apply to all tax years beginning on or after that date.

Impact on Revenue

Georgia State University's Fiscal Research Center (FRC) estimated that the bill would reduce state income tax revenue by $108 million in FY 2021 (Table 1), the first full year of the bill's effect. The revenue loss would grow to $138 million in FY 2024. This analysis includes the assumption that the second tax rate cut from HB 918 (2018) goes into effect. If the additional .25% cut is not enacted this session, the revenue loss estimates could be larger than assumed. The attached appendix details the analysis.

Table 1. Estimated State Revenue Effects of LC 43 1250

($ *millions*)	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023**	**FY 2024**
Personal Income Tax Effects	($31)	($69)	($80)	($84)	($88)
Corporate Income Tax Effects	($20)	($39)	($45)	($47)	($50)
Total Revenue Effects	($51)	($108)	($124)	($131)	($138)

Numbers may not add due to rounding.

Impact on State Expenditures

The Department of Revenue estimated $56,000 in one-time costs related to information technology system changes. This estimate does not include costs to implement HB 918 (2018 Session). The agency has requested funding in FY 2020 for HB 918.

Sincerely,

Greg S. Griffin
State Auditor

Kelly Farr, Director
Office of Planning and Budget

GSG/KF/mt

Analysis by Fiscal Research Center

HB 432 (LC 43 1250) would make the following changes to O.C.G.A. Title 48, Chapters 7 and 7A, regarding personal and corporate income taxation in the state:

- Replace the state's graduated personal income tax rate structure with a single, flat rate of 5.30 percent.
- Create a nonrefundable personal income tax credit equal to 3 percent of up to $3,000 of earned income included in such taxpayer's Georgia taxable income.
- Eliminate the state low income credit by repealing Chapter 7A of Title 48 in its entirety.
- Eliminate the itemized deduction for Georgia income taxes paid, to the extent remaining after the limitations in the Tax Cut and Jobs Act (TCJA).
- Reduce the state's corporate income tax rate to 5.30 percent.

If enacted, the changes would be effective January 1, 2020, and apply to all tax years beginning on or after that date. The bill would also obviate the need for ratification of the second personal and corporate income tax rate cuts anticipated by HB 918 (2018), but for purposes of this analysis, it should be noted that baseline income tax revenue forecasts used in the analysis assume those rate cuts are ratified as anticipated by that act. Baseline forecasts through FY 2023 were provided by the Office of Planning and Budget (OPB). The figure for FY 2024 assumes growth in that year equal to the average annual growth rate over the prior five years.

Two points of interpretation should also be noted with regard to the personal income tax credit created by the bill. The analysis assumes the following:

- "Earned income" is to have the same meaning as in O.C.G.A. §48-7-27(a)(5)(E), regarding the state's retirement income exclusion; that is, "including but not limited to net business income earned by an individual from any trade or business carried on by such individual, wages, salaries, tips, and other employer compensation." More precisely, this is taken to mean:
    - Wages, salaries, tips, etc. reported on IRS Form W-2 and line 7 of Form 1040; and
    - Business income or (loss) reported on IRS Form 1040 line 12 and Schedule C line 31.
- The $3,000 of earned income limitation for calculation of the credit is per individual taxpayer such that for joint filers, the limitation is $3,000 for the primary plus $3,000 for the secondary taxpayer on the return.

Personal income tax effects are estimated using a microsimulation model and anonymized tax year (TY) 2016 income tax return data from the Department of Revenue (DOR) to simulate taxpayers' tax liabilities under current law as of TY 2020 (post-HB918 liabilities assuming, again, the reduction in the top marginal tax rate to 5.5 percent occurs as anticipated in HB 918 and the revenue baseline) and under the proposed changes.

Post-HB918 liability calculations also account for the likelihood that taxpayers who itemized deductions in 2016 may choose to switch to the federal and state standard deductions, given the changes to itemized and standard deductions in the federal TCJA and state HB 918, by assuming that taxpayers will switch deduction methods if doing so minimizes their combined federal and state tax liabilities. Simulation results suggest that over half of itemizers in 2016 would not benefit from itemizing under 2020 law and could be expected to switch.

Simulated effects on aggregate tax liabilities are applied to the baseline revenue forecast, adjusting for the partial effect in FY 2020 resulting for the January 1, 2020, effective date, to produce the results presented in Table 2.

Table 2. Personal Income Tax Effects of LC 43 1250

($ *millions*)	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023**	**FY 2024**
		OPB Baseline Forecast			FRC Proj.
Baseline PIT revenue	$12,754	$12,808	$13,646	$14,449	$15,091
% Change over prior year	3.66%	0.42%	6.54%	5.89%	4.44%
Proforma PIT revenue	$12,723	$12,740	$13,566	$14,365	$15,003
Change in PIT Revenue	($31)	($69)	($80)	($84)	($88)

Numbers may not add due to rounding.

Corporate income tax (CIT) changes are limited to reducing the flat rate applicable to all Georgia taxable income of the corporation. Baseline CIT revenues are again as provided by OPB through FY 2023, extended to FY 2024 at the average growth rate over the prior five years. Proforma CIT revenues account for variation in firm tax years and resulting variation in effective dates of rate cuts using IRS national data as to shares of corporate taxable income reported by month of firm tax yearends.

Table 3. Corporate Income Tax Effects of LC 43 1250

($ *millions*)	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023**	**FY 2024**
		OPB Baseline Forecast			FRC Proj.
Baseline CIT revenue	$1,260	$1,140	$1,231	$1,296	$1,368
% Change over prior year	16.84%	-9.47%	7.98%	5.25%	5.59%
Proforma CIT revenue	$1,240	$1,101	$1,187	$1,249	$1,319
Change in CIT Revenue	($20)	($39)	($45)	($47)	($50)

Numbers may not add due to rounding.