



DEPARTMENT OF AUDITS AND ACCOUNTS

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March 5, 2019

Honorable Chuck Hufstetler
Chairman, Senate Finance
121 Capitol
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
Senate Bill 138 (LC 43 1258)

Dear Chairman Hufstetler:

The bill would allow disabled first responders, as well as a surviving spouse and minor children, to receive two free vehicle license plates or decals for each vehicle and one free motorcycle license. The bill also exempts from title ad valorem tax any vehicles owned by a disabled first responder or surviving spouse. Finally, it exempts 100% of disability payments from state taxable income.

Impact on Revenue

The Carl Vinson Institute of Government (CVIOG) at the University of Georgia estimated that the bill would result in state revenue loss of \$45,625 in FY 2020, with the loss increasing to approximately \$80,000 in FY 2024 (Table 1). Local revenue loss would range from \$16,570 in FY 2020 and just under \$30,000 in FY 2024. The attached appendix details the analysis.

Table 1. State and Local Revenue Loss, LC 43 1258

	FY2020	FY2021	FY2022	FY2023	FY2024
Local Revenue Impact	\$16,570	\$19,846	\$22,894	\$26,107	\$29,493
State Revenue Impact	\$45,625	\$54,381	\$62,433	\$70,857	\$79,666

Impact on State Expenditures

The Department of Revenue (DOR) would incur one-time costs for changes to information technology systems, which can be absorbed with the department's current DRIVES budget.

Sincerely,



Greg S. Griffin
State Auditor



Kelly Farr, Director
Office of Planning and Budget

GSG/KF/mt

Analysis by Fiscal Research Center

This legislation amends Article 3 of Chapter 2 of Title 40 of the Official Code of Georgia by defining a ‘disabled first responder’ as a law enforcement officer, firefighter, or publicly employed emergency medical technician who receives state indemnification payments under Code Section 45-9-85. It further amends this code section by providing two free vehicle license plates or revalidation decals for each owned vehicle, and one free license plate or revalidation decal for a motorcycle annually for the life of the disabled first responder, or for his surviving spouse or minor child for a specified amount of time. It also amends Code Section 48-5C-1 relating to the alternative ad valorem tax on motor vehicles by exempting any motor vehicle registered by a disabled first responder or surviving spouse from state and local title ad valorem tax. It further amends Code Section 48-7-27 relating to the computation of net income for taxation purposes by exempting 100% of disability payments received by disabled first responders, as defined in 40-2-72.1, from taxable income.

Data on the annual number of disabled first responders receiving benefits through the Georgia State Indemnification Program in Code Section 45-9-85 were obtained from the Georgia Department of Administrative Services. A total of 31 first responders were killed or disabled and qualified for the tax exemptions as of 2018, with an average of 6 additional first responders qualifying each year so that by 2020 there would be an estimated 43 persons eligible for benefits. Eligibility criteria for benefits under the Georgia State Indemnification Program for partial disability include the loss of one eye or blindness in one eye, loss of one hand, loss of one leg, or loss of a lower extremity or the residual effect of an organic disease or injury requiring use of a wheelchair for all but short distances. The criteria for benefits for complete disability include loss of both eyes (or blindness), loss of both hands, loss of both legs, or loss of a lower extremity or the residual of an organic disease or injury requiring use of a wheel chair at all times.

For the vehicle tag portion of the analysis, it was assumed, based on a study by the Michigan Transportation Research Institute, that the typical household of a qualifying disabled first responder owns two automobiles (U.S. average). Thus, in 2020, 43 eligible persons would register an estimated 86 vehicles and be exempt from the \$20 tag fee for each. This exemption results in a loss of state revenue of \$1,720 in 2020 growing to \$2,720 by 2024. Although the local tax commissioner retains 25 cents per license plate issued over 4,000, the impact to local revenue is minimal.

Table 2. Vehicle Tag Fee State Revenue Loss

	FY2020	FY2021	FY2022	FY2023	FY2024
Vehicle Tag Fees (State)	\$1,720	\$2,000	\$2,240	\$2,480	\$2,720

For the title ad valorem tax portion of the analysis, additional assumptions were that the average length of car ownership is 6.6 years (IHS Markit; a leading automotive consulting firm), that the average price for new light vehicles in 2018 was \$35,742 (Kelley Blue Book), and that the average price for used light vehicles in 2018 was \$20,084 (Edmunds). Kelley Blue Book also reports that new car prices have historically risen by an average of 2 percent per year. To account for the fact that Georgia has an automobile market dominated by light trucks and SUV’s, and that automobile

price increases are expected to accelerate over the next few years due to technological and fuel efficiency requirements, an inflation rate of 3 percent was used to account for price increases.

Based on an average vehicle length of ownership of 6.6 years and two vehicles per household, 28.6% of qualifying first responder households would be expected to purchase a vehicle each year. Multiplying 28.6% by the projected number of qualifying first responders for each year gives the expected number of vehicle purchases. This expected number of vehicle purchases was then multiplied by the average of new and used vehicle prices to arrive at total dollars per year spent on vehicle purchases by qualified first responders. This expenditure total was then multiplied by the state TAVT tax rate of 7% to arrive at forgone TAVT revenues attributable to the tax exemption. Implicit in this calculation is the assumption that vehicle sales to qualified first responders are evenly split between new and used vehicles. Forgone TAVT revenue was divided between state and local governments based on the 35% state and 65% local split specified by current law.

Table 3. TAVT State and Local Revenue Loss

	FY2020	FY2021	FY2022	FY2023	FY2024
TAVT					
Local TAVT	\$16,570	\$19,846	\$22,894	\$26,107	\$29,493
State TAVT	\$8,922	\$10,686	\$12,328	\$14,058	\$15,881
Total TAVT	\$25,493	\$30,532	\$35,221	\$40,165	\$45,374

Disability payments paid to qualifying first responders through the Georgia State Indemnification Program under Code Section 45-9-85 are exempt from state income tax based on Code Section 45-9-87. This legislation would make any additional disability payments to qualifying first responders exempt from state income taxes even if that income were taxable for federal income tax purposes. Many disability payments are already exempt from federal income tax and thus are not included in the federal taxable income amount that is used as a basis for Georgia state income tax. Whether disability payments are taxable at the federal level for any given disabled first responder is dependent on his or her individual financial situation. According to Wood LLP, a nationally recognized law firm specializing in tax representation, when employers pay disability insurance premiums, disability payments may be taxable, whereas when employees pay premiums, payments typically are not taxable. When premium payments are divided between employers and employees, a portion of disability payments that are proportional to the split may be taxable income for the recipient.

Disability payments are typically a function of an employee’s annual salary. The average annual salary for first responders (law enforcement officers, firefighters, and emergency medical technicians) in Georgia was an estimated \$41,890 in 2018. Typical disability insurance provides about 60% of annual wages, or \$26,934 annually in this case. Assuming that premium costs were split equally between employer and employee, half of this amount (\$13,467) could be taxable at the federal level and thus included in the Federally Adjusted Gross Income figure that serves as the basis for Georgia taxable income. At Georgia’s current top individual tax rate of 5.75%, this would amount to \$774 per individual first responder, and \$25,049 for the total of 31 qualifying first responders in 2018. This amount was adjusted for future years at a 2.5% wage inflation rate as currently reported by the Bureau of Labor Statistics. These calculations were repeated for 2020 – 2024 based on the projected number of qualifying first responders. It should be noted that this

figure represents an estimated upper bound on forgone state tax revenue and that the actual amount could be less depending on the individual financial situations of qualifying first responders.

Table 4. State Income Tax Revenue Loss

	FY2020	FY2021	FY2022	FY2023	FY2024
State Income Tax	\$34,983	\$41,695	\$47,865	\$54,319	\$61,065