



DEPARTMENT OF AUDITS AND ACCOUNTS

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January 14, 2019

Honorable Jesse Petrea
State Representative
408-B Coverdell Legislative Office Building
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
House Bill 7 (LC 44 0970)

Dear Representative Petrea:

The bill would exempt from income taxation all military retired pay and survivor benefits received by Georgia taxpayers from the United States military. The exemption would be effective January 1, 2020 and be repealed automatically on December 31, 2030.

This fiscal note assumes that payments under the Department of Defense (DoD) Survivor Benefit Plan or other DoD benefit payments to military survivors (collectively, SBP) would qualify for the exemption. Survivor and dependent benefits paid by the Department of Veterans Affairs are not included in the analysis because these payments are not currently subject to income tax.

Impact on State Revenue

Georgia State University's Fiscal Research Center (FRC) estimated that the bill would reduce state revenue by \$58.5 million to \$99.6 million in fiscal year 2021, the first full fiscal year of its implementation (Table 1). The loss is expected to grow in subsequent years. The attached appendix details the analysis.

Table 1: Estimated Revenue Loss

(\$ millions)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
High	\$40.8	\$99.6	\$103.9	\$108.5	\$113.2
Low	\$24.3	\$58.5	\$59.1	\$59.6	\$60.2

Impact on State Expenditures

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

Sincerely,



Greg S. Griffin
State Auditor



Kelly Farr, Director
Office of Planning and Budget

GSG/KF/mt

Analysis by the Fiscal Research Center

To estimate the revenue impact of exempting military retired pay and survivor benefits from income taxation, it is first necessary to account for the fact that taxpayers age 62 to 64 are already exempt from Georgia income taxes on up to \$35,000 of retirement income and those over age 65 are exempt on up to \$65,000 of retirement income. According to the Department of Defense Statistical Report on the Military Retirement System for FY 2017 (the latest available), 98,555 persons retired from the U.S. military resided in Georgia as of September 2017, of whom 90,693 were receiving military retired pay. Of those receiving retired pay, approximately 43.8 percent were age 65 or over. Further age breakdowns are only available on military retirees nationally, but on the basis of national data, approximately 18 percent of those under age 65 are assumed to be 62 to 64 years of age. Thus it is estimated that approximately 10.1 percent of the total are age 62 to 64, 43.8 percent over age 65, and the balance under age 62. The total share of Georgia recipients of military retired pay who are already exempt from taxes on some or all of their retirement income is thus slightly less than 54 percent.

Georgia SBP beneficiaries, who numbered 13,413 as of September 2017, are much more likely to be over 65—11,274 or 84.1 percent of recipients. Based on the finer age groupings in national figures, it is assumed that 24 percent of the under-65 benefit recipients are 62-64, bringing the total share of recipients eligible for some amount of retirement income exclusion to about 88 percent.

Growth rates of Georgia recipients of military retired pay have differed by age group in recent years, with the over-65 group growing by about 3.0 percent annually, on average, since 2011 and the under-65 group declining by 0.8 percent annually over the same period. In 2017, the number under age 65 actually fell from 2015 by 0.6 percent annually while the number over 65 grew by 2.5 percent. For purposes of projecting military retired pay recipients, it is assumed that the number above age 65 will grow by between 2 and 4 percent annually while those below age 65 will grow by -1.5 to 1.0 percent annually.

Overall growth in SBP beneficiaries, which had been running 0.6 percent annually from 2011-2015, reversed, declining by 0.4 percent annually the last two years. Growth in the 65+ age group averaged 0.1 percent annually since 2015 while the under-65 age group declined by 2.9 percent annually. To project survivor benefit recipients, growth rates of -0.5 to 1.0 percent are assumed for the 65+ age group and -1.5 percent to -3.0 percent are assumed for the under-65 group.

Projected numbers of retired pay and survivor benefit recipients in Georgia for tax years 2019 through 2024 are provided in Table 2.

Table 2: Projected Total Military Retired Pay and Survivor Benefits Recipients, by Age Group

		TY 2019	TY 2020	TY 2021	TY 2022	TY 2023	TY 2024
Under age 62	High	44,187	44,590	44,997	45,409	45,825	46,247
	Low	42,056	41,402	40,760	40,126	39,503	38,891
Age 62-64	High	9,870	9,956	10,043	10,131	10,221	10,311
	Low	9,397	9,249	9,102	8,959	8,818	8,679
Over age 65	High	54,479	56,313	58,217	60,193	62,245	64,376
	Low	52,504	53,275	54,062	54,867	55,689	56,529
Total	High	108,536	110,859	113,257	115,733	118,291	120,934
	Low	103,957	103,926	103,924	103,952	104,010	104,099

Average military retired pay differs by age as well, with the average for Georgia recipients over age 65 at \$27,191 annualized as of September 2017 and for those under age 65 at \$25,578. Average SBP payments as of September 2017 were \$12,029 annualized for recipients over age 65 and \$9,649 for those under age 65. Payments are adjusted annually based on the prior year's consumer price index (CPI) inflation rate.

The official COLA rates for 2018 and 2019 were set at 2 percent and 2.8 percent respectively, based on CPI inflation for the preceding years. COLA rates for 2020 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 Table 2, result in high and low total retiree pay and survivor benefit projections, by age group, as shown in Table 3.

Table 3: Projected Total Military Retired Pay and Survivor Benefits, by Age Group

(\$ millions)		TY 2019	TY 2020	TY 2021	TY 2022	TY 2023	TY 2024
Under age 62	High	\$1,159	\$1,199	\$1,241	\$1,284	\$1,329	\$1,376
	Low	\$1,102	\$1,102	\$1,112	\$1,122	\$1,133	\$1,143
Age 62-64	High	\$256	\$265	\$274	\$284	\$294	\$304
	Low	\$244	\$244	\$246	\$248	\$250	\$253
Over age 65	High	\$1,370	\$1,456	\$1,548	\$1,645	\$1,749	\$1,859
	Low	\$1,318	\$1,361	\$1,418	\$1,477	\$1,539	\$1,604
Total	High	\$2,786	\$2,921	\$3,063	\$3,214	\$3,372	\$3,539
	Low	\$2,664	\$2,706	\$2,776	\$2,848	\$2,923	\$3,000

The retirement income exclusion available to the 62 and over age groups requires different assumptions across the groups as to effective tax rates. For Georgia full-year resident taxpayers not claiming the existing retirement income exclusion (excluding those with negative Georgia AGI), the average effective tax rate—net tax divided by taxable income—was 5.29 percent in tax year 2016, adjusting for tax law changes effective in tax year 2018. Thus for military retirees under age 62, this effective tax rate is assumed going forward. For those eligible for the retirement exclusion, much of their military retired pay (if not all) is already excluded, so this measure of effective tax rates would be misleading. Instead, net tax is divided by the sum of reported Georgia taxable income and excluded retirement income. On this basis, the effective tax rate for all Georgia retirees in 2016 was 1.39 percent, again after adjusting for 2018 tax law changes. Those retirees with AGI 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 retirement income. Those with higher retirement income, on the other income, may be taxable on some or all of their military retired pay or survivor benefits. It is conceivable, then, that no military retired pay or survivor benefits received by age 62 or older taxpayers is 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 retired pay figures in Table 3, projected tax liabilities on military retired pay under current law are as shown in Table 4.

Table 4: Projected Taxes on Military Retired Pay, by Age Group

(\$ millions)		TY 2019	TY 2020	TY 2021	TY 2022	TY 2023	TY 2024
Under age 62	High	\$61.3	\$63.4	\$65.7	\$67.9	\$70.3	\$72.8
	Low	58.3	58.3	58.8	59.4	59.9	60.5
Age 62-64	High	5.1	5.3	5.5	5.7	5.9	6.1
	Low	0.0	0.0	0.0	0.0	0.0	0.0
Over age 65	High	27.4	29.1	31.0	32.9	35.0	37.2
	Low	0.0	0.0	0.0	0.0	0.0	0.0
Total	High	\$93.8	\$97.9	\$102.1	\$106.5	\$111.2	\$116.0
	Low	58.3	58.3	58.8	59.4	59.9	60.5

These figures are adjusted to fiscal year basis assuming that tax collections are substantially all through withholding and thus are spread evenly over the year, with the first five calendar months' withholding payments collected in the fiscal year ending in June of that calendar year and the balance collected in the following fiscal year. That is, 7/12 of the TY 2019 and 5/12 of the TY 2020 tax liabilities would be collected in FY 2020, with future years' liabilities similarly divided. The results are shown in Table 1 of the fiscal note.