DEPARTMENT OF AUDITS AND ACCOUNTS

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January 7, 2020

Honorable John Carson
State Representative
401-E State Capitol
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
House Bill (LC 43 1433)

Dear Representative Carson:

The bill would allow a deduction from corporate taxable income for assessment payments made to the Federal Deposit Insurance Corporation (FDIC) to the degree not already deducted from federal taxable income of the corporation. Under the Tax Cut and Jobs Act of 2017 (TCJA), the ability of banks and other financial institutions to deduct this expense from their taxable income was curtailed, particularly for larger institutions. Previously, these assessments were treated as an ordinary business expense, fully deductible under federal and state tax law. This bill would restore full deductibility on state corporate income tax returns without limitation. The bill would be effective for tax years beginning on or after January 1, 2020.

Impact on State Revenue
Georgia State University's Fiscal Research Center (FRC) estimated the bill would decrease state revenue $5.5 million in FY 2022, the first fiscal year of the bill's full effect (**Table 1**). The revenue loss is projected to increase to $5.9 million by FY 2025. The attached appendix details the analysis.

Table 1. Estimated State Revenue Effects of LC 43 1433

($ *millions*)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
State Revenue Effect	($1.6)	($4.3)	($5.5)	($5.7)	($5.8)	($5.9)

Impact on State Expenditures
While some costs will be incurred, the Department of Revenue would not require additional funding to implement the bill.

Sincerely,

Greg S. Griffin
State Auditor

Kelly Farr, Director
Office of Planning and Budget

GSG/KF/mt

Analysis by the Fiscal Research Center

Financial institutions whose deposits are insured through the FDIC pay risk-based assessments or premiums to the FDIC in the ordinary course of business in accordance with 12 U.S.C. 1817(b). Prior to enactment of TCJA, such assessments were deductible as an ordinary business expense on federal corporate income tax returns, thus Georgia corporate taxable income would also be reduced by assessments paid that are attributable to the taxpayer's Georgia business.

Under TCJA, taxpayers with up to $10 billion of consolidated assets can continue to deduct the full amount of this expense, but those with more than $50 billion of consolidated assets may not take any deduction for it. For those with consolidated assets between $10 and $50 billion, the deduction is reduced by an "applicable percentage" equal to the ratio of consolidated assets less $10 billion divided by $40 billion (i.e. increasing linearly from zero to 100% for consolidated assets rising within that range).

After passage of TCJA, the Fiscal Research Center estimated the state revenue gains from conforming to this and other federal tax changes in the act, based on federal estimates from the Joint Committee on Taxation, which were then shared down to Georgia based on FDIC data on the state's share of depository institution assets and then adjusted for Georgia tax rates under HB 918 (2018). Those estimates extended through FY 2023 and, for purposes of this note, are further extended by two years using the same growth rate and other assumptions. See Table 2 below.

Passage of this bill would effectively nullify those gains for tax years beginning on or after January 1, 2020. Thus, state revenue effects from the bill reflect the same phasing-in effect as in the initial revenue gain estimates, reflecting firm tax years that do not coincide with calendar years. In the present case, decoupling from federal taxes on the deduction of FDIC premiums will impact state FY 2020 only to the extent of firms with tax years beginning between January 1 and June 30 making estimated tax payments by June 30, 2020, for the tax year just begun. Those with tax years beginning between July 1 and December 31 will first realize an effect in estimated tax payments made during state FY 2021, in some cases beginning later in FY 2021. Thus both FY 2020 and FY 2021 show only part-year effects of (state revenue losses from) decoupling.

Table 2. Estimated Revenue Effects of Conforming in HB 918 (2018) to TCJA Phase-out of Deduction for FDIC Assessments

(*$ millions*)	**FY2018**	**FY2019**	**FY2020**	**FY2021**	**FY2022**	**FY2023**	**FY2024**	**FY2025**
TCJA Conformity	$1.6	$4.3	$5.4	$5.4	$5.5	$5.7	$5.8	$5.9
Proposed Decoupling			($1.6)	($4.3)	($5.5)	($5.7)	($5.8)	($5.9)