



DEPARTMENT OF AUDITS AND ACCOUNTS

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February 17, 2020

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

SUBJECT: Revised Fiscal Note
House Bill 432 (LC 43 1488S)

Dear Chairman Harrell:

This replaces the fiscal note dated February 3, 2020. Georgia State University's Fiscal Research Center identified an error in the modeling software that resulted in an overestimate of the personal income taxpayers who would switch to the standard deduction and incorrectly calculated credits for single filers. The correction led to a change in the personal income tax effects of the bill.

The bill would replace the graduated personal income tax rates with a single, flat rate of 5.50 percent, replace the low income credit with a credit based on taxable income below certain maximums, eliminate the limited itemized deduction for Georgia income taxes paid, and reduce the corporate income tax rate from 5.75 percent to 5.50 percent. The bill would be effective for all tax years beginning on or after January 1, 2020.

Impact on State Revenue

Georgia State University's Fiscal Research Center (FRC) estimated that the bill would result in a revenue loss of \$58.9 million in FY 2021, the first year of the bill's full effect, growing to \$73 million in FY 2025 (**Table 1**). The analysis assumes the current top tax rate of 5.75 percent. Details of the analysis are included in the appendix.

Table 1. Estimated State Revenue Effects of HB 432 LC 43 1488S

(\$ millions)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Personal Income Tax	\$0.0	\$0.3	\$0.2	\$0.3	\$0.3	\$0.3
Corporate Income Tax	(\$25.5)	(\$59.2)	(\$65.2)	(\$67.8)	(\$70.5)	(\$73.3)
Total	(\$25.5)	(\$58.9)	(\$64.9)	(\$67.5)	(\$70.2)	(\$73.0)

Impact on State Expenditures

The Department of Revenue (DOR) would not require additional funding but would require a significant redirection of resources to implement the bill. DOR estimated 3,000 hours (\$246,000) of information technology staff time to modify the Integrated Tax System and Georgia Tax Center. The agency estimated approximately 900 hours and \$62,000 in Taxpayer Services Division resources for systems testing, training, and creation of documentation.

Sincerely,



Greg S. Griffin
State Auditor



Kelly Farr, Director
Office of Planning and Budget

GSG/KF/mt

Analysis by the Fiscal Research Center

Personal Income Tax Estimates

Estimates presented herein are derived from a microsimulation model of Georgia taxpayers using an anonymized sample of tax year (TY) 2017 tax return data, consisting of approximately 3.56 million returns representing about 79 percent of all filers in the state for that year. Adjustments are made to the sample results to make them approximately representative of all filers. Modeled changes in aggregate tax liabilities are then applied to baseline personal income tax (PIT) revenue projections for the state fiscal years affected, through FY 2025. Baseline projections were provided by the Office of Planning and Budget (OPB).

The model first accounts for tax changes resulting from the federal Tax Cut and Jobs Act (TCJA) and Georgia HB 918, simulating tax liabilities under current law. TCJA changes modeled include the following:

- Itemized deduction changes
 - Limitation on state and local tax (SALT) deductions to no more than \$10,000 per year
 - Elimination of casualty and theft loss deduction
 - Elimination of miscellaneous deductions subject to the 2 percent of AGI floor
 - Repeal of Pease limitations on itemized deductions
- Increased federal standard deduction, including induced switching from itemized to standard deductions (taxpayer chooses deduction type that minimizes combined state and federal taxes)
- Repeal of the moving expense deduction (taken before as a reduction in AGI)

Because of data limitations, certain changes could not be modeled, including the following:

- Reduced limit on the size of new mortgages for which interest may be deducted
- Elimination of deduction for home equity loan interest
- Increased limit for deduction of charitable contributions
- Changes to deductibility or exclusion of alimony payments
- Changes to or clarification of the deductibility of certain gambling-related expenses

Modeled HB 918 modifications to the Georgia PIT (except with respect to timing of the second rate cut) are as follows:

- Georgia standard deduction amounts of \$4,600 for Single and Head of Household filers, \$6,000 for Married Joint filers, and \$3,000 for Married Separate filers
- Top marginal tax rate of 5.75 percent

Modeled modifications to the PIT under this bill are as follows:

- Replace the graduated PIT rate structure with a single, flat rate of 5.50 percent.
- Create a nonrefundable personal income tax credit equal to 0.25 percent of the amount by which the taxpayer's Georgia taxable income is below certain maximum amounts based on filing status, as follows:
 - Single: \$69,000
 - Married filing separately: \$47,000

- Married filing joint or head of household: \$94,000
- 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).

Tax liabilities are recalculated with the new itemized or standard deduction choices, and the sample results are gross-up to represent the estimated reduction in tax liabilities for all filers as a percent of baseline liabilities. The estimated reductions are applied to the OPB baseline forecast to calculate the projected state revenue impacts, with timing adjustments to reflect the retroactive (to January 1) effectiveness of the proposed bill and to adjust to fiscal years.

Table 2 below provides details of the timing adjustments, with tax year liability changes split across the fiscal years in which the impacts of the bill on state collections would be realized. Table 3 provides baseline revenue projections as well as proforma projections reflecting the proposed changes.

Table 2. Timing Assumptions for FY Impact of TY Changes to PIT

Tax Year of Change in Liability:	Fiscal Year Impacted:					
	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
TY 2020	17%	75%	8%			
TY 2021		42%	50%	8%		
TY 2022			42%	50%	8%	
TY 2023				42%	50%	8%
TY 2024					42%	50%
TY 2025						42%

Table 3. Baseline (5.75% Top Rate) and Proforma Projected State PIT Revenues

(\$ millions)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Current Law Baseline Revenue	\$12,299	\$12,653	\$13,096	\$13,554	\$14,029	\$14,520
% Change over prior year	1.0%	2.9%	3.5%	3.5%	3.5%	3.5%
Proforma PIT Revenues	\$12,299	\$12,653	\$13,096	\$13,555	\$14,029	\$14,520
% Change over prior year	1.0%	2.9%	3.5%	3.5%	3.5%	3.5%
% Change from baseline	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
PIT Effect of LC 43 1488S	\$0.0	\$0.3	\$0.2	\$0.3	\$0.3	\$0.3

Corporate Income Tax Estimates

The budget baseline, in this analysis, is first adjusted to remove the portion attributable to corporate net worth and financial institutions business occupation taxes (CNWT and FIBOT, respectively), which are included in the numbers for CIT revenues in budget tables, but which are not affected by this bill. Together, CNWT and FIBOT account for about 6.2 percent of the total for these and CIT as of FY 2019. The FY 2019 CIT revenues, net of CNWT and FIBOT, are then projected forward at the growth rates implicit in the budget baseline for the total of three taxes.

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. Results are presented in Table 4.

Table 4. Baseline (5.75%) and Proforma Projected State CIT Revenues

<i>(\$ millions)</i>	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Current Law CIT Baseline	\$1,321	\$1,441	\$1,499	\$1,559	\$1,621	\$1,686
% Change over prior year	10.8%	9.1%	4.0%	4.0%	4.0%	4.0%
Proforma CIT revenue	\$1,296	\$1,382	\$1,434	\$1,491	\$1,551	\$1,613
Change in CIT Revenue	(\$26)	(\$59)	(\$65)	(\$68)	(\$70)	(\$73)

Numbers may not add due to rounding.