



DEPARTMENT OF AUDITS AND ACCOUNTS

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January 22, 2020

Honorable Zahra Karinshak
State Senator
314-A Coverdell Legislative Office Building
Atlanta, GA 30334

SUBJECT: Fiscal Note
Senate Bill 126 (LC 47 0080)

Dear Senator Karinshak:

The bill would exempt from income tax all military retired pay and survivor benefits received from the U.S. military. The exemption would be retroactive to January 1, 2019. The analysis assumes that payments under the Department of Defense Survivor Benefit Plan or other DoD benefit payments to military survivors (collectively, SBP) would qualify for this exemption. However, survivor and dependent benefits paid by the Department of Veterans Affairs are not included as 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 result in state revenue loss of \$57.4 million to \$97.8 million in FY 2021 (**Table 1**). The amounts would increase in subsequent years. In FY 2020, the revenue loss would be \$80.5 million to \$131.5 million due to the bill's retroactivity to January 1, 2019. The attached appendix details the analysis.

Table 1. State Revenue Losses, LC 47 0080

(\$ millions)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
High	\$131.5	\$97.8	\$102.5	\$107.4	\$112.5	\$117.9
Low	\$80.5	\$57.4	\$58.2	\$59.0	\$59.9	\$60.7

Impact on State Expenditures

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

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 2018 (the latest available), 99,645 persons retired from the U.S. military resided in Georgia as of September 2018, of whom 91,262 were receiving military retired pay. Of those receiving retired pay, approximately 44.7 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, 44.7 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 55 percent.

Georgia SBP beneficiaries, who numbered 13,421 as of September 2018, are much more likely to be over 65, that is 11,117 or 82.8 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 87 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 3.5 percent annually, on average, since 2011 and the under-65 group declining by 1 percent annually over the same period. In 2018, the number under age 65 actually fell from 2016 by 0.9 percent annually while the number over 65 grew by 2.6 percent. For purposes of projecting military retired pay recipients, it is assumed that the number above age 65 will grow by between 2 percent and 4 percent annually while those below age 65 will grow by -1 percent to 1.5 percent annually.

Overall growth in SBP beneficiaries, which had been running 0.4 percent annually from 2011-2016, reversed, declining by 0.2 percent annually the last two years. Growth in the 65+ age group also reversed, averaging a 0.6 percent decrease annually since 2016 (compared to a 1.0 percent annual increase for 2011-16) while the under-65 age group also reversed, gaining 1.9 percent annually since 2016 (compared to -2.2 percent annually for 2011-16). To project survivor benefit recipients, growth rates of -1 to 1.5 percent are assumed for the 65+ age group and -2 to 2 percent are assumed for the under-65 group.

Projected numbers of retired pay and survivor benefit recipients in Georgia for tax years 2019 through 2025 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	TY 2025
Under age 62	High	43,639	44,303	44,976	45,660	46,355	47,060	47,775
	Low	42,538	42,096	41,659	41,226	40,797	40,373	39,953
Age 62-64	High	9,907	10,058	10,212	10,368	10,526	10,687	10,851
	Low	9,655	9,553	9,452	9,353	9,254	9,156	9,060
Over age 65	High	53,740	55,607	57,545	59,556	61,643	63,810	66,058
	Low	52,645	53,368	54,108	54,866	55,643	56,438	57,252
Total	High	107,286	109,968	112,733	115,584	118,524	121,557	124,684
	Low	104,838	105,017	105,219	105,445	105,694	105,967	106,265

Average military retired pay differs by age as well, with the average for Georgia recipients over age 65 at \$27,668 annualized as of September 2018 and for those under age 65 at \$26,282. Average SBP payments as of September 2018 were \$12,178 annualized for recipients over age 65 and \$9,828 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 2016 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	TY 2025
Under age 62	High	\$1,137	\$1,183	\$1,230	\$1,280	\$1,332	\$1,386	\$1,442
	Low	\$1,108	\$1,113	\$1,130	\$1,146	\$1,162	\$1,179	\$1,196
Age 62-64	High	\$255	\$266	\$276	\$288	\$299	\$311	\$324
	Low	\$249	\$250	\$254	\$257	\$261	\$265	\$269
Over age 65	High	\$1,334	\$1,419	\$1,509	\$1,605	\$1,706	\$1,815	\$1,930
	Low	\$1,308	\$1,350	\$1,406	\$1,464	\$1,525	\$1,589	\$1,656
Total	High	\$2,726	\$2,867	\$3,016	\$3,172	\$3,338	\$3,512	\$3,696
	Low	\$2,665	\$2,714	\$2,789	\$2,868	\$2,949	\$3,033	\$3,120

The retirement income exclusion available to the 62 and over age groups requires different assumptions across the groups as to effective tax rates. For all Georgia full-year resident taxpayers (excluding those with negative Federal AGI), the weighted average effective tax rate – net tax divided by taxable income – was 5.29 percent in tax year 2017 and 5.12 percent after accounting for relevant tax changes since 2017. Thus, for military retirees under age 62, an effective tax rate of 5.12 percent to 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 federal adjusted gross income, which would include military retired pay. On this basis, the effective tax rate for all Georgia retirees in 2017 was 2.1 percent. 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 2.1 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	TY 2025
Under	High	\$58.2	\$60.5	\$63.0	\$65.5	\$68.2	\$71.0	\$73.8
age 62	Low	56.7	57.0	57.8	58.7	59.5	60.4	61.3
Age	High	5.4	5.6	5.8	6.0	6.3	6.5	6.8
62-64	Low	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Over	High	28.0	29.8	31.7	33.7	35.8	38.1	40.5
age 65	Low	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	High	\$91.6	\$95.9	\$100.5	\$105.3	\$110.3	\$115.6	\$121.2
	Low	56.7	57.0	57.8	58.7	59.5	60.4	61.3

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. For example, 7/12 of the TY 2020 and 5/12 of the TY 2021 tax liabilities would be collected in FY 2021, with future years' liabilities similarly divided. Given the retroactivity of the bill, however, all TY 2019 effects of the proposed exemptions are assumed to be realized in FY 2020. The results are shown in Table 1 of the fiscal note.