DEPARTMENT OF AUDITS AND ACCOUNTS

270 Washington St., S.W., Suite 1-156
Atlanta, Georgia 30334-8400

Greg S. Griffin
STATE AUDITOR
(404) 656-2174

January 13, 2021

Honorable James Beverly
State Representative
509-H Coverdell Legislative Office Building
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
House Bill (LC 43 1718)

Dear Representative Beverly:

The bill would increase the standard deduction for individual taxpayers who do not itemize deductions when filing taxes. The increases would make the Georgia standard deduction amounts equal to federal deduction amounts, with a single taxpayer set at $12,400, head of household $18,650, married filing separately $12,400, and married filing jointly $24,800. The amount will be adjusted for inflation each year, equal to the annual inflation rate used by the IRS to adjust federal income tax brackets, unless the commissioner of the Department of Revenue believes the adjustment does not fairly represent inflation in the state. The bill would be effective for tax years beginning on or after January 1, 2022.

Impact on State Revenue

Georgia State University's Fiscal Research Center (FRC) estimated that the bill would reduce revenue by $1.8 billion in fiscal year 2023, the first year of its full impact (Table 1). The reduction would be an estimated $2.0 billion in fiscal year 2026. The attached appendix provides details of the analysis.

Table 1. Estimated State Revenue Effects of LC 43 1718

($ *millions*)	**FY 2022**	**FY 2023**	**FY 2024**	**FY 2025**	**FY 2026**
Change in State Revenue	($742)	($1,802)	($1,855)	($1,914)	($1,977)

Impact on State Expenditures

The Department of Revenue (DOR) would be able to implement the bill with existing resources.

Sincerely,

Greg S. Griffin
State Auditor

Kelly Farr, Director
Office of Planning and Budget

GSG/KF/mt

Analysis by the Fiscal Research Center

The proposed bill would increase the amounts of the standard deduction under O.C.G.A. §48-7-27(a)(1) that taxpayers who do not itemize deductions may deduct in determining taxable income. The increases would make the Georgia standard deduction amounts, by filing status, equal to the corresponding federal standard deduction amounts. The bill also provides for standard deduction amounts to be adjusted annually for inflation in the same manner as the federal amounts.

Standard deduction amounts by filing status as provided in the bill, lines 14-17, are equal to the corresponding federal amounts for tax year (TY) 2020 and are to be adjusted annually based on inflation at the same rate used by the IRS unless the commissioner determines that such rate does not fairly reflect the impact of inflation in the state. These amounts, together with the federal amounts for TY 2018, 2019, and 2021, as announced by the IRS, are as follows:

Filing Status	TY 2018	TY 2019	TY 2020	TY 2021
Single	$12,000	$12,200	$12,400	$12,550
Married Filing Joint	$24,000	$24,400	$24,800	$25,100
Married Filing Separate	$12,000	$12,200	$12,400	$12,550
Head of Household	$18,000	$18,350	$18,650	$18,800

These standard deduction amounts, however, would not be effective until TY 2022 and then at amounts after another year's inflation adjustment. IRS Inflation adjustments are ostensibly based on the chained CPI inflation rate for all urban consumers for the trailing 12 months thru August of the year prior to the given tax year, though the amounts are rounded so as to always increase in $50 increments or multiples thereof.

The proposed changes are analyzed using a microsimulation model, with tax year (TY) 2018 administrative tax return data from the Department of Revenue (DOR), to estimate their impact on tax liability of filers for that year, but with reported amounts adjusted to account for the effects of the current 5.75 percent top tax rate in the state, down from 6.0 percent in TY 2018. The model adjusts the amount of the standard deduction for each return claiming it to the amount shown above for 2018 (plus and additional deductions for taxpayers over age 65 or blind) and recalculates their tax liability. For itemizers whose itemized deductions are less than the proposed standard deduction amount, it is assumed that they would switch to the standard deduction unless they are required to itemize on the federal return (taxpayers who itemize on federal must itemize on their state return as well).

The proforma loss in TY 2018 tax liabilities from the increased standard deduction, as if applicable for that year, is estimated to be about $1,620 million. This amount is grown to the TY 2022-26 periods for inflation, to account for the annual adjustments in the deduction amounts, and for population growth, as a proxy for growth in filers utilizing the increased deduction on their returns. Inflations assumptions are based on Bureau of Labor Statistics reports to date and Congressional Budget Office projections (July 2020 Economic Projections) for future periods. Population growth rates are calculated from OPB population estimates and projections.

Tax year impacts are adjusted to state fiscal years assuming the impact on revenues is primarily through reduced withholding. For any given tax year, 5/12 of the change in tax liability is assumed to be realized in reduced revenues in the fiscal year ending June of the tax year, the balance impacting the subsequent fiscal year.