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January 19, 2021

Honorable Gloria Butler
State Senator
420-C State Capitol
Atlanta, Georgia 30334

SUBJECT: Revised Fiscal Note
Senate Bill (LC 43 1727)

Dear Senator Butler:

The original fiscal note for LC 43 1727, dated January 13, 2021, has been revised and replaced. The revised fiscal note corrects the implementation costs for the Department of Revenue.

The subject bill proposes to expand the child and dependent care credit under O.C.G.A. §48-7-29.10 by increasing the amount of the credit as a percent of the federal credit under IRC Section 21 upon which it is based from 30 percent of the federal credit to 100 percent. The credit will remain nonrefundable and unutilized credits may not be carried forward, as under current law.

Impact on State Revenue
Georgia State University's Fiscal Research Center (FRC) estimated that the bill would reduce revenue by $91.4 million in fiscal year 2022, the first year of its full impact (Table 1). The reduction would be an estimated $103.8 billion in fiscal year 2026. The attached appendix provides details of the analysis.

Table 1. Estimated State Revenue Effects of LC 43 1727

($ *millions*)	**FY 2022**	**FY 2023**	**FY 2024**	**FY 2025**	**FY 2026**
Change in State Revenue	($91.4)	($93.6)	($96.9)	($100.3)	($103.8)

Impact on State Expenditures
The Department of Revenue estimated $50,500 in annual costs and $1,825 in one-time costs associated with the bill. The annual costs would cover the salaries and benefits of a tax examiner. The new position would have one-time costs for equipment and supplies.

Sincerely,

Greg S. Griffin

Greg S. Griffin
State Auditor

Kelly Farr

Kelly Farr, Director
Office of Planning and Budget

GSG/KF/mt

Analysis by the Fiscal Research Center

The proposed bill would amend O.C.G.A. §48-7-29.10 by replacing the 30 percent credit rate under current law, which is applied to the federal child and dependent care credit claimed by the taxpayer on their federal return to determine the Georgia credit amount, with a credit rate of 100 percent. The bill includes no other changes.

The proposed change is 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 lower top rate reduces the tax liability against which the nonrefundable credit can be applied, thus reducing utilization, all else the same. The following summarizes reported utilization of the credit as well as estimated utilization after adjusting for the tax rate change:

- 239,275 filers claimed the child and dependent care credit on their Georgia returns.
- At 30 percent of the federal credit, reported Georgia credits totaled $41,990,316.
- Credits utilized against TY 2018 tax liability totaled $41,068,245.
- The difference between available and utilized credits, the amount unutilized, was$922,071.

The TY 2018 impact of the increased credit rates is simulated by substituting the new credit amount, at a rate of 100 percent of the reported federal credit amount, for the current law credit amount and recalculating the taxpayer's net-of-credits tax liability. The proforma loss in TY 2018 from these incremental credit amounts is estimated to be $86.4 million.

This amount is adjusted to state fiscal years assuming it would impact revenues at the time of filing of returns, and is grown to the projection periods shown in Table 1 by the growth rates of personal income tax revenues as reported through FY 2020 and as projected beyond that by the state fiscal economist as of October 2020.