DEPARTMENT OF AUDITS AND ACCOUNTS

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Honorable Sam Park
State Representative
611-F Coverdell Legislative Office Building
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
House Bill (LC 44 1547)

Dear Representative Park:

The bill would expand an existing state income tax credit for qualifying caregiving expenses. It would raise the annual credit cap from $150 to $1,000 per individual taxpayer and allow caregivers to claim new expenses, such as home modification, transportation, legal, and financial costs related to their qualifying family member's care. Finally, it would expand the definition of qualifying caregiver to those caring for certain adults between the ages of 18 and 61 who require assistance, even if the Social Security Administration has not determined them to be disabled. 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 state revenue by approximately $2.2 million to $2.3 million in fiscal year 2023, the first full year of the bill's effect (see Table 1). Details of the analysis are provided in the attached appendix.

Table 1: Net State Revenue Effect of LC 44 1547 Income Tax Credit

($ *millions*)	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Low Estimate	($0.9)	($2.2)	($2.3)	($2.5)	($2.6)
High Estimate	($1.0)	($2.3)	($2.5)	($2.7)	($2.8)

Impact on State Expenditures

The Department of Revenue (DOR) estimated that the bill would result in approximately $66,000 in one-time costs due to necessary changes to the its information systems.

Sincerely,

Greg S. Griffin
State Auditor

Kelly Farr, Director
Office of Planning and Budget

GSG/KF/mt

Analysis by the Fiscal Research Center

Under current law, qualifying taxpayers can claim a 10 percent credit on up to $1,500 of qualifying caregiving expenses, for a maximum income tax credit of $150 or the taxpayer's income tax liability, whichever is less. The bill would expand the credit in three ways:

- by expanding the list of qualifying expenses,
- by expanding the pool of taxpayers that qualify for the credit, and
- by raising the maximum cap on income tax credits from $150 to $1,000.

Expenses
The bill's impact depends first on how much Georgia residents spend on caregiving expenses and which expenses qualify. In the 2018 tax year, according to administrative tax return data from the Department of Revenue (DOR), 4,577 Georgia taxpayers claimed an average of $2,968 in qualified caregiving expenses.

However, due to the $150 cap on credits (i.e. $1,500 in qualified expenses) and the fact that the credit is non-refundable, taxpayers were allowed only $104 in tax credits on average. Simulating the higher cap proposed under the bill using the DOR returns data, taxpayers could have claimed and utilized an estimated $235 in credits on average in 2018, or around 7.9 percent of their qualifying expenses. This amount is less than 10 percent of qualifying expenses because the credit cannot exceed the taxpayer's state tax liability, may not be carried forward, and is not refundable.

Under the expanded law, qualifying caregivers may also claim household modifications that allow their family member "to remain mobile, safe and independent." General household maintenance would still not qualify as a valid expense for purposes of the credit. Additionally, caregivers may claim care-related costs for transportation, legal, and financial services. Using an AARP study on caregiving expenses as a guide, this forecast assumes $1,427 in annual household expenses and $747 in transportation, legal, or financial costs would qualify under the expanded definition. This forecast assumes that expenses grow by 1.45% inflation in 2019 and 2% inflation thereafter.

Adding in the inflation-adjusted $3,011 in medical expenses that already qualify under current law, this brings total qualifying expenses to $5,185 annually per taxpayer in 2019 dollars. This would be worth an estimated $519 in tax credits, assuming taxpayers were able to fully utilize the credits against current tax liabilities. Because some taxpayers will not have sufficient tax liability to fully utilize the credits, a lower, 7.9 percent effective credit rate is assumed, resulting in $411 of credits utilized on average in TY 2019 had the law been in effect then. This amount suggests that the proposed $1,000 credit cap would not be binding for most filers claiming the credit.

Current Population
For those caregivers that qualify for tax credits under current law, it assumes the number of claims would grow at roughly the same rate as the state's age 62+ population as a proxy for growth of the eligible population, using Office of Planning and Budgeting population forecasts. As a result, the number of claims for this population would rise from 4,577 in 2018 to 5,633 by 2022. Assuming 2% inflation after 2019, the average tax credit would rise to $436 in TY 2022. With 5,559 claims, that would cost the state approximately $2.4 million. Table 2 presents projected numbers and

amounts of credits for the currently eligible population, but with the expanded definition of qualified expenses as well as the increased, $1,000 credit cap.

Table 2. Current Population, Expanded Qualifying Expenses

(*total credits in thousands*)	**TY 2022**	**TY 2023**	**TY 2024**	**TY 2025**	**TY 2026**
Claims	5,633	5,898	6,162	6,427	6,691
Average Credit Utilized	$436	$444	$453	$462	$472
Total Credits	$2,454	$2,621	$2,793	$2,971	$3,156

Expansion Population

Current law defines a qualifying taxpayer as a caregiver of a family member who is at least 62 years of age, or who has been officially determined to be disabled by the Social Security Administration. The new law would create a new legal definition for qualifying family member that includes the above criteria and adds adults under 62 who qualify as dependents and require assistance with "one or more activities of daily living," as determined by a medical professional.

It is not clear how many adults between 18 and 61 would qualify for assistance under the new criteria, but not qualify under the Social Security Administration's criteria, which are defined "very strictly," according to federal guidelines. Estimates of how many people suffer from disabilities vary greatly. The U.S. Census American Community Survey, for instance, estimates that 12 percent of Georgia adults are disabled, while the Centers for Disease Control and Prevention pegs the figure at 27 percent.

This analysis attempts to estimate the newly eligible population in two ways. A 2020 needs assessment by the Georgia Department of Vocational Rehabilitation estimates that around 71 percent of working age adults with disabilities receive some form of disability benefits through Social Security. The remaining 29% could represent a rough estimate of our expansion population. Alternately, if the gap between Census and CDC disability estimates is a better gauge of the expansion-eligible population, the number of claims would expand even further. Both estimates assume that 34% of adult care recipients in the U.S. are between ages 18 and 61, based on a 2020 AARP survey.

Table 3. Expansion Population

(*total credits in thousands*)	**TY 2022**	**TY 2023**	**TY 2024**	**TY 2025**	**TY 2026**
New claims (low)	611	640	669	698	726
New claims (high)	994	1041	1087	1134	1181
Avg. tax credit	$436	$444	$453	$462	$472
Total Credits (low)	$266	$285	$303	$323	$343
Total Credits (high)	$433	$463	$493	$524	$557

Tax year credits utilized are assumed to impact state revenues through reduced withholding or estimated tax payments, with roughly 45 percent of the impact in the trailing and 55 percent in the forward fiscal years. Table 4, below, shows the baseline tax expenditure forecast under current law and the proforma forecast given the proposed changes. The difference is reported in Table 1.

Table 4: Current Law Baseline vs. LC 44 1547 Income Tax Credit

($ *thousands*)	**FY 2022**	**FY 2023**	**FY 2024**	**FY 2025**	**FY 2026**
Current Law Baseline					
Total Credits	$610	$652	$695	$740	$787
LC 44 1547 Total Credits					
Low Estimate	$1,496	$2,822	$3,011	$3,205	$3,406
High Estimate	$1,588	$2,995	$3,195	$3,401	$3,615