



DEPARTMENT OF AUDITS AND ACCOUNTS

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December 22, 2020

Honorable Dave Belton
State Representative
614-A Coverdell Legislative Office Building
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
House Bill (LC 43 1724)

Dear Representative Belton:

The bill would exclude from income taxation a portion of retirement income received for United States military service received by Georgia taxpayers under age 62. The bill would be effective January 1, 2021. The maximum amount of military retirement pay that could be excluded would be from \$5,900 in 2021, rising each year until reaching \$17,500 in 2025.

Impact on State Revenue

Georgia State University's Fiscal Research Center (FRC) estimated that the bill would reduce revenue by \$14.5 million to \$15.4 million in fiscal year 2022, the first year of its full impact (Table 1). The reduction would be an estimated \$26.3 million to \$30.9 million by fiscal year 2026. The attached appendix provides details of the analysis.

Table 1: Estimated Revenue Effect of LC 43 1724

<i>(\$ millions)</i>	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
High Case	(\$1.8)	(\$15.4)	(\$17.5)	(\$22.5)	(\$27.6)	(\$30.9)
Low Case	(\$1.7)	(\$14.5)	(\$16.1)	(\$20.1)	(\$24.1)	(\$26.3)

Impact on State Expenditures

The Department of Revenue (DOR) estimated that the bill would result in approximately \$72,000 in one-time costs for changes to its information technology system.

Sincerely,

A handwritten signature in blue ink that reads "Greg S. Griffin".

Greg S. Griffin
State Auditor

A handwritten signature in black ink that reads "Kelly Farr".

Kelly Farr, Director
Office of Planning and Budget

GSG/KF/mt

Analysis by the Fiscal Research Center

The bill in question has two characteristics of particular note for this analysis. First, it is limited to military retirees under the age of 62. Accordingly, this analysis will only consider older retirees to the extent necessary to determine the size and characteristics of the affected (under 62) population. Second, the maximum excludable amount per person is scaled over time, with the 2021 maximum at \$5,900, \$8,800 for 2022, \$11,700 for 2023, \$14,600 for 2024, and \$17,500 thereafter. This will directly affect the amount of excludable income and therefore tax receipts.

According to the Department of Defense Statistical Report on the Military Retirement System for FY 2019 (the latest available), 100,389 persons retired from the U.S. military resided in Georgia as of September 2019, of whom 91,600 were receiving military retired pay. The 2019 edition of the report did not provide state-level breakdowns by age, but the prior year (2018) revealed that, of those receiving retired pay, approximately 44.7 percent were age 65 or over. Further age breakdowns were available on military retirees nationally in the 2019 report; on the basis of the national data, approximately 18.8 percent of those under age 65 are assumed to be 62 to 64 years of age. Thus, it is estimated that approximately 44.9 percent of military retirees in Georgia receiving retired pay are under age 62.

Growth rates of Georgia recipients of military retired pay have differed by age group in recent years, with the under-65 group declining by 1 percent annually since 2011. Over the most recent two years available, the number under age 65 fell by 0.9 percent annually. For purposes of projecting military retired pay recipients, it is assumed that the number below age 65 will grow by -1 percent to 1.5 percent annually.

Average military retired pay differs by age and rank as well, with the average for Georgia recipients under age 65 at \$26,282. Available data do not enable estimation of average retired pay for the under-62 age group by itself, so the under-65 average is assumed for purposes of this note. Payments are adjusted annually based on the consumer price index (CPI) inflation rate.

The official COLA rates for 2019, 2020 and 2021 were set at 2.8 percent, 1.6 percent, and 1.3 percent respectively, based on CPI inflation for the preceding years. COLA rates for 2022 and beyond are assumed to be equal to the prior-year projected CPI-U rates as projected by the Congressional Budget Office in its July 2022 10-Year Economic Projections. The resulting projected average pay figures, together with the projected retiree figures, result in high and low total retiree pay projections for the under-62 age group, as shown in Table 2.

Table 2: Projected Total Military Retired Pay Recipients and Amounts, Retirees Under 62

		TY 2020	TY 2021	TY 2022	TY 2023	TY 2024	TY 2025	TY 2026
Recipients	High	41,723	42,349	42,984	43,629	44,283	44,948	45,622
	Low	40,696	40,289	39,887	39,488	39,093	38,703	38,315
Pay (<i>mil.</i>)	High	\$1,145	\$1,178	\$1,210	\$1,251	\$1,297	\$1,346	\$1,397
	Low	\$1,117	\$1,120	\$1,123	\$1,132	\$1,145	\$1,159	\$1,173

As noted previously, the bill exempts a limited portion of each retiree's pay, rather than the entire sum illustrated above. Accordingly, the next step is to determine how much of this population's income would be excluded by the terms of the bill and its increasing exemption schedule through 2025.

All military retired pay recipients are entitled to a base \$3,000 exclusion by the terms of the subject bill. Higher exclusion amounts are available for those recipients with earned income, up to the maximum amounts by year described above. Accordingly, to estimate the total excludable income, the share of veterans who are currently employed must be considered. Using information on veteran and total employment by age group from the Bureau of Labor Statistics (BLS), seven-year averages were computed for the relationships between total (16-and-older) versus 18-64 national unemployment, 18-64 national versus veteran unemployment, veteran employment of persons in the labor force, and employment of veteran labor force participants versus of the total veteran population. Using these relationships, it was possible to convert the Congressional Budget Office's July 2020 10-year Economic Outlook forecasted overall unemployment rate into an estimate of the share of under-62 military retirees who will be employed. This share was multiplied by high and low population figures to determine the count of Georgia military retirees for each category, employed or not employed. For those not employed, the amount of excluded retired pay is assumed to be \$3,000 per year; for those employed, earned income is assumed to exceed the relevant cap for the year, so the excluded amount is assumed to equal the cap. These employed versus not employed population and excludable income estimated are provided in Table 3.

Table 3: Military Retirees Under Age 62, Counts and Excludable Income

(\$ millions)		TY 2021	TY 2022	TY 2023	TY 2024	TY 2025	TY 2026
Population of Military Retirees:							
Employed	High	29,268	30,330	31,159	31,806	32,437	33,050
	Low	27,844	28,145	28,202	28,079	27,930	27,756
Not Employed	High	13,081	12,654	12,470	12,477	12,511	12,572
	Low	12,445	11,742	11,286	11,014	10,773	10,559
Excludable Retired Pay:							
Employed	High	\$172.68	\$266.90	\$364.56	\$464.37	\$567.65	\$578.38
	Low	\$164.28	\$247.68	\$329.96	\$409.95	\$488.78	\$485.73
Not Employed	High	\$39.24	\$37.96	\$37.41	\$37.43	\$37.53	\$37.72
	Low	\$37.34	\$35.23	\$33.86	\$33.04	\$32.32	\$31.68
Total	High	\$211.92	\$304.87	\$401.97	\$501.80	\$605.18	\$616.09
	Low	\$201.61	\$282.90	\$363.82	\$443.00	\$521.09	\$517.41

With exemptible income estimated, average effective tax rates are applied to estimate the effect on tax liabilities. For all non-retired (i.e. those not claiming a retirement income exclusion under current law) Georgia full-year resident taxpayers (excluding those with negative Federal AGI), the weighted average effective tax rate – net tax divided by taxable income – was 5.07 percent in tax year 2018 after accounting for reduction in the top tax rate since that time. Thus, for military retirees under age 62, an effective tax rate of 5.07 percent is assumed going forward. From these assumptions and the exemptible pay in Table 3, projected tax liabilities are as shown in Table 4.

Table 4: Projected Taxes on Military Retired Pay, Under Age 62

(\$ millions)	TY 2021	TY 2022	TY 2023	TY 2024	TY 2025	TY 2026
High	\$10.74	\$15.46	\$20.38	\$25.44	\$30.68	\$31.24
Low	\$10.22	\$14.34	\$18.45	\$22.46	\$26.42	\$26.23

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 2022 and 5/12 of the TY 2023 tax liabilities would be collected in FY 2023, with future years' liabilities similarly divided. However, given the January 1, 2021 effective date of the bill and the likely timing of enactment, if the bill is enacted, TY 2021 effects are allocated 2/12 to FY 2021 and 10/12 to FY 2022. The results are shown in Table 1 of the fiscal note.