DOAA
Georgia Department
of Audits & Accounts

Greg S. Griffin
State Auditor

March 30, 2022

Honorable Chuck Hufstetler
Chairman, Senate Finance
121-C State Capitol
Atlanta, GA 30334

SUBJECT: Fiscal Note
House Bill 1437 (LC 43 2435S)

Dear Chairman Hufstetler:

The subject bill amends, effective January 1, 2024, the state personal income tax as follows:

- The 5-bracket graduated tax rate structure is replaced by a 2-bracket structure with rates of 4.99 percent up to taxable income amounts that vary by filing status and 5.70 percent on taxable income above those amounts.
- Thresholds for the 5.7 percent bracket for tax year (TY) 2024 would be $13,000 for single filers, $20,000 for head of household and married joint filers, and $10,000 married filers filing separately.
- Subject to revenue-related conditions, the upper-bracket thresholds are scheduled to be increased annually in seven subsequent steps beginning in TY 2025.
- Personal exemption amounts are increased by $2,000 per taxpayer (e.g., for married joint filers by $4,000 in total).
- A state earned income tax credit (EITC) is created in an amount equal to 10 percent of the federal EITC. The state EITC would be nonrefundable and cannot be carried forward.
- The current-law $10,000 cap on itemized deductions for state and local taxes paid, resulting from conformity to the Tax Cut and Jobs Act of 2017, is made permanent.

## Impact on State Revenue

Georgia State University's Fiscal Research Center (FRC) estimated that the bill would decrease state revenue by $641.6 million in FY 2025, the first complete fiscal year affected by the bill. The revenue loss would grow in subsequent years. See the appendix for details.

**Table 1. Estimated Revenue Effects of LC 43 2435S**

| ($ *millions*) | FY 2023 | FY 2024 | FY 2025 | FY 2026 | FY 2027 |
|---|---|---|---|---|---|
| Personal Income Tax Changes | - | ($220.8) | ($641.6) | ($918.6) | ($1,185.3) |

## Impact on State Expenditures

We were unable to obtain cost information from the Department of Revenue (DOR) in the timeframe required for this fiscal note.

Respectfully,

Kelly Farr

Greg S. Griffin
State Auditor

Kelly Farr, Director
Office of Planning and Budget

GSG/KF/mt

## Analysis by the GSU Fiscal Research Center

Part II of LC 43 2421S amends O.C.G.A. Chapter 7 of Title 48, relating to personal income taxes in several respects. Section 2-1 amends the 5-bracket graduated tax rate structure to replace it with a 2-bracket structure with rates of 4.99 percent up to taxable income amounts that vary by filing status and 5.70 percent on taxable income above those amounts.

Effective for tax year (TY) 2024, the 4.99 percent rate would apply to the first $13,000 of taxable income for single filers, the first $20,000 for head of household (HoH) and married joint filers (MFJ), and the first $10,000 for married filers filing separately (MFS).

Section 2-1 also establishes a schedule of annual increases in the threshold for the upper, 5.70 percent bracket as well as conditions under which such increases would occur or, failing the conditions, be delayed until such time as the conditions are met. The scheduled bracket adjustments are as shown in Table 2 below. The conditions under which they would be delayed, determined as of December 1 of each year, are as follows:

- The Governor's revenue estimate for the succeeding fiscal year is not at least 3 percent above the Governor's revised revenue estimate for the present fiscal year;
- The prior fiscal year's net revenue collection was not higher than each of the preceding five fiscal years' net tax revenue collection; or
- The Revenue Shortfall Reserve provided for in Code Section 45-12-93 does not contain a sum that exceeds the amount of the decrease in state revenue projected to occur as a result of the prospective reduction in the tax rates set to occur the following year.

**Table 2. Section 2-1 Scheduled Bracket Changes**
5.70% tax rate applies to taxable income above the following amounts by filing status and year effective, if not delayed:

| | Single | MFJ/HoH | MFS |
|---|---|---|---|
| TY 2025 | $23,000 | $35,000 | $17,500 |
| TY 2026 | $37,000 | $55,000 | $27,500 |
| TY 2027 | $51,000 | $75,000 | $37,500 |
| TY 2028 | $67,000 | $99,000 | $49,500 |
| TY 2029 | $102,000 | $149,000 | $74,500 |
| TY 2030 | $155,000 | $225,000 | $112,500 |
| TY 2031 | $350,000 | $500,000 | $250,000 |

Section 2-2 increases personal exemption amounts as follows (dependent exemption amounts are unchanged):

- For single and HoH filers, from $2,700 to $4,700
- For MFJ filers, from $7,400 to $11,400
- For MFS filers, from $3,700 to $5,700

Section 2-3 makes permanent the $10,000 limit on itemized deductions for state and local taxes (SALT) paid. This limit was created by federal enactment of the Tax Cut and Jobs Act of 2017 (TCJA) and Georgia's conformity to that law. Under TCJA, this limit is scheduled to expire December 31, 2025, at which time, absent the proposed change, continued conformity to federal law regarding itemized deductions would mean the limit would no longer apply on state returns after TY 2025. This provision is assumed, for purposes of this note, to have no state revenue effect if the state baseline forecast of personal income tax revenues assumes current federal policy (i.e., the SALT deduction limit) continues after TY 2025.

Note that, with regard to this provision, we assume regulations would account for the fact that, under current law, non-Georgia income taxes are already added back to taxable income (as an adjustment that reduces federal itemized deductions allowed on the Georgia return). A literal reading of lines 262-3 of the bill would have the full amount of any federal SALT deduction, including that of any non-Georgia income taxes paid, over $10,000 added back to Georgia taxable income, effectively adding the non-Georgia taxes twice.

Finally, Section 2-4 establishes a state earned income tax credit (EITC) equal to 10 percent of the federal EITC allowed for the given taxpayer. The state EITC would be nonrefundable and cannot be carried forward.

These state revenue effects of these provisions are estimated using a microsimulation model of the changes, applied to TY 2019 tax return data provided by the Department of Revenue (DOR), including approximately 4.01 million full-year resident, e-filed returns. Such data are first adjusted to account for the increase in standard deduction amounts enacted in 2021 and effective beginning TY 2022. The proposed changes are then modeled and the resulting aggregate change in tax liabilities from current to proposed law is grossed up to reflect taxpayers not included in the 2019 data (part-year and non-resident filers as well as non-e-filers) and to allow for growth in the overall tax base from 2019 to the periods projected in this note.

Given that the Office of Planning and Budget (OPB) baseline forecast of income tax revenues shows growth in the relevant years of 4.0 percent annually, we assume no delays in the effectiveness of the scheduled bracket adjustments. Projections on a fiscal year basis assume that reductions in income taxes owed impact state collections primarily through withholding and estimated tax payments. Thus, each tax year's reduction is assumed to be spread over the trailing and forward fiscal years with 5/12 of the reduction impacting the fiscal year ending June 30 of the tax year and the balance in the subsequent fiscal year. The current OPB baseline and the projected revenue effects of Part II of the bill are provided in Table 3.

**Table 3. Baseline Personal Income Tax Revenues and Part II Revenue Effects**

| ($ *millions*) | **FY 2023** | **FY 2024** | **FY 2025** | **FY 2026** | **FY 2027** |
|---|---|---|---|---|---|
| OPB Baseline* | $14,101.9 | $14,666.0 | $15,252.6 | $15,862.7 | $16,497.2 |
| % change | | 4.0% | 4.0% | 4.0% | 4.0% |
| Part II Effects | $0.0 | ($220.8) | ($641.6) | ($918.6) | ($1,185.3) |

* Jan 2022 projections from J. Dorfman