DOAA
Georgia Department
of Audits & Accounts

Greg S. Griffin
State Auditor

January 9, 2023

Honorable Elena Parent
State Senator
121-A State Capitol
Atlanta, GA 30334

SUBJECT: Fiscal Note
Senate Bill (LC 43 2497)

Dear Senator Parent:

The bill would create a state earned income tax credit, which would be equal to 10 percent of the federal earned income credit (EITC) under IRC Section 32 if the federal credit would have been allowed after adding back any federal net operating loss carryforward to income used to determine eligibility for the credit. In the event the credit exceeds the taxpayer's income tax liability for the given year, the amount of excess credit would be refunded. The bill would be effective for tax years beginning on or after January 1, 2023.

Impact on State Revenue
Georgia State University's Fiscal Research Center (FRC) estimated that the bill would decrease state revenue as shown in Table 1. FRC reported two estimates for each year. The high growth case uses electronic filing data from the state Department of Revenue and projects increases based on population growth. The low growth estimate begins with a federal data source and projects changes based on a annual decline seen in recent federal EITC claims data. The appendix provides details of the analysis.

Table 1. Estimated State Revenue Effects of LC 43 1706

($ *millions*)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
High-Growth Case (DOR)	($282.9)	($296.7)	($307.1)	($317.0)	($327.1)
Low-Growth Case (SOI)	($258.2)	($254.3)	($250.3)	($246.5)	($242.7)

Impact on State Expenditures
The Department of Revenue (DOR) would be able to implement the bill's provisions with current resources. However, required changes to the agency's information systems would require eight weeks of IT staff time, which equates to approximately $76,000.

Respectfully,

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 credit proposed by LC 43 2497 would be equal to 10 percent of the federal earned income tax credit (EITC), subject to the taxpayer's income for purposes of determining eligibility for the EITC remaining below the relevant eligibility limits after adding back net operating loss (NOL) carryforwards deducted on their federal return in arriving at federal adjusted gross income (AGI). Eligibility for the credit depends on, among other things, AGI being below certain limits depending on the number of eligible dependents and married-filing-joint filing status (vs. all others).

Based on administrative tax return data from the Department of Revenue (DOR) for which federal EITC data are available, approximately 977 thousand Georgia taxpayers claimed the federal credit in TY 2020, including about 910 thousand full-year residents, 26 thousand part-year residents, and 32 thousand nonresidents. The total amount of federal EITC claimed was approximately $2.46 billion, $2.30 billion of that by full-year residents. For purposes of this fiscal note, it is assumed that the Georgia EITC would be adjusted for part-year and nonresident filers, as are most deductions and exemptions, to reflect the filer's Georgia share of total AGI shown on the Georgia return's Schedule 3, line 9.

Approximately 3.5 thousand filers claiming the EITC also reported federal NOL carryforwards on their Georgia returns, where they are an addition to federal AGI in arriving at Georgia AGI and taxable income. Reported NOL carryforwards are added to reported federal AGI for comparison to the relevant EITC eligibility limits.

Using a microsimulation model of the proposed credit, together with the DOR return data for TY 2020, it is estimated that about 958 thousand Georgia filers would have received the Georgia EITC in an aggregate amount of about $236.1 million for TY 2020 had the proposed law been in effect at the time.

As an alternative source, because the return data from DOR only includes e-filers and thus may understate the number and amount of federal EITC claims by Georgia taxpayers, we use Statistics of Income (SOI) data for Georgia from the Internal Revenue Service. These aggregated data include returns filed for TY 2020 with a Georgia address at the time of filing, so would not include nonresident Georgia taxpayers and would also differ in counting of part-year residents but provide a check on the possible omission of non-e-filer EITC claims in the DOR data. SOI data show approximately 1.07 million TY 2020 federal returns from Georgia claiming approximately $2.71 billion of federal EITCs. Given refundability of the proposed state EITC, this implies proforma TY 2020 Georgia EITCs of approximately $271 million.

We project the DOR-based and SOI-based estimates for TY 2020 forward under the following assumptions:

- *High-growth case*: The DOR-based estimate of $236 million is projected forward assuming growth at the rate of population growth as projected by the Office of Planning and Budget as of 2019, plus inflation at actual rates through TY 2022 (2022 through November, annualized) and using forecasts from the OECD for 2023-24 and CBO for subsequent years. Inflation is measured with a 1-year lag as the prior year's inflation is the basis for annual inflation adjustments to EITC parameters made by the IRS.
- *Low-growth case*: The IRS-based estimate of $271 million is projected forward assuming a 1.5 percent annual decline in EITC amounts claimed, the average annual percent change from 2013 to 2020.

Credits are assumed to impact state revenues at the time of filing of returns. Given that TY 2023 is the first tax year affected, the first state fiscal year impacted is assumed to be FY 2024. Resulting projected state revenue effects are presented in Table 1.