DOAA
Georgia Department
of Audits & Accounts

Greg S. Griffin
State Auditor

March 16, 2023

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

SUBJECT: Fiscal Note
House Bill 412 (LC 43 2695S)

Dear Chairman Hufstetler:

The bill would change the income taxation of partnerships in two ways. It inserts a new subparagraph to clarify that electing to file and pay the state income tax at the entity level, rather than at the individual partner level, does not impact the accounting or tax treatment of distributions from the partnership. It also repeals the current limit on partnerships that are eligible to elect entity-level taxation to those 100 percent owned and controlled by persons eligible to be shareholders of an 'S' corporation under IRC Section 1361. 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 have no impact on state revenue.

FRC stated that the treatment of distributions called for in the bill "do not create a taxable event under current federal or state laws to either the partnership or the partners, and current state law allowing partnerships to elect entity-level taxation, as enacted in 2021, did not change that."

FRC also stated that the partnerships made eligible to choose entity-level filings "would be subject to the same conditions as are currently eligible partnerships, which based on discussions with the Department of Revenue in 2021 and at the time of this writing result in the election having no state revenue effect." This is because the state law denies a pass-through entity the ability to claim a deduction for taxes paid on its Georgia return. Thus, the total level of deductions taken against state income tax does not change and revenue effect for the state is not affected.

**Impact on State Expenditures**

The Department of Revenue (DOR) would implement the bill with existing resources. It would require approximately 9 weeks to make change to its information systems, equating to approximately $77,000 in staff time.

Respectfully,

Kelly Farr

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| Greg S. Griffin | Kelly Farr, Director |
| State Auditor | Office of Planning and Budget |

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