DOAA
Georgia Department
of Audits & Accounts

Greg S. Griffin
State Auditor

January 8, 2024

Honorable Jordan Ridley
State Representative
601-D Coverdell Legislative Office Building
Atlanta, GA 30334

SUBJECT: Fiscal Note
House Bill (LC 43 2932)

Dear Representative Ridley:

The bill would exclude net capital gain income from state personal income tax. Under current law, net capital gains are included in federal Adjusted Gross Income (AGI) and taxed as regular income. This bill would become effective on, and applicable to all taxable years on or after, January 1, 2025.

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. The fiscal year 2025 amount is a partial year, with FY 2026 the first full year of the bill's impact. FRC noted that capital gains are highly volatile, and the changes shown in Table 1 are based on estimated annual changes from the Congressional Budget Office. The appendix provides details of the analysis.

Table 1. Estimated State Revenue Effects of LC 43 2932

($ *millions*)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Low Estimate	($128.2)	($1,256.2)	($1,208.7)	($1,183.8)	($1,172.6)
High Estimate	($145.0)	($1,420.2)	($1,366.6)	($1,338.4)	($1,325.7)

Impact on State Expenditures
The Department of Revenue would be able to implement the provisions of the bill without additional funding.

Respectfully,

Greg S. Griffin
State Auditor

Richard Dunn, Director
Office of Planning and Budget

GSG/RD/mt

Analysis by the Fiscal Research Center

IRS data indicate that Georgia net capital gains from all asset classes totaled $24.3 billion in tax year (TY) 2020. Table 2 summarizes TY 2016–20 net capital gains for all taxpayers who ended the year living in Georgia. The capital gains of non-resident filers are assumed to have been derived through non-Georgia sources and not included in their Georgia taxable income.

Table 2. Actual Georgia Net Capital Gains, TY 2016–20

($ *millions*)	TY 2016	TY 2017	TY 2018	TY 2019	TY 2020
Net Capital Gains	$11,166	$19,041	$20,151	$18,594	$24,315

The proposed exclusion would reduce taxable income for recipients up to their existing taxable income, net of other exemptions and deductions. Notably, senior taxpayers are already able to exclude some or all capital gain income as unearned income under the retirement income tax exclusion. Simulations of the proposed exclusion using DOR individual income tax data for TY 2021 were used to establish the pro forma reduction in taxable income and tax liability for resident taxpayers with capital gains income, as if the proposed exclusion was in effect for that year. Based on these simulations, the proposed exclusion would reduce taxable income by an estimated 92 percent of the $52.6 billion of total capital gains in TY 2021. The same simulation estimated that the proposed exclusion would have reduced taxable income by 89 percent of the $24.3 billion of capital gains in TY 2020 and by 88 percent of the $18.6 billion in TY 2019. The high estimate assumes 95 percent of capital gains are effectively excluded, and the low estimate assumes 84 percent—that is, 5 percent above and below the TY 2021–23 average simulation-based estimate.

Capital gains income can be highly volatile and has dramatically increased between 2019 and 2022. With this type of income, growth and decline are driven primarily by investor behavior and the timing of buying and selling. The Congressional Budget Office (CBO) projects U.S. capital gains income to increase by 77 percent in TY 2021 over TY 2020, decline by 35.6 percent between TY 2021 and TY 2025, and remain essentially flat during TY 2025 to TY 2029. The individual year-over-year changes projected by the CBO were used to project capital gains income in Georgia from TY 2025 through TY 2029, as shown in Table 3. Potential forecast errors included in the CBO-based projections would result in actual fiscal impacts generated by this exclusion being higher or lower than these estimates.

Table 3. Projected Georgia Net Capital Gains, TY 2025–29

($ *millions*)	TY 2025	TY 2026	TY 2027	TY 2028	TY 2029
Net Capital Gains	$27,730	$27,137	$27,058	$27,301	$27,807
Capital Gains Effectively Excluded					
High Estimate	$26,406	$25,841	$25,766	$25,997	$26,479
Low Estimate	$23,356	$22,856	$22,789	$22,994	$23,420

The current income tax rate of 5.49 percent is set to reduce by 0.1 percent annually—beginning January 1, 2025, provided that various provisions are met—until it reaches 4.99 percent no earlier than TY 2029. The estimates assume that these statutory rate reductions will take place on schedule. If delayed, the revenue impact of the proposed exclusion would be larger. If taxpayers during 2024 choose to delay taking planned capital gains until 2025, the revenue impacts of this exclusion would be larger during FY 2025.

For Table 1, these amounts are adjusted to account for the expected changing tax rates and then converted to fiscal years using a 10–90 fiscal split: 10 percent of excluded income during a tax year is assumed to affect the current fiscal year's revenues as taxpayers adjust estimated payments, while the remainder affects the following fiscal year—resulting in the estimated high and low revenue impacts under LC 43 2932.