January 26, 2024

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

SUBJECT: Fiscal Note
            Senate Bill (LC 46 0723)

Dear Chairman Hufstetler:

The bill would exempt from income taxation all retirement benefits received from military service in the U.S. armed forces or reserves. The bill would be effective January 1, 2024.

Impact on State Revenue
Georgia State University's Fiscal Research Center (FRC) estimated that the bill would reduce state revenue by the amounts shown in Table 1. The amounts consider the existing retirement income exclusions, population growth, and other factors. The appendix provides details of the analysis.

Table 1. Estimated State Revenue Effects of LC 46 0723

($ millions)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
High	($31.6)	($77.5)	($81.6)	($85.6)	($88.3)	($89.6)
Low	($14.8)	($35.7)	($35.9)	($36.0)	($35.9)	($35.4)

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

Respectfully,

Greg S. Griffin
State Auditor

Richard Dunn, Director
Office of Planning and Budget

GSG/RD/mt

Analysis by the Fiscal Research Center

According to the Department of Defense's FY 2022 Statistical Report on the Military Retirement System (the most recent available), 102,519 persons retired from the U.S. military resided in Georgia as of September 2022, of whom 92,426 receive military retirement benefits. Taxpayers aged 62–64 are already exempt from Georgia income taxes on up to $35,000 of retirement income and those over age 65 are exempt from up to $65,000 of retirement income.

The age breakdowns for military retirees are only available nationally, but based on the national data, approximately 52.7 percent of those receiving retirement benefits were age 65 or over. Approximately 20 percent of those under age 65 are estimated to be 62–64. Thus, it is estimated that approximately 9.6 percent of the total are age 62–64, 52.7 percent over age 65, and the remainder under age 62. The total share of Georgia recipients of military retirement benefits who are already exempt from taxes on some or all of their retirement income is approximately 62 percent.

Growth rates for Georgia retirees who receive military benefits have differed by age group in recent years. Since 2011, the over-65 group has grown by about 4.1 percent annually, on average, while the under-65 group has declined by 2.1 percent annually. In 2022, the rate for those under age 65 fell from 2020 by 0.7 percent annually, while the rate for those over 65 grew by 1.2 percent. For the purpose of projecting military retirement benefit recipients, it is assumed that the number above age 65 will grow by between 2 percent and 4 percent annually, while those below age 65 will grow by -1 percent to 1.5 percent annually.

Projected numbers of recipients of retirement benefits and survivor benefits in Georgia for tax years (TY) 2023–29 are provided in Table 2.

Table 2. Projected Total Recipients of Military Retirement and Survivor Benefits

		TY 2023	TY 2024	TY 2025	TY 2026	TY 2027	TY 2028	TY 2029
Under age 62	High	35,409	35,940	36,479	37,023	37,582	38,146	38,718
	Low	34,537	34,191	33,849	33,511	33,176	32,844	32,515
Age 62–64	High	8,998	9,133	9,270	9,409	9,550	9,693	9,839
	Low	8,776	8,689	8,602	8,515	8,430	8,346	8,263
Over age 65	High	50,622	52,647	54,753	56,943	59,221	61,590	64,054
	Low	49,648	50,641	51,654	52,687	53,741	54,816	55,912
Total	High	95,029	97,720	100,502	103,378	106,353	109,429	112,611
	Low	92,961	93,521	94,105	94,713	95,347	96,006	96,690

The average amount of military benefits for retirees differs by age as well, with an average of $26,187 for Georgia recipients over age 65, annualized as of September 2022, and $35,481 for those under age 65. Payments are adjusted annually based on the prior year's consumer price index (CPI) inflation rate.

The official cost-of-living adjustment (COLA) rates for 2023 and 2024 were set at 8.7 percent and 3.2 percent, respectively, based on CPI inflation for the preceding years. COLA rates for 2025 and beyond are assumed to be in the range of 1.5–2.5 percent annually. The resulting projected average benefit figures, together with the projected retiree and survivor figures from Table 2, result in high and low projections for total military retirement benefits and survivor benefits, by age group, as shown in Table 3.

Table 3. Projected Total Cost of Military Retirement and Survivor Benefits

($ *millions*)		**TY 2023**	**TY 2024**	**TY 2025**	**TY 2026**	**TY 2027**	**TY 2028**	**TY 2029**
Under age 62	High	$1,297	$1,349	$1,403	$1,460	$1,519	$1,580	$1,644
	Low	$1,265	$1,271	$1,277	$1,283	$1,289	$1,296	$1,302
Age 62–64	High	$329	$343	$357	$371	$386	$402	$418
	Low	$321	$323	$324	$326	$328	$329	$331
Over age 65	High	$1,368	$1,458	$1,555	$1,657	$1,767	$1,883	$2,007
	Low	$1,342	$1,389	$1,438	$1,489	$1,541	$1,596	$1,652
Total	High	$2,994	$3,150	$3,315	$3,488	$3,672	$3,865	$4,069
	Low	$2,928	$2,983	$3,040	$3,098	$3,158	$3,221	$3,285

The current law scheduled rate reductions are assumed to occur based on the long-range general-fund revenue projections in the Governor's Budget Report for amended FY 2024 and FY 2025. The following individual tax rates are assumed for military retirees under age 62: 5.49 percent for TYs 2024–27, 5.39 percent for TY 2028, and 5.29 percent for TY 2029. If rates are reduced ahead of this schedule the effects of this bill would be reduced.

The retirement income exclusion available to those 62 and older requires different assumptions as to effective tax rates. For those eligible for the retirement exclusion, much of their military retirement benefits—if not all—are already excluded, so effective tax rates used must differ from those above. Using a microsimulation to calculate current-law net tax liability as a percentage of federal AGI for aged 62 and older resident taxpayers, which would include military retirement benefits, the effective tax rate for all Georgia retirees under current law is estimated to be 1.04 percent for TY 2024. However, while those retirees with AGI below the exclusion limits may still have tax liabilities if they have earned income in excess of $5,000, they would have no liability associated with their retirement income. Thus, the low cases for the two older age groups assume an effective tax rate on military retirement benefits of zero.

Those with higher retirement income, on the other hand, may be taxable on some or all of their military benefits. Thus, the high case for aged 62+ Georgia retirees assumes effective tax rates based on microsimulations for filers who capped out their retirement income exclusions, $35,000 per taxpayer aged 62–64 and $65,000 for those aged 65 and older. The resulting high-case effective tax rate assumptions for the two older age groups are as follows:

- For age 62–64, 2.80 percent for TY 2024–27, 2.74 percent for TY 2028, and 2.69 percent for TY 2029
- For age 65 and older, 2.01 percent for TY 2024–27, 1.97 percent for TY 2028, and 1.93 percent for TY 2029

From these assumptions and the retirement benefit figures in Table 3, the projected tax liabilities on these benefits under current law are as shown in Table 4 on the following page.

These figures are adjusted to a fiscal year basis assuming taxes are substantially collected through withholding and thus spread evenly over the year, with the payments for the first five calendar months collected in the fiscal year ending in June of that calendar year and the remainder collected in the following fiscal year. For example, 7/12 of the TY 2023 and 5/12 of the TY 2024 tax liabilities would be collected in FY 2024, with future years' liabilities similarly divided. The results are shown in Table 1 above.

Table 4. Projected Taxes on Retiree Military Benefits

($ *millions*)		TY 2023	TY 2024	TY 2025	TY 2026	TY 2027	TY 2028	TY 2029
Under age 62	High	$38.9	$37.8	$39.3	$40.9	$42.6	$43.4	$44.3
	Low	$38.0	$35.6	$35.8	$36.0	$36.1	$35.6	$35.1
Age 62–64	High	$7.0	$7.2	$7.5	$7.8	$8.2	$7.9	$8.1
	Low	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Over age 65	High	$28.9	$30.8	$32.9	$35.0	$37.3	$37.2	$38.8
	Low	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Total	High	$74.8	$75.9	$79.7	$83.8	$88.1	$88.5	$91.2
	Low	$38.0	$35.6	$35.8	$36.0	$36.1	$35.6	$35.1