DOAA
Georgia Department
of Audits & Accounts

Greg S. Griffin
State Auditor

March 14, 2024

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

SUBJECT: Fiscal Note
House Bill 1021 (LC 50 0838S)

Dear Chairman Hufstetler:

The bill would make two changes to the personal income tax. Section one would increase the personal income tax exemption for each dependent from $3,000 to $4,000, while section two creates a nonrefundable state earned income tax credit equal to 10 percent of the federal earned income credit (EITC) under IRC Section 32. The effective date of the bill is July 31, 2024, and will apply to all taxable years beginning on or after January 1, 2024.

Impact on State Revenue
Georgia State University's Fiscal Research Center (FRC) estimated that the bill would reduce revenue by the amounts shown in Table 1. The first full year of the impact of the two provisions would be FY 2025. It should be noted that the revenue loss would be lower if the income tax rate is reduced in future years. The appendix provides details of the analysis.

Table 1. Estimated State Revenue Effects of HB 1021 LC 50 0838S

($ *millions*)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Expand Personal Exemption						
High Case – 5.49%	($20.0)	($154.8)	($120.3)	($120.6)	($120.8)	($121.1)
Low Case – 5.39%	($19.6)	($152.0)	($118.1)	($118.4)	($118.6)	($118.9)
Earned Income Tax Credit (EITC)						
High Case		($84.2)	($87.0)	($89.7)	($92.5)	($95.5)
Low Case		($66.4)	($65.9)	($65.3)	($64.8)	($64.3)
Total						
High Case	($20.0)	($239.0)	($207.2)	($210.2)	($213.3)	($216.6)
Low Case	($19.6)	($218.4)	($184.0)	($183.7)	($183.4)	($183.2)

Impact on State Expenditures
The Department of Revenue (DOR) would incur initial and ongoing costs associated with the bill as shown in Table 2.

Table 2. Estimated DOR Costs of HB 1021 LC 50 0838S

	One-Time Costs	Annual Costs*
Audits Division		
Staff (2 Auditors, 1 Tax Examiner)	$5,475	$236,039
Postage (270K notices and 202.5K official assessments)		$472,500
Taxpayer Services Division		
Staff (2 Tax Examiners)	$3,650	$131,171
Total	**$9,125**	**$839,710**

The EITC would result in additional staffing and postage costs for the Audit Division and additional staff for the Taxpayer Services Division. DOR's estimate assumes approximately 1.1 million returns with a state EITC claim (a number slightly lower than the FRC revenue estimate). Taxpayer Services would require two additional staff to review 10% of the returns, while the Audits Division assumes approximately 25% of these returns will result in mailings from its unit.

Respectfully,

Greg S. Griffin
State Auditor

Richard Dunn, Director
Office of Planning and Budget

GSG/RD/mt

Analysis by the Fiscal Research Center

Section 1

Under current law, taxpayers are afforded a $3,000 per dependent exemption against their taxable income; HB 1021 proposes to increase that amount to $4,000. A microsimulation model on the tax year (TY) 2021 data was used to model the difference between current-law (TY 2024) tax liabilities and those under the proposed law. The microsimulation indicated that if the TY 2024 tax structure and rate were in place during TY 2021, a $1,000 increase in the personal exemption for dependents would have effectively reduced income tax collections by $117.3 million.

The amount of exempted income and reduction of income tax revenues are assumed to grow based on the population of dependent children. U.S. Census state population estimates for children aged 0–19 were used to estimate growth between 2021 and 2022. The Georgia Office of Planning and Budget's population projections (vintage 2023) for the same ages were used to grow this revenue impact through TY 2029. Based on these data and projections, the population of dependent children is expected to grow by 0.43 percent on average from 2021 through 2029, with slower initial growth and increasing growth after 2023.

Under current law, the flat tax rate of 5.49 percent is in effect beginning for TY 2024, with scheduled decreases of 0.1 percent each year, if certain look-forward and look-back conditions are met. Given the uncertainty of the conditions being met for any given year, Table 2 below provides tax year revenue effects assuming a constant 5.49 percent rate. However, given that budget projections assume enactment of the proposed 0.1 percent rate reduction effective January 1, 2024, the table also provides estimates assuming a constant 5.39 percent tax rate. Further rate reductions, if triggered, would further reduce the revenue cost of the dependent exemption increase from the period in which such a reduction is effective.

Table 2. Estimated Reduction in Tax Revenues TY 2024–29

($ *millions*)	TY 2024	TY 2025	TY 2026	TY 2027	TY 2028	TY2029
Cost at 5.49%	($119.7)	($120.1)	($120.5)	($120.7)	($120.9)	($121.4)
Cost at 5.39%	($117.5)	($118.0)	($118.3)	($118.5)	($118.7)	($119.2)

The tax year estimates in Table 2 are converted to fiscal year revenue impacts for Table 1 under the assumption that the impact on collections would be primarily through withholding. TY 2024 reductions are assumed to impact withholding for the last two months of the current fiscal year; thus 16.6 percent of the TY 2024 impact would be realized in FY 2024 revenues and the remainder in FY 2025. The amount of the revenue impact realized in FY 2024 depends on the timing of implementation of new withholding tables, an earlier implementation increasing the FY 2024 impact and reducing that of FY 2025, and vice versa for a later implementation. After this initial year, approximately 46 percent of a given tax-year effect is assumed to be realized in the same fiscal year, with the balance falling in the following year.

Section 2

The credit proposed by LC 50 0838 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 federal credit depends on, among other things, AGI being below certain limits depending on the number of eligible dependents and filing status.

Based on administrative tax return data from the Department of Revenue (DOR) for which federal form 1040 data are available (roughly 94 percent of all returns), approximately 1.39 million Georgia taxpayers claimed the federal EITC in TY 2021, including about 1.29 million full-year residents, 44,000 part-year residents, and 46,000 nonresidents. The total amount of federal EITC claimed was approximately $2.86 billion, $2.69 billion of that by full-year residents. For the purpose of this fiscal note, it is assumed that the Georgia EITC for part-year and non-resident filers would be adjusted, as are other deductions and exemptions, to reflect the filer's Georgia share of total AGI shown on the Georgia return's Schedule 3, line 9.

Approximately 9,000 filers reported federal NOL carryforwards averaging about $104,000 each on their Georgia returns for TY 2021, 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 2021, it is estimated that about 1.4 million Georgia full-year resident filers would have received the Georgia EITC in an aggregate amount of about $275.4 million for TY 2021, had the proposed law been in effect at the time. This amount would have reduced income tax revenue for those taxpayers by $68.4 million after accounting for existing exemptions, deductions, and credits, including those proposed in Section 1 of this bill.

This amount is projected forward for the high and low case estimates as follows:

- High case projections assume growth at the rate of population growth projected by the Office of Planning and Budget as of 2023, plus inflation at actual rates through 2023 and CBO projections thereafter (February 2024 10-year Economic Projections). Annual inflation adjustments made by the IRS to EITC parameters are based on Chained CPI for the prior year.
- Low case projections assume a 0.82 percent annual decline in EITC amounts claimed, the average annual change from 2017 to 2022, based on the latest IRS data available.

Credits are assumed to impact state revenues at the time of filing of returns. Given that TY 2024 is the first tax year affected, the first state fiscal year impacted is assumed to be FY 2025.