DOAA
Georgia Department
of Audits & Accounts

Greg S. Griffin
State Auditor

March 22, 2024

Honorable Chuck Martin
Chairman, House Higher Education
417-A State Capitol
Atlanta, GA 30334

SUBJECT: Fiscal Note
Senate Bill 469 (LC 50 0857S)

Dear Chairman Martin:

The bill would increase the maximum per beneficiary contribution to a Georgia Higher Education Savings Plan (GHESP) that is allowed as an income tax deduction. Specifically, it increases the maximum per beneficiary contribution to be allowed as a deduction from $4,000 to $5,000 for single or separate filers and from $8,000 to $10,000 for joint filers. The bill would apply to all taxable years beginning 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 in fiscal years 2023 and 2024 before a revenue increase in FY 2025, the first fiscal year of the bill's full effect (Table 1). The appendix provides details of the analysis.

Table 1. Estimated State Revenue Effects of SB 469 LC 50 0857S

($ *millions*)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Cost at 5.49%	$0	($2.53)	($2.53)	($2.54)	($2.54)
Cost at 5.39%	$0	($2.48)	($2.49)	($2.49)	($2.50)

Impact on State Expenditures
The Department of Revenue would be able to implement the provisions of the bill with existing resources.

Respectfully,

Greg S. Griffin
State Auditor

Richard Dunn, Director
Office of Planning and Budget

GSG/RD/mt

Analysis by the Fiscal Research Center

Section 2 of LC 50 0857S proposes to replace the fixed cap on a GHESP account balance, above which further contributions are not allowed, with an amount established by the GHESP board of directors. This provision would have no impact on Georgia revenues.

Section 3 of the bill would increase the maximum per-beneficiary contribution to be allowed as an income tax deduction from $4,000 to $5,000 for single or separate filers and from $8,000 to $10,000 for joint filers. The effects of these increases were analyzed using a microsimulation model on the tax year (TY) 2021 data from DOR. Based on these data, approximately 24% of filers claiming GHESP deductions were deducting an amount consistent with having reached the maximum, that is a multiple of $4,000 for single or separate filers or a multiple of $8,000 for joint filers. For these filers, it is assumed that the amount of actual plan contributions is sufficient for the amount deducted to increase to the new per-beneficiary caps. For filers deducting amounts below the per-beneficiary caps, no increase in deduction is assumed because the filer is apparently already deducting the full amount of their actual plan contributions.

In aggregate, the total amount of additional GHESP deductions allowed would have been $46.0 million in TY 2021 had the proposed changes been in effect then. The microsimulation model calculated the difference between current-law (TY 2024) taxable income, accounting for all other deductions allowed under current law, and taxable income net of the additional GHESP deductions under the proposed law, resulting in a net reduction in taxable income of approximately $44.9 million.

The net change in taxable income is assumed to grow based on the population of dependent children. U.S. Census population estimates for children aged 0–19 were used to estimate growth between 2021 and 2022. The 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 .43 percent on average from 2021 through 2029, with slower growth in earlier years and increasing expected 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 such reduction is effective.

Table 2. Estimated Additional GHESP Deductions for TY 2025–29

($ *millions*)	TY 2025	TY 2026	TY 2027	TY 2028	TY 2029
GHESP Deductions	$46.00	$46.13	$46.20	$46.29	$46.47
PIT Revenues at 5.49%	$2.53	$2.53	$2.54	$2.54	$2.55

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 realized primarily when taxpayers file returns claiming the deduction, each tax year's impacts thus impacting revenues for the fiscal year beginning July 1 of the given tax year.