DOAA
Georgia Department
of Audits & Accounts

Greg S. Griffin
State Auditor

November 21, 2024

Honorable Mitchell Horner
State Representative
612-B Coverdell Legislative Office Building
Atlanta, GA 30334

SUBJECT: Fiscal Note
House Bill (LC 50 0953)

Dear Representative Horner:

The bill would amend Georgia's income tax code to exclude tip income from taxation. Under current law, tip income is included in the calculation of federal and Georgia Adjusted Gross Income (AGI) and taxed as ordinary income. The bill would be effective for tax 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 reduce state revenue by the amounts shown in Table 1. The estimates assume that employers and employees do not change compensation structures as a result of the bill (or a change in federal tax policy regarding tips). The appendix provides details of the analysis.

Table 1. Estimated State Revenue Effects of LC 50 0953

($ millions)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
High Case	($13.4)	($110.0)	($88.5)	($94.2)	($100.2)
Low Case	($9.9)	($80.5)	($64.1)	($67.5)	($71.2)

Impact on State Expenditures
The Department of Revenue (DOR) would be able to implement the bill's provisions without additional funding. However, information technology changes would take approximately 12 weeks, equating to approximately $129,000.

Respectfully,

Greg S. Griffin
State Auditor

Richard Dunn, Director
Office of Planning and Budget

GSG/RD/mt

Analysis by the Fiscal Research Center

Certain aspects of tip income and its taxation have been highlighted by recent research and reporting. While only currently taxed tips are relevant for this analysis, tip income is believed to be underreported for federal income taxes, and technological advancement in recent years have rapidly expanded the occupations receiving tips and the occasions in which tips are collected. Additionally, the Tax Foundation, Committee for a Responsible Federal Budget, Budget Lab, and American Enterprise Institute all estimated the static fiscal impact of a federal exemption of tip income to be more than $100 billion between FY 2025–34, with estimates averaging $115 billion. Static fiscal impacts are estimates assuming employers and employees do not engage in behavioral changes due to the policy. This analysis makes the same static assumption. If wages are redefined or reclassified as tips, resulting from the passage of this exemption, the revenue impacts would be larger.

The estimated fiscal impacts of the proposed changes in LC 50 0953 are based on the following data and assumptions:

- IRS Statistics of Income (SOI) data for tax years (TY) 2016–18 indicate $38.3 billion was recorded as tip income on W-2s in TY 2018 (most recent data available), which had been increasing annually by 7.2 percent since TY 2016.

- Two sources were used to estimate the tipped income figures up to 2023. The high estimate is based on the SOI TY 2016–18 trend, indicating national tip income would be $55.0 billion in TY 2023. The second source is based on wage growth in Georgia for tipped occupations: waitresses and waiters; bartenders; hairdressers, hairstylists, and cosmetologists; barbers; dining room workers in specific industries; and couriers and messengers. These occupations' wages, after weighting for numbers of employees in each, grew at 5.7 percent annually between 2018 and 2023. The low estimate is based on this growth rate and indicates that national tip income would be $50.9 billion in TY 2023.

- National tip income was shared down to Georgia based on Georgia's share of national wages for the same list of tipped occupations in 2023: 2.69 percent.

- The Budget Lab at Yale University produced a report regarding the recent federal proposals to exempt tipped income from the federal income tax. Their report expected tipped income to continue to grow rapidly through 2026 and settle into growth of 5.2 percent per year after 2026. The high estimate assumes 9 percent growth through TY 2026 and 6.4 percent thereafter, and the low estimate assumes 7 percent growth through TY 2026 and 5.4 percent thereafter.

- DOR individual income tax data were used to simulate the portion of tipped income that would be effectively exempted and not already exempted through provisions in Georgia's income tax code. The simulation was completed using the following assumptions and steps:
    - Income tax records were restricted to those with income similar to those of the tipped wage occupations, averaging $29,000 annually with a standard deviation of $796.
    - The Budget Lab report, based on data from the Survey of Income and Program Participation (SIPP), estimated that tipped workers earned a large portion of wage income as well. Based on their findings, each record was assigned a tipped wage, which averaged 40 percent of total income with a standard deviation share of 10 percent of income.
    - Calculating taxable income under the current income tax structure in Georgia, before and after the simulated tipped waged was excluded, indicates that 74 percent of tipped wages would effectively reduce taxable income, after accounting for other exemptions

and deductions. The high estimates assume that 85 percent of tipped wages would reduce taxable income, and the low estimates assume 70 percent.

Table 2 presents the high and low estimates for tipped income, as well as effectively excluded tip income, for Georgia from TY 2025–30. The bill is effective January 1, 2025, and is assumed to reduce FY 2025 revenue through reduced withholding. The fiscal impact for FY 2025 is based on two months of reduced withholding upon being signed into law in late April. The remaining 10-month impact for the tax year affects FY 2026, increasing the fiscal impact in that year larger than 12 months of exempted tip income. Normalized full-year fiscal impacts start in FY 2027 and are based on a 50-50 TY to FY fiscal split.

For the revenue impacts presented in Table 1 the effective reduction in taxable income shown in Table 2 is multiplied by the current law statutory rate of 5.39 percent. This rate is scheduled to be reduced if certain requirements are met each year, beginning as early as TY 2025. If these rate reductions occur, the impact of the proposed tip income exclusion would be smaller.

Table 2. High and Low Estimates of Tip Income in Georgia, TY 2025–30

($ millions)	**TY 2025**	**TY 2026**	**TY 2027**	**TY 2028**	**TY 2029**	**TY 2030**
Total W-2 Tip Income						
High Case	$1,759.2	$1,871.8	$1,991.6	$2,119.0	$2,254.7	$2,399.0
Low Case	$1,568.8	$1,653.6	$1,742.9	$1,837.0	$1,936.2	$2,040.7
Effective Taxable Income Reduction						
High Case	$1,495.3	$1,591.0	$1,692.8	$1,801.2	$1,916.5	$2,039.1
Low Case	$1,098.2	$1,157.5	$1,220.0	$1,285.9	$1,355.3	$1,428.5