DOAA
Georgia Department
of Audits & Accounts

Greg S. Griffin
State Auditor

February 14, 2025

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

SUBJECT: Fiscal Note
Senate Bill 31 (LC 50 1003)

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, effective in taxable years beginning on or after January 1, 2026.

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 individual tax rate for military retirees under age 62 is assumed at 5.39%. If rates are reduced ahead of this schedule, the effects of this bill would be reduced. The appendix provides details of the analysis.

Table 1. Estimated State Revenue Effects of SB31 50 1003

($ millions)	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
High Estimate	($23.7)	($58.3)	($61.5)	($64.9)	($68.5)
Low Estimate	($10.0)	($23.9)	($23.4)	($22.9)	($22.4)

Impact on State Expenditures
The Department of Revenue would be able to implement 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

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—92,426 of whom 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. Also under current law, those under age 62 are exempt from income tax on the first $17,500 per year of military retirement pay.

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) 2026–30 are provided in Table 2.

Table 2. Projected Total Recipients of Military Retirement and Survivor Benefits, TY 2026–30

		TY 2026	TY 2027	TY 2028	TY 2029	TY 2030
Under 62	High	37,026	37,582	38,146	38,718	39,299
	Low	33,511	33,176	32,844	32,515	32,190
Age 62–64	High	9,409	9,550	9,693	9,839	9,986
	Low	8,515	8,430	8,346	8,263	8,180
Over 65	High	56,943	59,221	61,590	64,054	66,616
	Low	52,687	53,741	54,816	55,912	57,030
Total	High	103,378	106,353	109,429	112,611	115,901
	Low	94,713	95,347	96,006	96,690	97,400

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, 2024, and 2025 were set at 8.7 percent, 3.2 percent, and 2.5 percent, respectively, based on CPI inflation for the preceding years. COLA rates for 2026 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, TY 2026–30

($ *millions*)		TY 2026	TY 2027	TY 2028	TY 2029	TY 2030
Under 62	High	$767.97	$808.75	$851.73	$896.70	$943.69
	Low	$603.71	$591.81	$579.76	$567.25	$554.23
Age 62–64	High	$371	$386	$402	$418	$435
	Low	$329	$331	$332	$334	$336
Over 65	High	$1,657	$1,767	$1,883	$2,007	$2,140
	Low	$1,504	$1,557	$1,612	$1,668	$1,727
Total	High	$2,796	$2,961	$3,136	$3,322	$3,518
	Low	$2,437	$2,479	$2,524	$2,570	$2,617

Current-law scheduled rate reductions would occur based on the long-range general fund revenue projections in the Governor's Budget Report for amended FY 2025 and FY 2026. The individual tax rate for military retirees under age 62 is assumed at 5.39. If rates are reduced ahead of this schedule, the effects of this bill would be reduced.

The military retirement income exclusion available to those over age 62 requires different assumptions as to effective tax rates than those under age 62. For those eligible for the general retirement income exclusion, much of their military retirement benefits—if not all—is already excluded, so the effective tax rates used must differ from those above. Using a microsimulation under current-law, the effective tax rate for all Georgia retirees under current law is estimated to be 1.42 percent for TY 2024. However, current law allows military retirees to exclude military retirement pay, other unearned income, and up to $5,000 of earned income. The retirement income exclusion (RIE) limits are $35,000 for retirees aged 62–64 years and $65,000 for 65 and above. For those retirees at the RIE cap, shifting military retirement pay to a separate exclusion frees up additional room within the RIE, potentially allowing them to exclude more unearned income or earned income (below the $5,000 limit). For retirees not already at the RIE limit, moving military retirement pay to a separate exclusion will have no revenue impact. However, those retirees with AGI below the exclusion limits may still have tax liabilities if they have earned income in excess of $5,000. 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 Georgia retirees assumes effective tax rates based on microsimulation results for filers who capped out their retirement income exclusion at $35,000 for taxpayers aged 62–64, and $65,000 for those age 65 and older. The resulting high-case effective tax rate assumptions for the two older age groups are 2.27 percent and 1.08 percent for age 62-64, and 65 and older respectively.

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.

Table 4. Projected Taxes on Retiree Military Benefits, TY 2026–30

($ *millions*)		TY 2026	TY 2027	TY 2028	TY 2029	TY 2030
Under 62	High	$30.6	$32.3	$34.0	$35.8	$37.7
	Low	$24.1	$23.6	$23.1	$22.6	$22.1
Age 62–64	High	$8.4	$8.8	$9.1	$9.5	$9.9
	Low	$0.0	$0.0	$0.0	$0.0	$0.0
Over 65	High	$17.9	$19.1	$20.3	$21.7	$23.1
	Low	$0.0	$0.0	$0.0	$0.0	$0.0
Total	High	$57.0	$60.1	$63.4	$66.9	$70.6
	Low	$24.1	$23.6	$23.1	$22.6	$22.1

These figures are adjusted to a fiscal year basis assuming taxes on military retirement pay 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 2025 and 5/12 of the TY 2026 tax liabilities would be collected in FY 2026, with future years' liabilities similarly divided. The result