DOAA
Georgia Department
of Audits & Accounts

Greg S. Griffin
State Auditor

March 20, 2025

Honorable Shaw Blackmon
Chairman, House Ways and Means
133 State Capitol
Atlanta, GA 30334

SUBJECT: Fiscal Note
House Bill 266 (LC 50 1209S)

Dear Chairman Blackmon:

The bill would expand the military retirement income tax exemption limit for those under 65 years of age. The retirement income limit is raised to $35,000 for all taxpayers in TY 2027 and increases the limit $5,000 per year until it reaches $65,000. The bill is effective for tax years beginning on or after January 1, 2027.

Impact on Revenue
Georgia State University's Fiscal Research Center (FRC) estimated that the bill would decrease state revenue as shown in Table 1. The appendix provides details of the analysis.

Table 1. Estimated State Revenue Effects of HB 266 LC 50 1209S

($ millions)	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Revenue Impact	$0.0	($0.4)	($2.5)	($5.1)	($7.2)	($8.8)

Impact on Expenditures
The Department of Revenue (DOR) 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

O.C.G.A. § 48-7-27(a)(5.1), Current Law and Proposed Changes
Under current law, military retirees under age 62 are exempt from income tax on the first $17,500 per year of military retirement pay for individuals with earned income of less than $17,500 and $35,000 otherwise. The proposed bill would modify the military retirement pay exemption as follows:

- Increase the exemption to $35,000 for all taxpayers starting in tax year (TY) 2027.
- Further increase in the exemption limit by $5,000 annually for all taxpayers in tax years beyond TY 2027 until the limit reaches $65,000.
- Extend the exemption to taxpayers aged 62-64.

Because taxpayers age 62–64 are already exempt from Georgia income taxes on up to $35,000 of retirement income, the proposed bill includes the following provision:

> "provided, however, that no individual shall be allowed an exclusion provided for in this paragraph in addition to any exclusion provided for in paragraph (5) of this subsection;"

The interpretation of this provision for purposes of this note is that taxpayers eligible for both the general retirement income exclusion under paragraph (5) and the military retirement exclusion under paragraph (5.1) will not be allowed to utilize both exclusions in the same year. That is, they may either 1) exclude military retirement pay together with other retirement income under paragraph (5), up to the applicable limit (currently $35,000 for filers aged 62-64), and nothing under paragraph (5.1), or 2) exclude only military retirement income, up to the proposed applicable limit, under paragraph (5.1) and nothing under (5). Thus, for taxpayers aged 62-64, it follows that only those receiving military retirement pay above $35,000 for the year will realize tax savings from the proposed bill and then only for tax years in which the paragraph (5.1) limit exceeds $35,000, i.e., beginning in TY 2030.

Analysis and Assumptions
For taxpayers under 62, these changes effectively increase the cap of the current-law exemption, in TY 2028 for those with less than $17,500 of earned income and in TY 2030 for all filers under age 62 with MRI. Individual income tax return data from the Department of Revenue (DOR) for 2023 were used to simulate the impact of increasing the cap during under this bill for TY 2024–30 using the following data and assumptions:

- Department of Defense's (DOD) FY 2022 Statistical Report on the Military Retirement System (the most recent available) was used to estimate the average and variability of military retirement income (MRI). These data were used estimate total MRI during 2023 for taxpayers included in the DOR data claiming an MRI exclusion at the current threshold.
- Taxpayers' MRI's for TY 2025 were estimated based on the official cost-of-living adjustment (COLA) rates reported by DOD. The Consumer Price Index (CPI-U) projections from the Congressional Budget Office (CBO) were used to estimate MRI's through TY 2030.
- The same DOD data indicate that since 2011, the number of MRI recipients under age 65 has declined by 2.1 percent nationally, on average, annually. Georgia's Office of Planning and Budget (OPB) projects that the resident population aged 45-49 will grow on average by 0.5 percent annually between 2024–30. For these estimates, the simulations assumed slow but positive annual growth of 0.25 percent.

Based on these data, assumptions, and simulations, the projected current law and pro-forma exempted MRI for TY 2025–30 are presented in Table 2. Tax year revenue impact estimates assume an effective tax rate of 5.39 percent on the additional amount excluded. Should pending legislation or automatic triggers in current law reduce that rate further, revenue impacts would be reduced. For the fiscal impacts in Table 1, a 50/50 fiscal split is assumed, based on withholding adjustments.

Table 2. Estimated Military Retirement Income Exclusion

($ millions)	TY 2025	TY 2026	TY 2027	TY 2028	TY 2029	TY 2030
Baseline	$647.1	$653.3	$658.9	$664.1	$669.1	$673.9
Pro-forma	$647.1	$653.3	$674.7	$715.6	$732.3	$749.3

For taxpayers aged 62–64, this bill would allow for a new exclusion based on MRI up to the effective caps proposed in the bill. As stated, the fiscal note assumes that the language of the bill precludes any taxpayer from benefiting from this exemption and the current retirement income exclusion (RIE) simultaneously. For taxpayers within these ages to benefit from the proposed changes, the proposed limit on excluded MRI would have to exceed the current $35,000 cap for the RIE, which does not occur until TY 2030. Further, the taxpayer would require more than $35,000 in MRI to benefit from the increased cap.

The estimates for the population impacted by these changes and their average income are based on the following data and assumptions:

- According to the DOD FY 2022 Statistical Report on the Military Retirement System, 102,519 persons retired from the U.S. military resided in Georgia as of September 2022, 92,426 of whom receive military retirement benefits.
- The age breakdowns for military retirees are only available nationally, but based on the national data, approximately 9.6 percent of the total are age 62–64.
- Growth rates for Georgia retirees who receive military benefits have differed by age group in recent years. Specific tabulations for 62-64 retirees were not available. The estimate assumes, based on the growth in retirees under 65 between 2011–2022, that the population of military retirees of these ages will grow by 0.31% annually from TY 2023–30.
- The same MRI distribution and inflation assumptions made for retirees under age 62 were made for those aged 62–64.

Projected numbers of age-62–64 retirees impacted by the proposed changes, based on these data and assumptions, are provided in Table 3. The impact of the inflation assumptions is evident in the increasing share of these individuals expected to have over $35,000 in MRI as well as the increasing average MRI within that group.

Table 3. Population and MRI Estimates for 62-64 Aged Retirees

($ thousands)	TY 2025	TY 2026	TY 2027	TY 2028	TY 2029	TY 2030
Retirees 62-64	8,936	8,962	8,990	9,020	9,051	9,083
With MRI >$35k	4,347	4,502	4,685	4,899	5,169	5,185
Average MRI if Above $35k	$48.8	$49.4	$49.7	$50.8	$51.8	$52.1
Current Law Effective Cap	$35.0	$35.0	$35.0	$35.0	$35.0	$35.0
Pro-forma Effective Cap	$35.0	$35.0	$35.0	$40.0	$45.0	$50.0

For the revenue impact of these changes, the average marginal change in exempted income in TY 2027–30, $5,000, $10,000, and $15,000 respectively, times the number of retirees impacted, represents the reduction in taxable income. An effective tax rate of 5.39 percent, the current statutory rate, is assumed, but again, reductions in the statutory rate would reduce the revenue cost of the exclusion. For the fiscal impacts in Table 1, a 50/50 fiscal split is assumed, based on withholding adjustments.