DOAA
Georgia Department
of Audits & Accounts

Greg S. Griffin
State Auditor

March 18, 2025

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

SUBJECT: Fiscal Note
House Bill 511 (LC 50 1210S)

Dear Chairman Hufstetler:

The bill would create a state income tax deduction for contributions to catastrophe savings accounts (CSA) and interest earned on such contributions, subject to certain restrictions outlined in the bill. A CSA is any regular savings or money market account established by a resident individual taxpayer, for residential property in Georgia that serves as their primary residence, to cover qualified catastrophe expenses. Contributions are subject to certain limits outlined in the bill. This bill would become effective July 1, 2025, and be applicable to taxable years beginning on or after January 1, 2026.

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

($ *millions*)	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
State Revenue Effect	-	($0.4)	($0.4)	($0.4)	($0.4)

Impact on 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

The subject bill proposes to create a state income tax deduction for contributions to, and interest earned from, catastrophe savings accounts (CSA), defined as any regular savings or money market account established by a resident individual taxpayer, for residential property in Georgia that serves as their primary residence, to cover qualified catastrophe expenses. These accounts must be labeled as CSAs to qualify for the deduction. Qualified catastrophe expenses are defined as "a qualified deductible paid for damage resulting from a catastrophic event" and "expenses incurred in repairing or replacing damage to a taxpayer's primary residence as a result of a catastrophic event that are not covered by a homeowner's insurance policy." A taxpayer may establish only one CSA and must specify that the purpose of the account is to cover qualified catastrophe expenses. CSA funds later withdrawn but not used by the taxpayer for qualified expenses will be taxed as ordinary income. If the owner of a CSA account dies, the inheritor must pay income taxes on these funds (unless they are the spouse of the account owner).

For a taxpayer whose qualified deductible is $1,000 or less, the total amount of CSA contributions is capped at $2,000. For a taxpayer whose qualified deductible is greater than $1,000, the total amount of CSA contributions cannot exceed the lesser of twice the amount of the qualified deductible or $25,000. For self-insured taxpayers, the total amount of CSA contributions is capped at $250,000. However, in no case can the amount of CSA contributions exceed the fair market value of the taxpayer's primary residence.

Alabama, Mississippi, and South Carolina all have established the deductions proposed under this bill. Data from these states indicates that CSA participation is likely to be low. In 2022, Alabama and Mississippi had just 0.04 and 0.02 percent of tax returns, respectively, that reported CSA deductions. One driver of low participation may be that state-only income tax benefits are not sufficient to attract participation. Absent a similar bill being passed at the federal level, contributions to CSAs would not be deductible from federal income tax and interest earned would be federally taxable.

The fiscal impacts presented in Table 1 are based on the following data and assumptions:

- In 2024, the Alabama Tax Expenditure Report estimated the tax expenditure cost of a similar provision to be $120,000.
- In 2024, the Mississippi Tax Expenditure Report estimated the tax expenditure cost of a similar provision to be $64,000.
- This information and state income tax rates from Tax Foundation allow for a calculation of implied contributions and interest.
- Data from the U.S. Bureau of Economic Analysis shows that in 2023, Alabama and Mississippi's total personal income were approximately 36.7 and 18.2 percent of Georgia's personal income, respectively.
- These ratios were used to gross up the implied contributions and interest for these two states to serve as an estimate of what Georgia's contributions and interest would have been in 2024 had the law been in effect at that time.
- Alabama's tax expenditure estimate for CSA deductions grew at an average rate of 1.46 percent from 2018 to 2024. Over the last three years, Mississippi's tax expenditure estimate for CSA deductions has trended negatively. The estimates assume 1.46 percent annual growth in CSA contributions and interest, matching the early experience of Alabama with this program.
- Projected deductible contributions and interest in Georgia are multiplied by the state income tax rate of 5.39 percent to estimate the fiscal impact.

- Fiscal impacts are assumed to occur only at the time of filing.

For this analysis, a constant income tax rate of 5.39 percent is assumed. However, if certain conditions are met, the state income tax rate will decrease and thus impact these estimates. Table 2 summarizes this analysis.

Table 2. Projected CSA Contributions and Interest

($ *millions*)	TY 2026	TY 2027	TY 2028	TY 2029	TY 2030
CSA Contributions and Interest	$7.7	$7.8	$7.9	$8.1	$8.2
Income Tax Rate	5.39%	5.39%	5.39%	5.39%	5.39%
State Fiscal Impact	($0.42)	($0.42)	($0.43)	($0.43)	($0.44)

If a similar bill were passed at the federal level, incentives for CSAs would be much greater, and thus, related activity would likely be much higher, increasing the cost to the state.