



DOAA

Georgia Department
of Audits & Accounts

Greg S. Griffin
State Auditor

April 1, 2026

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

SUBJECT: Fiscal Note
Senate Bill 520 (LC 44 3458)

Dear Chairman Hufstetler:

The bill proposes extensive changes to personal income taxes, tax credits, corporate income taxes, and tobacco taxes. For income tax-related changes, Section 1 of the bill replaces the current flat income tax structure with a progressive one with rates ranging from 2 to 6 percent. Sections 2 and 3 increase the current tax rate on corporations and pass-throughs electing to pay tax at the entity level from 5.19 to 6 percent. Section 4 repeals the ability of taxpayers to itemize deductions, increases the standard deduction, and adds a phase-out for the standard deduction.

Sections 5 through 8 repeal the Qualified Education Expense Credit, expand the Qualified Child Tax Credit, establish a state Earned Income Tax Credit, and modify the tobacco tax on vaping and other non-cigarette tobacco products and increase the cigarette tax. Sections 9 and 10 repeal and modify certain code language in Title 20 related to student scholarship organizations.

The bill would be effective July 1, 2026, applicable to all 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 revenue as shown in Table 1. It should be noted that the bill’s language related to progressive tax rates includes a drafting error. The intent, as confirmed with the sponsor, is included in the appendix. The appendix includes details of the analysis.

Table 1. Estimated State Revenue Effects of SB 520 LC 44 3458

(\$ millions)	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Individual IT Changes	(\$656.3)	(\$1,377.9)	(\$1,436.8)	(\$1,502.9)	(\$1,574.5)
Corporate IT Changes	\$212.6	\$459.2	\$504.1	\$521.7	\$541.8
QEEC Repeal	\$8.0	\$87.0	\$100.0	\$105.0	\$107.0
Child Tax Credit Expansion	\$0.0	(\$796.0)	(\$798.0)	(\$802.0)	(\$800.0)
State EITC	\$0.0	(\$730.0)	(\$756.0)	(\$781.0)	(\$806.0)
Cigarette Tax Increase	\$424.8	\$419.9	\$413.0	\$407.6	\$400.5
Tobacco/Vapor Tax Increase	\$96.7	\$95.9	\$95.2	\$94.4	\$93.6
Net State Revenue Effect	\$85.7	(\$1,841.8)	(\$1,878.6)	(\$1,957.2)	(\$2,037.6)

Impact on Expenditures

The Department of Revenue (DOR) would incur additional costs associated with the bill's provisions. Annual costs of \$340,000 include approximately \$182,000 for two additional auditors and \$157,500 for postage and printing related to both audits and refunds. The two new positions would have associated one-time costs of \$3,650 for computers and other equipment. In addition to these costs, changes to information systems would take 32 weeks and approximately \$384,000 in existing staff time.

Respectfully,



Greg S. Griffin
State Auditor



Richard Dunn, Director
Office of Planning and Budget

GSG/RD/mt

Analysis by the Fiscal Research Center

Sections 1 and 4

Section 1 of the SB 520 LC 44 3458 replaces the current flat personal income tax (PIT) structure with a progressive one. Under current law, the flat income tax rate of 5.19 percent is set to decrease by 10 basis points each year in which the conditions listed below are met, until the rate reaches 4.99 percent. Based on confirmation from the bill’s sponsors, the bill’s currently erroneous language creating the progressive income tax structure is assumed to be corrected to reflect the following intended rate structure, effective January 1, 2027:

- For married taxpayers filing jointly (MFJ), income up to \$30,000 is taxed at 2 percent; income between \$30,001 and \$60,000 is taxed at 4 percent; and income above \$60,001 is taxed at 6 percent.
- For all other filers, income up to \$15,000 is taxed at 2 percent; income between \$15,001 and \$30,000 is taxed at 4 percent; income above \$30,001 is taxed at 6 percent.

Section 4 of the bill eliminates the ability of taxpayers to itemize, resulting in all taxpayers taking the standard deduction. It also increases standard deduction amounts for most taxpayers in the following manner:

- For MFJ filers, the current standard deduction of \$24,000 is increased to \$34,000. For MFJ filers with federal adjusted gross income (FAGI) above \$280,000, their standard deduction is decreased by 25 percent of the amount above \$280,000 until it reaches zero for all MFJ taxpayers with FAGI of \$416,000 or more.
- For all other filers, the current standard deduction of \$12,000 is increased to \$17,000, reduced by 25 percent of the amount of FAGI above \$140,000 until it reaches zero for FAGI of \$208,000 or more.

Under current law, any taxpayer electing to itemize also receives a tax credit of \$300. In repealing all itemized deductions, the bill would effectively eliminate this credit.

Administrative data from the Department of Revenue (DOR) were used to simulate these changes to income taxes, resulting in an estimated reduction in net taxes of approximately 7.8 percent compared to current law at a tax rate of 5.19 percent. Simulated percent changes were adjusted to fiscal-year impacts assuming the scheduled changes would impact withholding and estimated tax payments beginning January 1, 2027. Table 2 includes the current budget forecast for individual income tax revenues and the estimated pro forma revenues under LC 44 3458.

Table 2. Personal Income Tax Baseline and Pro Forma Revenue

(\$ millions)	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
PIT Baseline at 5.19%	\$16,928	\$17,769	\$18,529	\$19,381	\$20,305
Pro Forma PIT Revenue	\$16,272	\$16,391	\$17,092	\$17,878	\$18,730

Sections 2 and 3

These sections decouple the corporate income tax (CIT) from the PIT rate and increase the rate on corporations and on pass-throughs electing entity-level filing from 5.19 to 6 percent. The fiscal impacts of the proposed CIT rate change are based on the following data and assumptions:

- CIT revenue projections were adjusted to remove the portion attributable to corporate net worth and financial institutions business occupation taxes (CNWT and FIBOT, respectively), which are included in the total corporate tax projections but are not affected by this bill. Together, CNWT and FIBOT accounted for approximately 3.4 percent of the combined collections from these

taxes and the CIT during fiscal year (FY) 2025. FY 2027–31 projected CIT revenues from OPB were reduced by this percentage to isolate CIT revenues.

- Corporations’ tax years frequently do not start on January 1, creating variation in when the proposed repeal of the CIT would be effective for different corporate taxpayers and thus the overall average effective tax rates during the early periods before the repeal is effective for all. Internal Revenue Service (IRS) national data as to shares of corporate taxable income reported by month of firms’ tax year-ends were used to estimate pro forma effective tax rates for FY 2026–31, assuming enactment of this bill. Based on these calculations, the average effective tax rate calculated for FY 2027 is 5.59 percent, 5.93 percent for FY 2028, and 6.0 percent beginning FY 2029.

Based on these data and assumptions, pro forma projected CIT revenues are presented in Table 3 along with the current-law baseline at a tax rate of 5.19 percent. The difference represents the estimated fiscal impact reported in Table 1.

Table 3. Corporate Income Tax Baseline and Pro Forma Revenue*

(\$ millions)	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
CIT Baseline at 5.19%	\$3,078	\$3,122	\$3,230	\$3,343	\$3,471
Pro Forma CIT Revenue	\$3,290	\$3,581	\$3,734	\$3,864	\$4,013

*Excluding CNWT and FIBOT

Section 5

This section of the bill proposes to repeal the Qualified Education Expense Credit (QEEC) allowed under O.C.G.A § 48-7-29.16. Under current law, individual and corporate income taxpayers and business enterprises paying the insurance premium tax (IPT) are allowed to claim dollar-for-dollar tax credits for contributions made to qualified student scholarship organizations (SSOs).

To estimate the revenue impact, baseline QEEC tax expenditure estimates from the Georgia Tax Expenditure Report for FY 2027 are extended through FY 2031, while proforma expenditures are estimated based on the assumptions that: no new credits are generated beginning TY 2027, but previously generated credits are allowed to be carried forward until utilized or expired under current law. Though not included in these revenue estimates, this credit’s repeal could increase state expenditures through additional students attending public schools that would have otherwise attended private schools.

Table 4. Baseline and Pro Forma QEEC Utilization

(\$ million)	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Baseline	\$106	\$109	\$109	\$109	\$109
Proforma	\$97	\$22	\$9	\$4	\$2
Revenue Effect	\$8	\$87	\$100	\$105	\$107

Section 6

This section of the bill proposes to amend O.C.G.A. § 48-7-29.27 by increasing the Qualified Child Tax Credit from \$250 per qualified child to \$1,250. Furthermore, it proposes to make the tax credit refundable. The estimated revenue impacts of the qualified child tax credit are based on the following data and assumptions:

- Age distribution: The 2023 American Community Survey (ACS) from the U.S. Census Bureau was used to estimate the share of dependents under age six. Based on this data, approximately 19.8% of Georgia residents in the 5–9 age group are age 5.

- Population projections: Estimates from the Governor's Office of Planning and Budget (OPB) for the 0–4 and 5–9 age groups were used to project the eligible population of children ages 0–5. These estimates are shown in Table 5 below.

Table 5. Estimated Population Ages 0-5

	TY 2027	TY 2028	TY 2029	TY 2030	TY 2031
Pop (0-5)	796,455	799,112	802,229	801,174	800,227

- Baseline expenditures are derived from the HB 136 LC 50 1259S fiscal note, calculated as the average of the high and low estimates.
- Proforma expenditures are calculated by multiplying the projected eligible population by \$1,250.

Table 6 shows the baseline, and proforma projected tax expenditures for this credit, assuming that the proposed changes impact revenues upon filing of returns. Thus, for example, TY 2027 pro forma credits would reduce revenues in FY 2028.

Table 6. Baseline vs Pro Forma Expenditures

<i>(\$ millions)</i>	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Baseline	\$0	\$199	\$201	\$201	\$201
Pro Forma	\$0	\$996	\$999	\$1,003	\$1,001
Revenue Effect	\$0	(\$796)	(\$798)	(\$802)	(\$800)

Section 7

This section proposes to create a state earned income tax credit (EITC) equal to 20 percent of the federal EITC, subject to the taxpayer’s income for purposes of determining eligibility for the EITC remaining below the relevant eligibility limits, after adding back net operating loss (NOL) carryforwards deducted on their federal return in arriving at FAGI. Eligibility for the credit depends on, among other things, AGI being below certain limits based on filing status and the number of eligible dependents.

Based on administrative tax return data from the DOR for which federal EITC data are available (roughly 94 percent of all returns), approximately 942,000 Georgia taxpayers claimed the federal credit in tax year (TY) 2023, including about 884,000 full-year residents, 26,000 part-year residents, and 32,000 nonresidents. The total amount of federal EITC claimed was approximately \$2.8 billion, \$2.7 billion of that by full-year residents. For purposes of this fiscal note, it is assumed that the Georgia EITC would be adjusted for part-year and nonresident filers, as are most deductions and exemptions, to reflect the filer’s Georgia share of total AGI shown on the Georgia return’s Schedule 3, line 9.

We use IRS Statistics of Income (SOI) data for Georgia for the estimates. These aggregated data include returns filed for TY 2022 with a Georgia address at the time of filing, so would not include nonresident Georgia taxpayers and would also differ in counting of part-year residents, excluding those who move out of state before filing their returns for the year. If the omitted part-year filers and non-resident filers include significant numbers of EITC filers, the revenue loss estimated here would be higher. Estimation based on taxpayer simulations using Georgia DOR administrative income tax data (for e-filers only) resulted in similar, though slightly lower, revenue impact estimates. SOI data show approximately 1.01 million TY 2022 federal returns from Georgia claiming approximately \$2.8 billion of federal EITCs. Given refundability of the proposed state EITC, this implies pro forma TY 2022 Georgia EITCs of approximately \$565 million.

We project the SOI-based estimates for TY 2023 forward applying the actual cost-of-living adjustments made to EITC amounts and income limits by the IRS through TY 2025, and inflation plus population

growth from the Congressional Budget Office (CBO) and OPB, respectively, for subsequent years. Inflation is measured with a one-year lag, as the prior year’s inflation is the basis for annual inflation adjustments to EITC parameters made by the IRS.

Credits are assumed to impact state revenues at the time of filing returns. Given that TY 2027 is the first tax year affected, the first state fiscal year impacted is assumed to be FY 2028.

Table 7. Estimated State Revenue Effects of Georgia EITC

(\$ millions)	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Revenue Effect	\$0	(\$730)	(\$756)	(\$781)	(\$806)

Section 8

Cigarette Tax Changes

Section 8 of the bill changes the taxation of cigarettes by first raising the 37¢ per pack excise tax to \$1.92 for FY 2027. This rate would then be adjusted annually based on the previous year’s change in the Consumer Price Index (CPI).

Based on tobacco tax collection data from DOR, consumption of cigarettes has been in decline in Georgia. In addition to this underlying trend, cigarette consumption has been found to be responsive to prices changes as consumers reduce their consumption or choose to purchase different tobacco products in response to increases in the tax-inclusive price.

Research into cigarette consumption published in the Journal of Health Economics in 2021 found that a 1-percent increase in the final price of a pack of cigarettes results in a 0.98-percent decline, on average, in the quantity of cigarettes purchased (a -0.98 price elasticity). Other research published in 2022 in Tobacco Prevention & Cessation found that a 1-percent increase in the final price of a pack of cigarettes predicted a reduction in the quantity between 0.4 and 0.6 percent. Research published in the Journal of Health Economics in 2022 and 2023 found lower price elasticities for cigarettes, -0.4 and -0.3, respectively.

The revenue impact estimates of the proposed changes are based on the following data and assumptions:

- Based on the prevailing literature, the price elasticity of cigarette demand is assumed to be -.45, meaning that a one-percent increase in the final price of cigarettes is estimated to reduce the quantity of cigarettes consumed by .45 percent.
- Calculations based on data from Orzechowski and Walker’s “Tax Burden on Tobacco,” indicated that the final retail price of a pack of cigarettes, inclusive of all existing taxes, was \$6.83 in Georgia in 2017 and \$8.86 in 2025. The estimates assume that this trend, a 3.3 percent annual increase in the final retail price of cigarettes, will continue absent the proposed tax change. The tax-rate increases proposed under this bill will increase the retail price of cigarettes by 18.5 percent in 2027, a final retail price increase over the historical trend that is expected to be 18.2 percent by 2031. This underlying trend in the retail price of cigarettes, net of taxes, is projected to continue through 2031.
- The proposed FY 2027 tax rate of \$1.92 per pack is projected to grow based on the CBO’s February 2026 CPI forecast

Table 8 details the estimates for cigarette prices and consumption under this bill, based on these data and assumptions.

Table 8. Baseline and Pro Forma Cigarette Price and Consumption

	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Cigarette Retail Price per Pack:					
Current Law and Baseline Trend	\$9.19	\$9.49	\$9.80	\$10.13	\$10.46
Pro Forma	\$10.89	\$11.24	\$11.60	\$11.98	\$12.36
Projected Tax Rate	\$1.92	\$1.97	\$2.01	\$2.06	\$2.10
Cigarette Consumption (millions of packs):					
Baseline	305	292	280	268	257
Pro Forma	280	268	257	246	236

The fiscal impact estimates presented in Table 1 for the cigarette tax changes are based on the difference between baseline cigarette consumption at the current tax rate and pro forma consumption at the proposed tax rates.

Non-Cigarette Tobacco Product Changes

Section 8 of the bill also increases the tax rate on all non-cigarette tobacco and vapor products. The current-law tax rates on these products are:

- Loose and smokeless tobacco: 10 percent of wholesale cost price
- Large cigars: 23 percent of wholesale cost price
- Little cigars: 2.5 mills
- Vapor (closed system): 5¢ per fluid milliliter
- Vapor (open and single use): 7 percent of wholesale cost price

Under the bill, all of these products would be taxed at 28 percent of their wholesale cost price. The revenue impact estimates of the proposed changes are based on the following data and assumptions:

- DOR data indicate that these products, at their current tax rates, raised \$92.2 million of revenue in FY 2025.
- Current budget projections forecast tobacco tax collections to decrease by 0.8 percent annually through FY 2031.
- Based on retail price data and the relative sales of these products, and assuming an average retail markup of 25 percent, the retail price of these products is expected to increase by 14.4 percent, on average, as a result of the proposed tax changes.
- The estimates assume a price elasticity for these products of -.45 percent, resulting in a decrease in demand for these products of 6.48 percent due to expected increase in retail prices.

Table 9 details the expected baseline and proforma revenues from tobacco taxes on these products for FY 2027–31 based on these data and assumptions. The difference in these two projections represents the fiscal impact estimates reported in Table 1.

Table 9. Baseline vs Pro Forma Revenues from Non-Cigarette Tobacco Products

(\$ millions)	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Baseline	\$90.8	\$90.0	\$89.3	\$88.6	\$87.9
Pro Forma	\$187.5	\$186.0	\$184.5	\$183.0	\$181.5
Revenue Effect	\$96.7	\$95.9	\$95.2	\$94.4	\$93.6