



DOAA

Georgia Department
of Audits & Accounts

Greg S. Griffin
State Auditor

March 6, 2026

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

SUBJECT: Fiscal Note
House Bill 1370 (LC 44 3495S)

Dear Chairman Blackmon:

The bill would amend Georgia’s income tax code to exclude a limited amount of tip and overtime income from taxable income, subject to an adjusted gross income (AGI) limit on eligibility for the exclusion. Under current law, this income is included in the calculation of federal and Georgia AGI and taxed as ordinary income. The bill would be effective for tax years beginning on or after January 1, 2026, and would automatically sunset December 31, 2028.

Impact on Revenue

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

Table 1. Estimated State Revenue Effects of HB 1370 LC 44 3495S

<i>(\$ millions)</i>	FY 2026	FY 2027	FY 2028	FY 2029
Revenue Effect	(\$37.1)	(\$298.1)	(\$226.1)	(\$113.6)

Impact on Expenditures

Employers would be required to report overtime wages and cash tips on a monthly or quarterly basis to the Department of Revenue (DOR). DOR may require additional personnel to address the increase in workload, but we were unable to provide an estimate at this time.

Respectfully,

Greg S. Griffin
State Auditor

Richard Dunn, Director
Office of Planning and Budget

GSG/RD/mt

Analysis by the Fiscal Research Center

The bill amends O.C.G.A. § 48-7-27 to allow Georgia taxpayers to exclude from state taxable income up to \$2,500 in qualified tip income and up to \$2,500 in overtime earnings, defined as compensation of hourly wage workers for hours worked beyond 40 per week. These limits are assumed to apply on an individual taxpayer, rather than per return, basis. The bill would be applicable to tax years beginning on or after January 1, 2026, and would automatically sunset December 31, 2028. The estimated fiscal impacts of the proposed changes in HB 1370 are based on the following data and assumptions.

Tip Income Calculations

The data for the list of occupations typically receiving tips was taken from IRS bulletin 2025-42. It was used as a source for the eligible occupation (and industry type) for tipped income deduction. Total employment and income characteristics, including annual average and median wages, were sourced from the Bureau of Labor Statistics (BLS).

The revenue estimate uses a microsimulation model built on 2023 individual income tax return data from the Georgia Department of Revenue (DOR), restricted to full-year residents. Current-law tax liability is computed under 2025 tax law; a proforma calculation then incorporates the proposed tips deduction to estimate the revenue effect.

Following steps summarize the estimation methodology:

1. Synthetic population: A synthetic population of 950,870 individuals is generated to approximate the number of workers in tip-eligible occupations. Annual earnings are drawn from a log-normal distribution calibrated to match observed mean and median earnings for this workforce.
2. Merge with tax return data: Synthetic earnings are grouped into \$5,000 income bins. Within each bin, individuals are randomly ordered. The synthetic population is merged with Georgia individual income tax return data for full-year residents. Matching occurs within income bins and random ranks to ensure one-to-one assignment between synthetic individuals and actual tax filers in comparable income ranges.
3. Tipping behavior: Tip income is modeled along two margins:
 - a. Extensive margin: It is assumed that not everyone in the eligible occupation receives a tip. The BLS data shows that 75.33 percent of those employed in an eligible occupation receive a tip. Moreover, according to estimates from a 2024 study (Basker et al), many individuals who earn tips do not report them for tax purposes, though underreporting is most prevalent among those who receive tips in small cash amounts. Thus, the synthetic tip earning population is reduced, based on this study's findings, to account for this underreporting.
 - b. Intensive margin: For tipped workers, the share of earnings attributable to tips varies with income. Rather than assuming a constant tip share, the model specifies a piecewise-linear schedule. The high-end tip share is based on the average tip share observed in the Beverage & Food Industry, which typically has the largest share of income from tips, estimated at 47.8%. A population-weighted average of tip shares across all tipped workers yields 17.5%, which is assumed to apply at the median income. The median income for tipped workers is set at \$34,000, corresponding approximately to the median federal adjusted gross income among individuals with positive tip earnings in the simulation. The 95th percentile of federal adjusted gross income among tipped workers is approximately \$70,000. A minimum tip share of 5.8% is imposed, representing the average tip share in low-tip occupations according to BLS data.

Under these specifications, the tip share follows a piecewise-linear schedule that declines with income: from 47.8 percent at lower earnings to 17.5 percent at the median (\$34,000), then more steeply to a floor of 5.8% at the 95th percentile (\$70,000), where it remains fixed. This specification reflects empirical patterns in tip-reliant occupations (Basker et al., 2024) and ensures that tip income does not scale proportionally with earnings at higher income levels.

Current net tax liability is calculated under current law, in particular the tax rate of 5.19 percent, before any proposed tax rate cuts in the current session. Pro forma net tax liability is calculated including the tip deduction, based on the data and assumptions described above. Tip income is calculated as earnings multiplied by the income-dependent tip share. Proforma taxable income and net tax liability are then recalculated under the deduction scenario.

Overtime calculations

The overtime deduction simulation is based on data from the Current Population Survey Annual Social and Economic Supplement (CPS ASEC), 2022–2025, restricted to Georgia residents with valid wage and hours information. Using CPS person-level survey weights, the weighted population of Georgia workers with positive overtime hours is estimated at approximately 1.01 million workers with mean income of \$89,000 and median wage of \$70,000. These parameters are used to generate a synthetic wage distribution that reflects the observed earnings profile of overtime workers.

Since the analysis is restricted to workers with observed overtime, no separate participation (extensive margin) assumption is necessary. On the intensive margin, the share of annual wages attributable to overtime income is drawn from CPS data and found to rise with income: 1% below \$25,000, 4% from \$25,000–\$50,000, 8% from \$50,000–\$75,000, 10% from \$75,000–\$200,000, and 13% above \$200,000.

Similar to the tips deduction simulation, a population of Georgia taxpayers consistent with CPS-weighted overtime population was generated from the individual tax return data. Overtime income was estimated based on the overtime share outlined above. The pro forma net tax liability is calculated including the overtime deduction.

Projections of Estimates

Population growth projections from OPB are applied to the resulting estimates from the microsimulations. Table 2 shows the revenue effect for TY 2026-2031.

Table 2. Estimated Revenue Effects for Tips and Overtime Income deduction

<i>(\$ millions)</i>	TY 2026	TY 2027	TY 2028
Tip Income deduction	\$48.7	\$49.2	\$49.7
Overtime Income deduction	\$174.0	\$175.8	\$177.5
Total	\$222.7	\$225.0	\$227.2

To calculate the potential revenue loss for FY 2027–31 (Table 1), the estimate assumes that withholding will be impacted at the time of signing. Two months, or 16.6 percent of a year of withholding impacts FY 2026. The remainder of TY 2026 based deductions, 83.3 percent, are assumed to impact FY 2027. For TY 2027 and 2028 50-50 tax-year-to-fiscal-year fiscal split is assumed.

These estimates are static and assume no behavioral response to the exemption. Actual fiscal impacts may differ if the policy alters labor supply, reporting behavior, or wage structures. The CPS-ASEC data also rely on self-reported hours and earnings, which may misstate actual overtime activity.

The bill extends eligibility to certain employers governed by the National Railway Labor Act (NRLA), whose overtime compensation structures may differ from those defined under the Fair Labor Standards Act. Due to data limitations, the fiscal estimate does not separately model NRLA-governed compensation structures.