DOAA
Georgia Department
of Audits & Accounts

Greg S. Griffin
State Auditor

January 7, 2026

Honorable Martin Momtahan
Chairman, Code Revision
501-A Coverdell Legislative Office Building
Atlanta, GA 30334

SUBJECT: Fiscal Note
House Bill (LC 50 1275)

Dear Chairman Momtahan:

The bill would 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, 2025, and ending before January 1, 2029.

Impact on Revenue
Georgia State University's Fiscal Research Center (FRC) estimated that the bill would decrease revenue as shown in Table 1. The estimate assumes no behavioral response to the exemption (i.e., law does not result in change in tipped income or overtime income). Actual fiscal impacts may differ if the policy alters labor supply, reporting behavior, or wage structures. Finally, the high case estimate relies on self-reported hours and earnings, which may misstate actual overtime activity. The appendix provides details of the analysis.

Table 1. Estimated State Revenue Effects of LC 50 1275

($ millions)	FY 2026	FY 2027	FY 2028	FY 2029
Low Case	($232.6)	($367.7)	($256.6)	($130.8)
High Case	($354.8)	($570.1)	($403.6)	($207.0)

Impact on Expenditures
The Department of Revenue would be able to implement the bill's provisions 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 bill amends Article 2 of Chapter 7 of Title 48 of O.C.G.A. to exclude certain income from state taxable income. Specifically, for tax years (TY) 2025–28, the bill allows taxpayers to exclude up to $25,000 in qualified tips and up to $12,500 in overtime premium earnings from their Georgia taxable income, provided these amounts are included in federal adjusted gross income (AGI). Eligibility for the exclusions is restricted to taxpayers with federal AGI at or below $150,000 for single or married-filing-separately filers, and $300,000 for married-filing-jointly filers, as stated in the legislation.

The estimated fiscal impacts of the proposed changes in LC 50 1275 are based on the following data and assumptions.

Tip Income Calculations
The base scenario comes from the fiscal impact of federal tax changes, particularly the elimination of tax on tipped income, enacted as part of the OBBBA (HB 1), calculated by the Joint Committee of Taxation (JCT). The base scenario is subject to the limitations proposed in this bill, specifically that the AGI limits are cliffs and not phase-out thresholds as is the case in HB 1.

We calculate a representative tax year of activity based on the average of JCT estimates and assume it grows at 4 percent per year in nominal terms, consistent with medium-run projections for wage and salary growth (roughly 2 percent real growth plus 2 percent inflation). Then, to find the taxable base for Georgia, that national tip income was shared down to Georgia at 3.31 percent of the national numbers. The Treasury Department has defined 70 occupations that customarily and regularly received tips on or before December 31, 2024. Some of the most common occupations are waiters and waitresses, bartenders, gambling service workers, barbers, hairdressers, dining room and cafeteria attendants, and bartender helpers. The 3.31 percent represents Georgia's share of national income for the 50 most common tip-earning occupations. Table 2 shows estimated Georgia tip income for TY 2025–28.

Table 2. Tax Base of Tip Income in Georgia

($ millions)	TY 2025	TY 2026	TY 2027	TY 2028
Tip Income in Georgia	$1,006	$1,046	$1,088	$1,132

Because the average annual tip income reported on W-2 forms is about $6,000 per taxpayer, and assuming there will not be adjustments for the income cliff, in comparison to the phase-out, the proposed $25,000 cap is not expected to bind for most filers. The taxable base is then multiplied by the current statutory income tax rate of 5.19 percent to estimate the tax liability for TY 2025–28, as shown in Table 3.

Table 3. Estimated State Tax Liability for Tip Income

($ millions)	TY 2025	TY 2026	TY 2027	TY 2028
Tax Liability	$52.2	$54.3	$56.5	$58.8

To calculate the potential revenue loss for FY 2026–29 (Table 4), we assume that due to the effective date of this bill and the likely date it would be signed into law, all income exempted for TY 2025 would fall to the time of filing returns in FY 2026 and TY 2026 would similarly fall to FY 2027. We assume a 50-50 tax-year-to-fiscal-year fiscal split for TY 2027 and TY 2028, as taxpayers adjust their withholding.

Table 4. Estimated State Revenue Effects for Tip Income

($ millions)	FY 2026	FY 2027	FY 2028	FY 2029
Estimate	($52.2)	($82.5)	($57.6)	($29.4)

Overtime Calculations
Overtime calculations follow the same structure as the tip income estimates. We present the base scenario, stemming from the JCT calculations, and an alternative scenario based on the U.S. Census Bureau's Current Population Survey – Annual Social and Economic Supplement (CPS-ASEC).

For the base scenario, we calculate a representative tax year of activity based on JCT estimates and assume it grows at 4 percent per year in nominal terms, consistent with medium-run projections for wage and salary growth (roughly 2 percent real growth plus 2 percent inflation). Then, to find the taxable base for Georgia (Table 6), national overtime premium earnings were shared down to Georgia to 3.98 percent, based on Georgia's share of overtime hour wages calculated from CPS-ASEC for 2024.

Table 6. Tax Base of Overtime Premium Earnings in Georgia

($ millions)	TY 2025	TY 2026	TY 2027	TY 2028
Overtime Income, Low Case	$3,476	$3,615	$3,760	$3,910

The taxable base is then multiplied by the current statutory income tax rate of 5.19 percent to estimate the tax liability for TY 2025–28, shown in Table 7.

Table 7. Estimated State Tax Liability for Overtime Premium Earnings, Low Case

($ millions)	TY 2025	TY 2026	TY 2027	TY 2028
Tax Liability, Low Case	$180.4	$187.6	$195.1	$202.9

To calculate the potential revenue loss for FY 2026–29 (Table 8), we assume that due to the effective date of this bill and the likely date it would be signed into law, all income exempted for TY 2025 would fall to the time of filing returns in FY 2026 and TY 2026 would similarly fall to FY 2027. We assume a 50-50 tax-year-to-fiscal-year fiscal split for TY 2027 and TY 2028, as taxpayers adjust their withholding.

Table 8. Estimated State Revenue Effects for Overtime Premium Earnings, Low Case

($ millions)	FY 2026	FY 2027	FY 2028	FY 2029
Low Case	($180.4)	($285.2)	($199.0)	($101.5)

The high-case scenario is calculated using microdata from the CPS-ASEC for the years 2022–24 for the state of Georgia and follows these steps:

- The sample is restricted to labor-force participants, excluding observations with implausibly high weekly hours.
- For each employed individual, the usual number of hours worked per week is compared with the 40-hour Fair Labor Standards Act (FLSA) threshold.
- An hourly wage is imputed from annual wage income divided by total annual hours worked.
- Because the exclusion applies only to the overtime premium portion (50 percent above the regular rate, required by the FLSA), each worker's annual overtime premium earnings are computed as half of the hourly wage multiplied by total annual overtime hours.
- Individuals are grouped into tax units using CPS household and family identifiers to approximate filing units. Family income is used as a proxy for federal AGI.
- Eligibility restrictions are applied at the tax-unit level; only filers with AGI below $150,000 (single or separate) or $300,000 (joint) are eligible for the exclusion.
- For eligible tax units, the total overtime premium earnings are capped at $12,500 per return.

The resulting aggregate estimate for Georgia represents the state overtime premium wage base in nominal dollars after accounting for income thresholds and caps. The compound annual growth rate of the tax base between 2022–24 was 7.4 percent. This rapid growth is assumed to have been impacted by high inflation over that period. The high estimates assume overtime pay to increases annually by 5.5 percent through 2028, as shown in Table 9.

Table 9. Overtime Premium Earnings Base in Georgia

($ millions)	TY 2025	TY 2026	TY 2027	TY 2028
Overtime Premium in Georgia	$5,830	$6,151	$6,489	$6,846

The taxable base is then multiplied by the current statutory income tax rate of 5.19 percent to estimate the tax liability for TY 2025–28 (Table 10).

Table 10. Estimated State Tax Liability for Overtime Premium Earnings, High Case

($ millions)	TY 2025	TY 2026	TY 2027	TY 2028
Tax Liability, High Case	$302.6	$319.2	$336.8	$355.3

To calculate the potential revenue loss for FY 2026–29 (Table 11), we make the same tax-year-to-fiscal-year conversion as in the low case.

Table 11. Estimated State Revenue Effects for Overtime Premium Earnings

($ millions)	FY 2026	FY 2027	FY 2028	FY 2029
High Case	($302.6)	($487.6)	($346.0)	($177.6)

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 revenue impacts presented in Table 1 are the summations of the estimates shown in Tables 4 and 8 for the low case, and Tables 4 and 11 for the high case.