



DEPARTMENT OF AUDITS AND ACCOUNTS

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January 23, 2019

Honorable David Wilkerson
State Representative
409-G Coverdell Legislative Office Bldg.
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
House Bill (LC 43 1053)

Dear Representative Wilkerson:

The bill would allow personal income taxpayers to choose whether to itemize deductions or take the standard deduction on their state tax returns, regardless of the choice made on the federal return. Under current law, Georgia taxpayers are required to use the same method (e.g., itemize or standard deduction) when filing their state return as they did on their federal return. The bill would be effective for all tax years beginning on or after January 1, 2019.

Impact on State Revenue

Georgia State University's Fiscal Research Center (FRC) estimated that the bill would reduce state revenue by approximately \$370 million in fiscal year 2020, the first year of the bill's full effect (Table 1). The revenue loss would drop in fiscal year 2021 before rising to \$380 million by fiscal year 2024. Details of FRC's analysis are in the appendix. FRC's analysis includes the assumption that the second PIT rate cut from HB 918 is ratified.

Table 1. Estimated State Revenue Effects of LC 43 1053

(\$ millions)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Revenue Loss	(\$51)	(\$370)	(\$322)	(\$344)	(\$364)	(\$380)

Impact on State Expenditures

The Department of Revenue stated that the bill would result in additional one-time costs of approximately \$63,000. Approximately \$40,000 would be required for information technology modifications and another \$23,000 for tax form and documentation changes, as well as staff training.

Sincerely,

A handwritten signature in black ink that reads "Greg S. Griffin".

Greg S. Griffin
State Auditor

A handwritten signature in blue ink that reads "Kelly Farr".

Kelly Farr, Director
Office of Planning and Budget

GSG/KF/mt

Analysis by the Fiscal Research Center

Estimates presented herein are derived from a microsimulation model of Georgia taxpayers using an anonymized sample of tax year (TY) 2016 tax return data, consisting of approximately 3.56 million returns representing about 79 percent of all filers in the state for that year. Adjustments are made to the sample results to make them approximately representative of all filers. Modeled changes in aggregate tax liabilities are then applied to baseline PIT revenue projections for the state fiscal years affected, through FY 2024. Baseline projections through FY 2023 were provided by the Office of Planning and Budget (OPB); the FY 2024 baseline number is an FRC extension from the trend at the average projected growth rate over the prior five years.

The model first accounts for tax changes resulting from the federal Tax Cut and Jobs Act (TCJA) and Georgia HB 918, simulating tax liabilities under current law. TCJA changes modeled include the following:

- Itemized deduction changes
 - Limitation on state and local tax (SALT) deductions to no more than \$10,000 per year
 - Elimination of casualty and theft loss deduction
 - Elimination of miscellaneous deductions subject to the 2 percent of AGI floor
 - Repeal of Pease limitations on itemized deductions
- Increased federal standard deduction, including induced switching from itemized to standard deductions (taxpayer chooses deduction type that minimizes combined state and federal taxes)
- Repeal of the moving expense deduction (taken before as a reduction in AGI)

Because of data limitations, certain changes could not be modeled, including the following:

- Reduced limit on the size of new mortgages for which interest may be deducted
- Elimination of deduction for home equity loan interest
- Increased limit for deduction of charitable contributions
- Changes to deductibility or exclusion of alimony payments
- Changes to or clarification of the deductibility of certain gambling-related expenses

Modeled HB 918 modifications to the Georgia PIT are as follows:

- Georgia standard deduction amounts of \$4,600 for Single and Head of Household filers, \$6,000 for Married Joint filers, and \$3,000 for Married Separate filers
- Top bracket marginal tax rate from 6.0 percent to 5.75 percent
- Effective January 1, 2020, cut top bracket marginal tax rate from 5.75 percent to 5.50 percent. The current law baseline, according to OPB, assumes that this second rate cut is ratified in accordance with HB 918.

The model then determines each filer's tax-minimizing choice of itemized or standard deductions for federal and state taxes independently, as the subject bill would allow, for tax years 2019 with a top rate of 5.75 percent and 2020 with a top rate of 5.50 percent. Tax liabilities are recalculated with the new deduction choices and the sample results are gross-up to represent the estimated reduction in tax liabilities for all filers as a percent of baseline liabilities. The estimated reductions are applied to the OPB baseline forecast to calculate the projected state revenue impacts, with

timing adjustments to reflect the retroactive effectiveness of the proposed bill and to adjust to fiscal years.

Table 2 below provides details of the timing adjustments, with tax year liabilities split across the fiscal years in which the impacts of the bill on state collections would be realized. Table 3 provides baseline revenue projections as well as proforma projections reflecting the proposed decoupling.

Table A2. Timing Assumptions for FY Impact of TY Changes to PIT

Tax Year of Change in Liability:	Fiscal Year Impacted:					
	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
TY 2019	17%	75%	8%			
TY 2020		42%	50%	8%		
TY 2021			42%	50%	8%	
TY 2022				42%	50%	8%
TY 2023					42%	50%
TY 2024						42%

Table 3. Baseline and Proforma Projected State PIT Revenues

(\$ millions)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
	OPB Baseline Forecast					FRC Proj.
Baseline PIT Revenue	\$12,304	\$12,754	\$12,808	\$13,646	\$14,449	\$15,091
% Change over prior year	5.67%	3.66%	0.42%	6.54%	5.89%	4.44%
Proforma PIT Revenues	\$12,254	\$12,384	\$12,486	\$13,302	\$14,085	\$14,711
% Change over prior year	5.24%	1.07%	0.82%	6.53%	5.89%	4.44%
% Change from baseline	-0.41%	-2.90%	-2.51%	-2.52%	-2.52%	-2.52%
Effect of Decoupling	(\$51)	(\$370)	(\$322)	(\$344)	(\$364)	(\$380)