



DOAA

Georgia Department
of Audits & Accounts

Greg S. Griffin
State Auditor

February 16, 2022

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

SUBJECT: Fiscal Note
House Bill 1064 (LC 43 2172EC)

Dear Chairman Blackmon:

The bill would exempt from income taxation certain income received by Georgia taxpayers under the age of 62 as retirement benefits from the United States armed forces. Amounts exempted would be 1) up to \$17,500 plus 2) up to an additional \$17,500 of such income provided that the taxpayer has at least \$17,500 of income from other sources that is included in calculation of their Georgia taxable income. Survivor benefits and retirement benefits for those age 62 or older are not covered by this bill but remain eligible for exclusion as retirement income under O.C.G.A. §48-7-27(a)(5), subject to the conditions and limitations therein. The bill would be effective July 1, 2022 and would be applicable to all tax years beginning on or after January 1, 2022.

As such, it is assumed not to impact tax collections during fiscal year 2022; that is, tax year 2022 collections impacts are assumed to be realized through reduced withholding, estimated, or final tax payments after June 30, 2022.

Impact on State Revenue

Georgia State University's Fiscal Research Center (FRC) estimated that the bill would decrease state revenue in fiscal years 2023 by approximately \$78 million before annual reductions drop to \$55.5 million to \$58.0 million in FY 2024 (Table 1). The higher first year reduction is due to the inclusion of more than 12 months of revenue reductions in the period. The effective date allows the exemption for the entire tax year 2022, but no loss can occur until July 1, 2022 (FY 2023). In addition, the FY 2023 amount includes revenue loss in January to May 2023. The appendix provides details of the analysis.

Table 1: Estimated Revenue Effects of LC 43 1732

(\$ millions)	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
High	(\$78.7)	(\$58.0)	(\$59.6)	(\$60.5)	(\$61.1)
Low	(\$77.5)	(\$55.5)	(\$55.6)	(\$55.7)	(\$55.8)

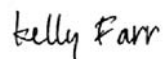
Impact on State Expenditures

The Department of Revenue (DOR) would incur annual costs of \$87,719 for an additional auditor and one-time costs of \$2,025 for a computer and other equipment. The position would be needed for manual verification of income sources during individual income tax audits.

Respectfully,



Greg S. Griffin
State Auditor



Kelly Farr, Director
Office of Planning and Budget

GSG/KF/mt

Analysis by the Fiscal Research Center

According to the Department of Defense (DoD) Statistical Report on the Military Retirement System for FY 2020 (the latest available), 101,134 persons retired from the U.S. military resided in Georgia as of September 2020, of whom 91,901 were receiving military retired pay. Growth in the number of retirement-pay recipients in Georgia from 2011 to 2020 was about 0.6 percent per year, on average, but growth has slowed. In 2019 and 2020, growth average only 0.35 percent per year. We assume, for purposes of this note, growth from 2020 to 2021 at 0.35 percent.

Though neither the 2019 nor the 2020 Statistical Report provided state-level breakdowns by age, the 2018 and earlier reports revealed disparate growth between retirement-pay recipients over versus under age 65. Over the 2015-2018 period, the under-65 group declined by about 0.8 percent per year while the over-65 group was growing at a rate of 2.6 percent per year. In 2018, the share of retirement-pay recipients under age 65 was 55.3 percent, down from 57.7 percent in 2015. We assume these trends have continued such that as of 2021, retirement-pay recipients under age 65 account for about 52.9 percent of the total, or 48,786 recipients.

Further age breakdowns were available only on military retirees national. These data show that, of those nationally under age 65, the share under age 62 was 80.7 percent in 2020, down from 81.7 percent in 2018. We assume that, in 2021, the share of under-65 retirement-pay recipients in Georgia that is under age 62 has continued to fall, to 80.2 percent, resulting in 2021 retirement-pay recipients under age 62 of 39,126.

After 2021, we assume annual growth of this under-62 group of between -1.2 and -0.4 percent annually. The high and low case projections of under-62 retirement-pay recipients in Georgia are presented in Table 2 below.

Table 2: Projected Total Military Retirement-Pay Recipients Under Age 62

	TY 2022	TY 2023	TY 2024	TY 2025	TY 2026	TY 2027
High	39,722	39,564	39,405	39,247	39,090	38,934
Low	39,403	38,930	38,463	38,001	37,545	37,095

Average military retired pay differs by age as well, with the average for Georgia recipients over age 65 at \$27,668 annualized as of September 2018, the most recent period for which this age breakdown is available, and for those under age 65 at \$26,282. Payments are adjusted annually, effective January 1, based on the consumer price index (CPI) inflation rate for the 12 months ended September 30 of the prior year. For purposes of this note, the average for under-62 retirement-pay recipients is assumed to be the same as for all under-65 recipients.

Adjusting the 2018 figure for the official cost-of-living adjustment (COLA) rates (2.8, 1.6, 1.3, and 5.9 percent for 2019 through 2022 respectively), the average retirement pay for under-62 recipients in 2022 is assumed to be \$29,448.

After 2022, average retirement pay is assumed to increase, in the low case, at rates based on the Wall Street Journal’s survey of economists. The survey’s consensus inflation expectations, which are reported as year-over-year rates at June 30 and December 31 through 2024, are used to estimate year-over-year rates as of the end of the third quarter each year, specifically 4.05 percent for 2022 (which determines the 2023 COLA), 2.57 percent for 2023, and 2.36 percent for 2024. COLAs for 2026 and 2027 are assumed to be the same as for 2025, 2.36 percent. For the high case, allowing for current inflation to subside more slowly, rates derived from the New York Fed’s Consumer Expectations Survey are used, specifically 5.8 percent for 2022, 4.65 percent for 2023, and 3.5 percent for 2024. Rates assumed for the final two years in the high case are the same as for the low.

Resulting average and total retirement pay for 2022-27 are presented in Table 3.

Table 3: Projected Average & Total Military Retirement Pay for Recipients Under Age 62

(Totals in Millions)	TY 2022	TY 2023	TY 2024	TY 2025	TY 2026	TY 2027
Average Pay:						
High	\$29,448	\$31,156	\$32,605	\$33,746	\$34,542	\$35,357
Low	\$29,448	\$30,641	\$31,428	\$32,170	\$32,929	\$33,706
Total Pay:						
High	\$1,169.7	\$1,232.7	\$1,284.8	\$1,324.4	\$1,350.3	\$1,376.6
Low	\$1,160.3	\$1,192.8	\$1,208.8	\$1,222.5	\$1,236.3	\$1,250.3

To estimate the tax liability associated with this income, further assumptions are made. First, it is assumed that non-disabled retirees, who account for 93.2 percent of Georgia retirement-pay recipients and 96.1 percent of retirement pay in 2020, work and earn at least \$17,500, thus qualifying for the full, \$35,000 exemption. Average retirement pay for all non-disabled recipients in 2020 was \$29,155, though for retired officers (about 23 percent of the total), the average was \$46,599, so they would only be able to exempt about 75 percent of their pay at 2020 rates. Thus, based on 2020 average pay rates for non-disabled officers and enlisted (of any age), roughly 94 percent would likely be below the \$35,000 cap. This share would be higher for the under-62 group, however, given their lower average pay, but would decline as COLAs push average pay rates higher. We thus assume that for 2022 pay to non-disabled retirees, 95 percent would be exempted; the exempted share is assumed to decline to 90 percent for 2027.

For disabled retirement-pay recipients, only 6.8 percent of total recipients, 100 percent of retirement pay is assumed to be exempted. Disabled enlisted recipients' average retirement pay is significantly below the lower \$17,500 cap, so would be fully exempted regardless of their earned income. The average for disabled officers is higher, but they account for only about 1 percent of total recipients. Taking all groups together, we assume 95.3 percent would be exempted in 2022, dropping to 90.7 percent in 2027.

Finally, based on 2019 tax return data for full-year residents who do not already qualify for a retirement income exclusion, the average effective tax rate under current law is estimated to be about 4.92 percent. This rate is applied to the estimated total of exempted pay to estimate the tax liability on that pay absent the proposed exemption. These exempted pay and tax liability estimates are shown in Table 4.

Table 4: Exempted Pay & Tax Liability for Retirement-Pay Recipients Under Age 62

(\$ millions)	TY 2022	TY 2023	TY 2024	TY 2025	TY 2026	TY 2027
Exempted Pay:						
High	\$1,114.8	\$1,163.4	\$1,200.8	\$1,225.6	\$1,237.1	\$1,248.6
Low	\$1,105.8	\$1,125.8	\$1,129.8	\$1,131.3	\$1,132.7	\$1,134.0
Tax Liability:						
High	\$54.8	\$57.2	\$59.1	\$60.3	\$60.9	\$61.4
Low	\$54.4	\$55.4	\$55.6	\$55.7	\$55.7	\$55.8

With the exception of TY 2022, these tax liability figures are adjusted to fiscal year basis assuming that tax collections are substantially all through withholding and thus are spread evenly over the year, with the first five calendar months' withholding payments collected in the fiscal year ending in June of that calendar year and the balance collected in the following fiscal year. For example, 7/12 of the TY 2023 and 5/12 of the TY 2024 tax liabilities would be collected in FY 2024. For TY 2022, given the effective date of the bill, it is assumed that all of the impact on collections will fall in FY 2023. The results are shown in Table 1 of the fiscal note.