



DEPARTMENT OF AUDITS AND ACCOUNTS

270 Washington St., S.W., Suite 1-156
Atlanta, Georgia 30334-8400

Greg S. Griffin
STATE AUDITOR
(404) 656-2174

January 13, 2021

Honorable James Beverly
State Representative
509-H Coverdell Legislative Office Bldg.
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
House Bill (LC 43 1713)

Dear Representative Beverly:

The bill would create a state earned income tax credit equal to 20 percent of the federal earned income credit (EITC). The state credit would be provided if the federal credit would have been allowed after adding back any federal net operating loss carryforward to income used to determine eligibility for the credit. It should be noted that this bill differs from House Bill LC 43 1726 only in that the state credit amount is 20 percent of the federal credit rather than 10 percent. The bill would be effective for tax years beginning on or after January 1, 2021.

Impact on State Revenue

Georgia State University's Fiscal Research Center (FRC) estimated that the bill would cost between \$507.7 million and \$572.6 million in fiscal year 2022 (see **Table 1**). Depending on assumptions, the costs would slightly decrease or rise to \$654.9 million by fiscal year 2026. The attached appendix details the analysis.

Table 1. Estimated State Revenue Effects of LC 43 1713

<i>(\$ millions)</i>	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
High Case	(\$572.6)	(\$593.5)	(\$614.9)	(\$634.7)	(\$654.9)
Low Case	(\$507.7)	(\$504.9)	(\$502.1)	(\$499.4)	(\$496.6)

Impact on State Expenditures

We estimated that additional costs for the Department of Revenue (DOR) would total approximately \$1.3 million annually and \$9,200 in one-time costs (**Table 2**). Annual costs are largely attributed to additional postage, though the estimate includes three audit staff and two staff

in Taxpayer Services Division that processes returns and tax credits. Approximately one million taxpayers are expected to qualify for the credit, resulting in additional workload for DOR's Taxpayer Services Division.

Table 2. Estimated DOR Costs

	One-Time Costs	Annual Costs
Audit Division		
- Two Auditors, One Tax Examiner, and Postage		
	\$5,500	\$176,000
- Postage		\$472,500
Taxpayer Services Division		
- 2 Tax Examiners	\$3,700	\$100,000
- Printing and Postage		\$520,000
Total	\$9,200	\$1,268,500

Sincerely,

/s/ Greg S. Griffin
 Greg S. Griffin
 State Auditor

/s/ Kelly Farr
 Kelly Farr, Director
 Office of Planning and Budget

GSG/KF/mt/ab

Analysis by the Fiscal Research Center

The following summarizes the facts and assumptions used in the above estimates:

The credit proposed by LC 43 1713 would be equal to 20 percent of the federal earned income tax credit (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 federal adjusted gross income (AGI). Eligibility for the credit depends on, among other things, AGI being below certain limits depending on the number of eligible dependents and married-filing-joint filing status (vs. all others).

Based on administrative tax return data from the Department of Revenue (DOR), approximately 977,000 Georgia taxpayers claimed the federal EITC in TY 2018, including about 916,000 full-year residents, 26,000 part-year residents, and 28,000 nonresidents. The total amount of federal EITC claimed was approximately \$2.66 billion, \$2.51 billion of that by full-year residents. For purposes of this fiscal note, it is assumed that the Georgia EITC would be adjusted, 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.

Approximately 2,000 filers reported federal NOL carryforwards on their Georgia returns, where they are an addition to federal AGI in arriving at Georgia AGI and taxable income. Reported NOL carryforwards are added to reported federal AGI for comparison to the relevant EITC eligibility limits.

Using a microsimulation model of the proposed credit, together with the DOR return data for TY 2018, it is estimated that about 967,000 Georgia filers would have received the Georgia EITC in an aggregate amount of about \$516.1 million for TY 2018 had the proposed law been in effect at the time.

This amount is projected forward for the high and low case estimates as follows:

- High case projections assume growth at the rate of population growth as projected by the Office of Planning and Budget as of 2019, plus inflation at actual rates through TY 2021 and 2 percent per annum thereafter. Inflation is measured by the Chained CPI for the prior year, which is the basis for annual inflation adjustments to EITC parameters made by the IRS.
- Low case projections assume a 0.55 percent annual decline in EITC amounts claimed, the average annual change from 2013 to 2018.

Credits are assumed to impact state revenues at the time of filing of returns. Given that TY 2021 is the first tax year affected, the first state fiscal year impacted is assumed to be FY 2022.