



## DEPARTMENT OF AUDITS AND ACCOUNTS

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April 17, 2007

Honorable Chip Rogers, Chairman  
Senate Finance Committee  
Coverdell Legislative Office Building, Room 325-B  
Atlanta, Georgia 30334

SUBJECT: Fiscal Note  
House Bill 225 Substitute  
(LC 18 6428-ECS)

Dear Chairman Rogers:

This bill would change certain provisions regarding the amounts of retirement income that may be excluded from Georgia taxable net income and the requirements regarding such exclusions. The excludable amount would increase annually for those aged 65 or older until 2013 when there is no cap on the excludable amount. This bill would also change certain provisions regarding the deduction for contributions to Internal Revenue Code Section 529 college savings plans, effective for taxable years beginning on or after January 1, 2007.

The Georgia State University Fiscal Research Center provided the following narrative on the revenue impact of this bill:

This legislation has two provisions. First, it would expand the current income exclusion for certain retirement income. Second, it would alter the provisions regarding tax treatment of contributions to college retirement plans.

Under current Georgia law, a portion of retirement income for those 62 years of age or older is excluded from state income tax. The exclusion is capped at \$30,000 per person in tax year 2007 and ramps up to \$35,000 in tax year 2008. The taxpayer may include up to \$4,000 of earned income in the amount excluded. This legislation would phase in a complete exclusion of retirement income for those 65 years of age or older beginning in 2009. This exclusion retains the current provision regarding

earned income.

The phase-in schedule under this legislation is:

<b>Year</b>	<b>Exclusion Amount</b>
2009	\$65,000
2010	\$100,000
2011	\$150,000
2012	\$200,000
2013	No Cap

Census Bureau data was used to determine the number of elderly and the amounts of social security, wage and non-wage income received by the elderly. This data was stratified by income levels to provide an income distribution. Income levels were reduced by the \$35,000 income exclusion and by social security income since it is also excluded from income. Estimates of standard and itemized deductions were also subtracted to estimate taxable income by income level. The Census Bureau data indicated much higher levels of elderly income than measured by Georgia income tax return data. Therefore, the estimated income was reduced by a factor of 40% to account for this difference. Finally, specific tax rates by income level were used to determine the tax revenue for each income level.

The table below summarizes the expected revenue decrease due to the expanded income exclusion.

<u>Year</u>	<u>Tax Revenue Decrease</u>
2009	\$ 14,144,674
2010	\$ 27,203,680
2011	\$ 80,646,848
2012	\$ 104,467,133
2013	\$ 142,370,020

The second provision affects contributions to college savings plans. Under current Georgia law, contributions to the Georgia Higher Education Savings Plan (GHESP) may be deductible from Georgia taxable income up to a maximum of \$2,000 a year per beneficiary. The maximum deduction for each beneficiary decreases by \$400 for each \$1,000 of federal adjusted gross income over \$100,000 for a joint return or \$50,000 for a separate or single return, and is available when an itemized Georgia and federal income tax return is filed.

This proposal would eliminate the current phase-out of the deduction based on adjusted gross income. In addition, it would allow others beyond parents and guardians who claim the beneficiary as a dependent to claim the deduction. It also

eliminates the requirement that those claiming the deduction itemize deductions on their returns. This proposal increases incentives to participate and contribute to Georgia's 529 College Savings Plan and takes a step to bring the plan's provisions in line with those of most other states' plans.

TIAA-CREF provided data and analysis regarding participants in Georgia's plan. This data includes distribution of accounts by income level, filing status and exemptions. This data was used to determine the incremental impact of the proposed legislation. The estimated reduction in individual income tax revenue is:

2007	\$2,500,438
2008	\$2,843,558
2009	\$3,207,925
2010	\$3,588,074

These estimates assume increased penetration of accounts in the plan due to the improved incentives.

Sincerely,

/s/ Russell W. Hinton  
State Auditor

/s/ Shelley C. Nickel, Director  
Office of Planning and Budget