DOAA
Georgia Department of Audits & Accounts

Greg S. Griffin
State Auditor

February 6, 2024

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

SUBJECT: Fiscal Note
House Bill 1021 (LC 50 0661)

Dear Chairman Blackmon:

The bill would increase the personal income tax exemption for each dependent from $3,000 to $4,000. The effective date of the bill is July 1, 2024, and the change will apply to taxable years beginning on or after January 1, 2024.

Impact on State Revenue

Georgia State University's Fiscal Research Center (FRC) estimated that the bill would decrease state revenue as shown in **Table 1.** FRC estimated the impact at two personal income tax rates—5.49% (current law) and 5.39% (proposed law and OPB budget projections). Neither estimate includes the possible 0.1% rate reductions that could occur in future years if certain conditions are met.

Due to an expected implementation date in late FY 2024, the revenue impact in FY 2024 is lower than a 12-month period and the impact in FY 2025 is higher than a 12-month period. The appendix provides details of the analysis.

Table 1. Estimated State Revenue Effects of HB 1021 LC 50 0661

($ millions)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Cost at 5.49%	($19.7)	($152.8)	($118.8)	($119.1)	($119.3)	($119.6)
Cost at 5.39%	($19.3)	($150.1)	($116.6)	($116.9)	($117.1)	($117.4)

Impact on State Expenditures

The Department of Revenue would be able to implement the provisions of the bill 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

Under current law, taxpayers are afforded a $3,000 per dependent exemption against their taxable income, and HB 1021 proposes to increase that amount to $4,000. A microsimulation model on the tax year (TY) 2021 data was used to model the difference between current-law (TY 2024) tax liabilities and those under the proposed law. The microsimulation indicated that if the TY 2024 tax structure and rate were in place during TY 2021, a $1,000 increase in the personal exemption for dependents would have effectively reduced income tax collections by $117.3 million.

The amount of exempted income and reduction of income tax revenues are assumed to grow based on the population of dependent children. U.S. Census population estimates for children aged 0–19 were used to estimate growth between 2021 and 2022. The Office of Planning and Budget's population projections (vintage 2023) for the same ages were used to grow this revenue impact through TY 2029. Based on these data and projections, the population of dependent children is expected to grow by .3 percent on average from 2021 through 2029, with slower growth in earlier years and increasing expected growth after 2023.

Under current law, the flat tax rate of 5.49 percent is in effect beginning for TY 2024, with scheduled decreases of 0.1 percent each year, if certain look-forward and look-back conditions are met. Given the uncertainty of the conditions being met for any given year, Table 2 below provides tax year revenue effects assuming a constant 5.49 percent rate. However, given that budget projections assume enactment of the proposed 0.1 percent rate reduction effective January 1, 2024, the table also provides estimates assuming a constant 5.39 percent tax rate. Further rate reductions, if triggered, would further reduce the revenue cost of the dependent exemption increase from the period such reduction is effective.

Table 2. Estimated Reduction in Tax Revenues TY 2024–29

($ millions)	TY 2024	TY 2025	TY 2026	TY 2027	TY 2028	TY2029
Cost at 5.49%	($118.2)	($118.6)	($119.0)	($119.2)	($119.4)	($119.9)
Cost at 5.39%	($116.0)	($116.5)	($116.8)	($117.0)	($117.2)	($117.7)

The tax year estimates in Table 2 are converted to fiscal year revenue impacts for Table 1 under the assumption that the impact on collections would be primarily through withholding. TY 2024 reductions would impact withholding upon passage with 16.6 percent impacting FY 2024 revenues and the remainder impacting FY 2025 assuming withholding is adjusted effective May 1, 2024. The amount of the revenue impact realized in FY24 depends on the timing of enactment and implementation of new withholding table, an earlier implementation increasing the FY24 impact and reducing that of FY25, and vice versa for a later implementation. After this initial year approximately 46 percent of a current year effect is assumed to be realized in the same Fiscal Year with the balance falling in the following.