DEPARTMENT OF AUDITS AND ACCOUNTS

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January 19, 2021

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

SUBJECT: Revised Fiscal Note
House Bill (LC 43 1714)

Dear Representative Beverly:

The original fiscal note for LC 43 1714, dated January 11, 2021, has been revised and replaced. The revised fiscal note corrects the implementation costs for the Department of Revenue.

The bill would expand the child and dependent care credit under O.C.G.A. §48-7-29.10. First, it would increase the state credit from 30 percent of the credit claimed on the federa l tax return to 100 percentage of the federal amount. Second, the bill would state credit would become fully refundable. Currently, the credit is not refundable and cannot be carried forward. 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 reduce state revenues by $104.6 million in FY 2022 (**Table 1**). The reduction was estimated at $118.9 million by FY 2026. The attached appendix details the analysis.

Table 1. Estimated State Revenue Effects of LC 43 1714

($ *millions*)	**FY 2022**	**FY 2023**	**FY 2024**	**FY 2025**	**FY 2026**
Change in State Revenue	($104.6)	($107.2)	($111.0)	($114.8)	($118.9)

Impact on State Expenditures

The Department of Revenue estimated $170,000 in annual costs and $1,825 in one-time costs associated with the bill. The agency estimated the need for one tax examiner at an annual cost of $50,500 (salaries and benefits), as well as $119,500 in annual printing and mailing costs. The new position would have one-time costs for equipment and supplies.

Sincerely,

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

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

GSG/KF/mt

Analysis by the Fiscal Research Center

The proposed bill would amend O.C.G.A. §48-7-29.10 by replacing the 30 percent credit rate under current law, which is applied to the federal child and dependent care credit claimed by the taxpayer on their federal return to determine the Georgia credit amount, with a credit rate of 100 percent.

The bill would also make this credit refundable. Under current law, it is limited to the amount of the taxpayer's income tax liability and unutilized amounts of the credit may not be carried forward to be applied against future periods' tax liability.

These proposed changes are analyzed using a microsimulation model, with tax year (TY) 2018 administrative tax return data from the Department of Revenue (DOR), to estimate their impact on tax liability of filers for that year, but with reported amounts adjusted to account for the effects of the current 5.75 percent top tax rate in the state, down from 6.0 percent in TY 2018. The lower top rate reduces the tax liability against which the nonrefundable credit can be applied, thus reducing utilization, all else the same. The following summarizes reported utilization of the credit as well as estimated utilization after adjusting for the tax rate change:

- 239,275 filers claimed the child and dependent care credit on their Georgia returns.
- At 30 percent of the federal credit, reported Georgia credits totaled $41,990,316.
- Credits utilized against TY 2018 tax liability totaled $41,068,245.
- The difference between available and utilized credits, the a mount unutilized, was $922,071.

  1Adjusting for the lower tax rate, it is estimated that unutilized credits would have been $1,017,299. This figure represents the estimated revenue loss in TY 2018 if the credit had been made refundable for that year.

The proforma additional revenue loss, in TY 2018, from the increased credit rates is simulated by applying the incremental credit rate, 70 percent, to the reported federal credit amount. The proforma loss in TY 2018 from these incremental credit amounts is estimated to be $97.9 million. Taken together with the effect of refundability above, the total proforma revenue loss in TY 2018 is estimated to be $98.9 million.

This amount is adjusted to state fiscal years assuming it would impact revenues at the time of filing of returns, and is grown to the projection periods shown in Table 1 by the growth rates of personal income tax revenues as reported through FY 2020 and as projected beyond that by the state fiscal economist as of October 2020.