

Federation of Tax Administrators, October 2018

Fiscal Research Center

Tacking with the Windfall: TCJA Impacts on Georgia's State Revenues and Taxpayers

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TCJA Impacts on Georgia's State Revenues and Taxpayers

TCJA Windfall for Georgia: *How much?*

- PIT and CIT effects: ~ \$6.8 billion over 5 ½ years, FY 2018-23
 - ~ 8.1% of projected baseline PIT+CIT revenues
- Personal provisions of TCJA account for ~ \$5.5 billion
 - ~ 7.8% of projected baseline PIT revenues

TCJA Impacts on Georgia's State Revenues and Taxpayers

TCJA Windfall for Georgia: *Why?*

- Historical Federal Tax Code Conformity
 - Business conformity:
 - Federal taxable income w/ state adjustments
 - Shorter NOL carryback period
 - No bonus depreciation
 - No domestic production activities deduction
 - Historical personal conformity:
 - Federal AGI w/ state adjustments
 - NOT personal exemptions, standard deduction
 - **Federal itemized deductions, incl. SALT**

TCJA Impacts on Georgia's State Revenues and Taxpayers

Conformity to TCJA (and DTRA EA, BBA)

- Significant business provisions not adopted:
 - Expansion of bonus depreciation
 - Limitation on net business interest deduction
 - Expansion of section 179 qualified property
 - Modified depreciation rules for farm machinery
 - GILTI
 - 20 percent qualified business income deduction

TCJA Impacts on Georgia's State Revenues and Taxpayers

Conformity to TCJA (and DTRA EA, BBA)

- Business provisions w/ largest FY 2018-23 revenue impact (\$ *millions*):
 - Disallowed excess farm loss deduction ~ \$367 gain
 - Pre-2018 REIT deferred foreign income ~ \$360 gain
 - NOL deduction limit ~ \$293 gain
 - Disallowed non-farm NOL carrybacks ~ \$200 gain
 - Sec. 174 R & E expense capitalization ~ \$124 gain
 - Widened availability of cash accounting ~ \$124 loss
 - Increased Sec. 179 limits ~ \$109 loss
- Net total, all business provisions ~ \$1,274 gain

TCJA Impacts on Georgia's State Revenues and Taxpayers

Conformity to TCJA -

■ Personal Provisions Adopted

- Elimination of
 - misc. itemized deductions subject to 2% floor
 - casualty and theft loss deductions
 - moving expense deductions
- Changes to
 - Mortgage interest deductions
 - Gambling loss deductions
 - Treatment of alimony income/deductions

TCJA Impacts on Georgia's State Revenues and Taxpayers

Conformity to TCJA -

- Personal Provisions Adopted (cont'd)
 - Temporarily reduced AGI floor for medical expense deductions
 - Increased limit on charitable contributions & disallowed deduction for athletic event seating
 - Repealed Pease limits on itemized deductions
 - Imposed limit of non-business SALT deductions
- Not adopted: QBI (pass-through) deduction

TCJA Impacts on Georgia's State Revenues and Taxpayers

Analysis of Personal Provisions

- Estimated by microsimulation
 - Except: Charitable contributions, mortgage interest, gambling losses, and alimony changes
 - TY 2015 administrative data, 3.45 million e-filers
 - ~ 77% of all filers
 - Weighted to reflect filing status, itemizer status, and income distributions of all filers
 - Includes state forms and federal 1040 and Sched. A data
 - Model allows for itemizers to switch to standard deduction to minimize combined tax liability
 - ~ 46% of itemizers switch
 - 81% take standard deduction after TCJA vs. 66% before

TCJA Impacts on Georgia's State Revenues and Taxpayers

Analysis of Personal Provisions

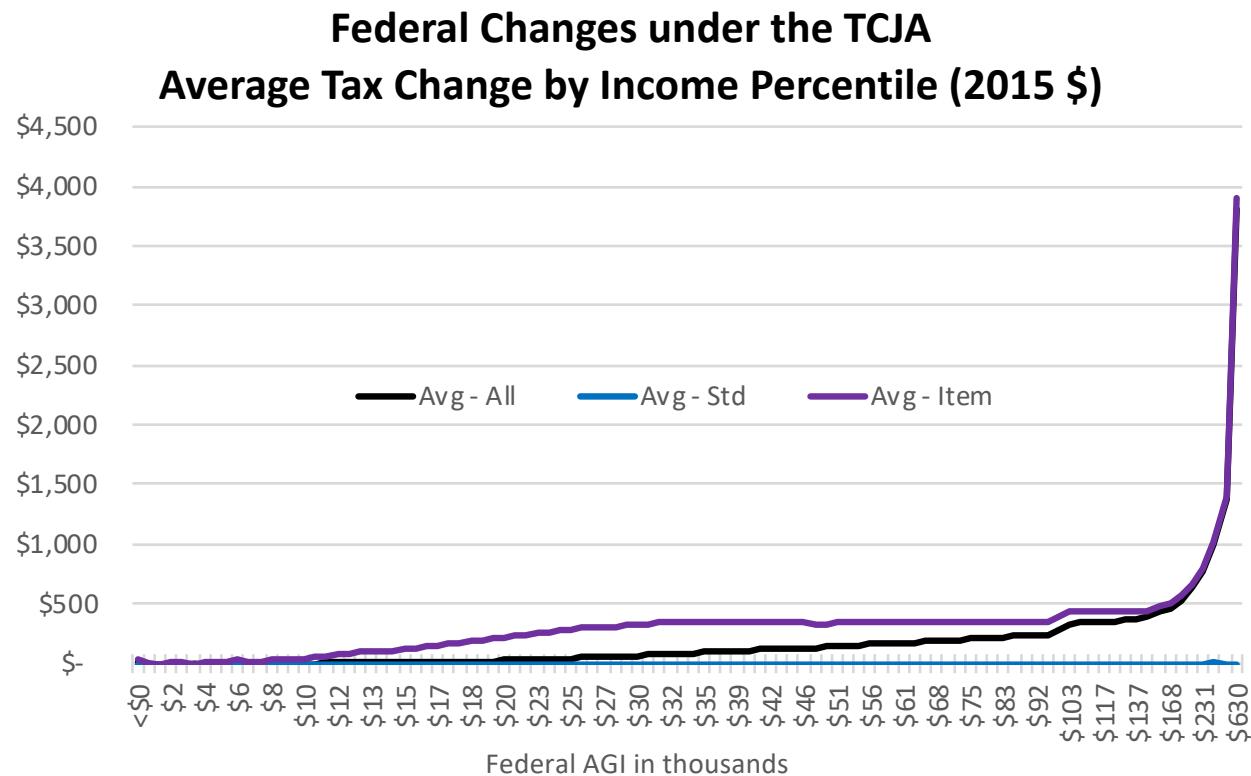
- Estimated revenue effects, FY 2018-23
 - Not-modelled provisions ~ \$284 million gain
 - Modelled TCJA changes ~ \$5,226 million gain
- Largest factors in modelled results
 - Total itemized deductions reduced by ~ 17%*
 - SALT deductions reduced by ~ 35%*
 - SALT accounts for ~ 54% of I.D. reduction
 - Repeal of misc. deductions accounts for ~ 48%, with higher medical deductions offsetting ~ 2%

* before accounting for switching to standard deduction

TCJA Impacts on Georgia's State Revenues and Taxpayers

Analysis of Personal Provisions

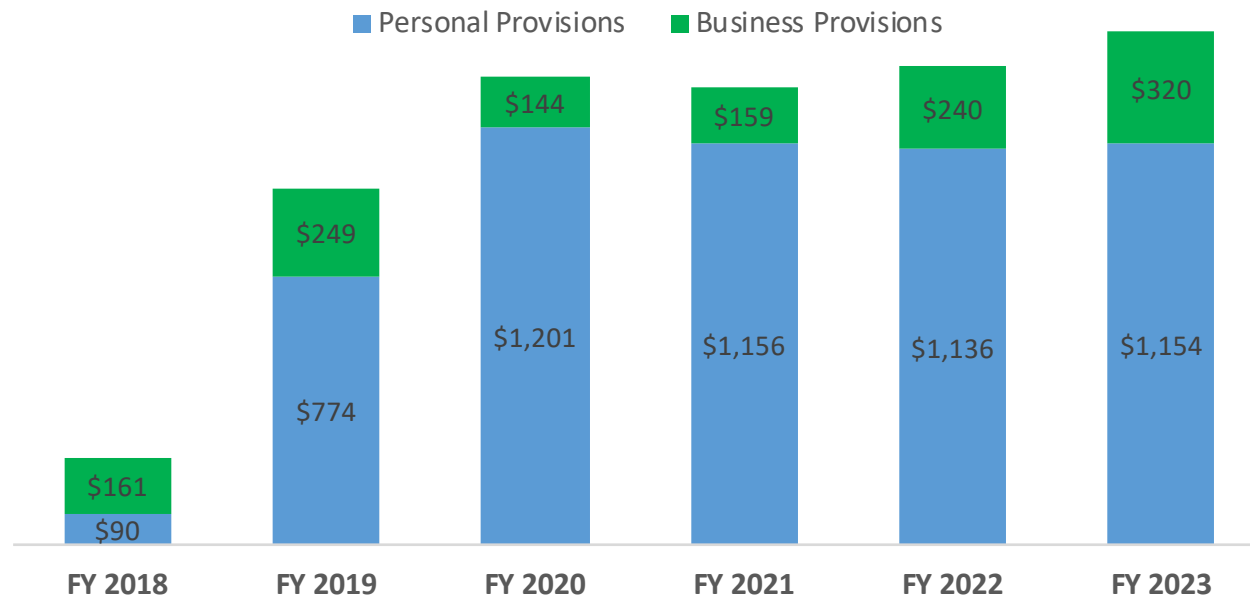
- Distributional effects of TCJA on state tax liability



TCJA Impacts on Georgia's State Revenues and Taxpayers

Summary of the Windfall: All Provisions

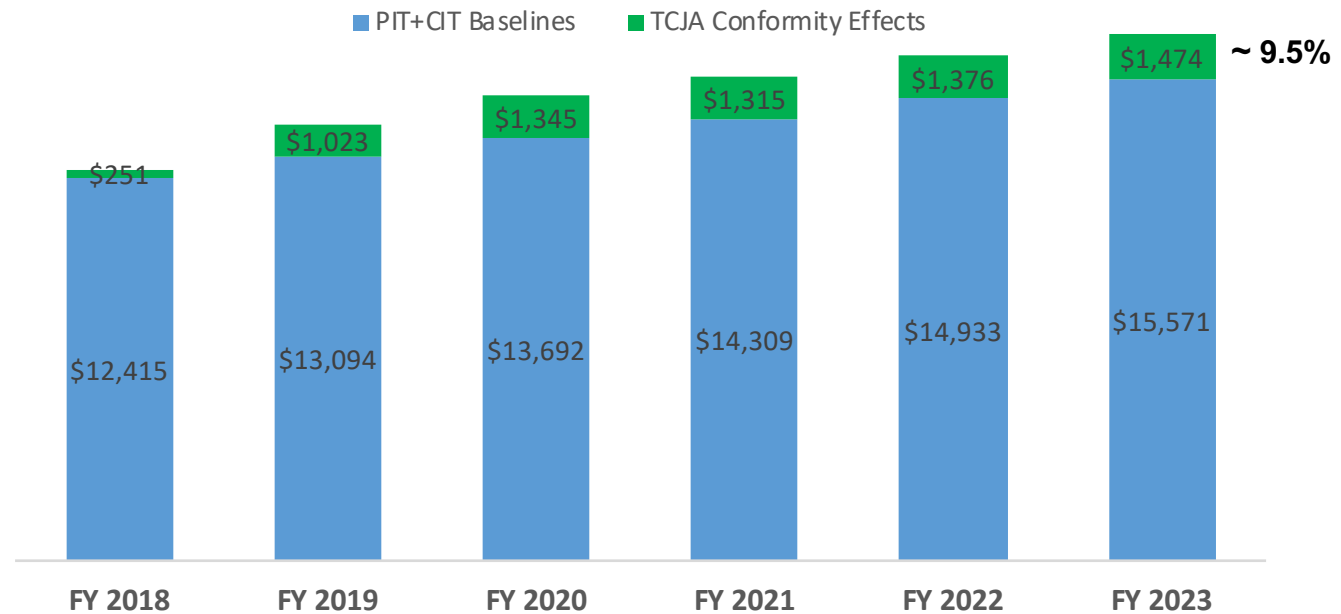
Conformity Effects of TCJA Provisions on State Revenues (\$ *millions*)



TCJA Impacts on Georgia's State Revenues and Taxpayers

Summary of the Windfall: All Provisions

PIT+CIT Baseline Revenues* and Conformity Effects of TCJA (\$ millions)



* GA Office of Planning and Budget estimates through FY 2022

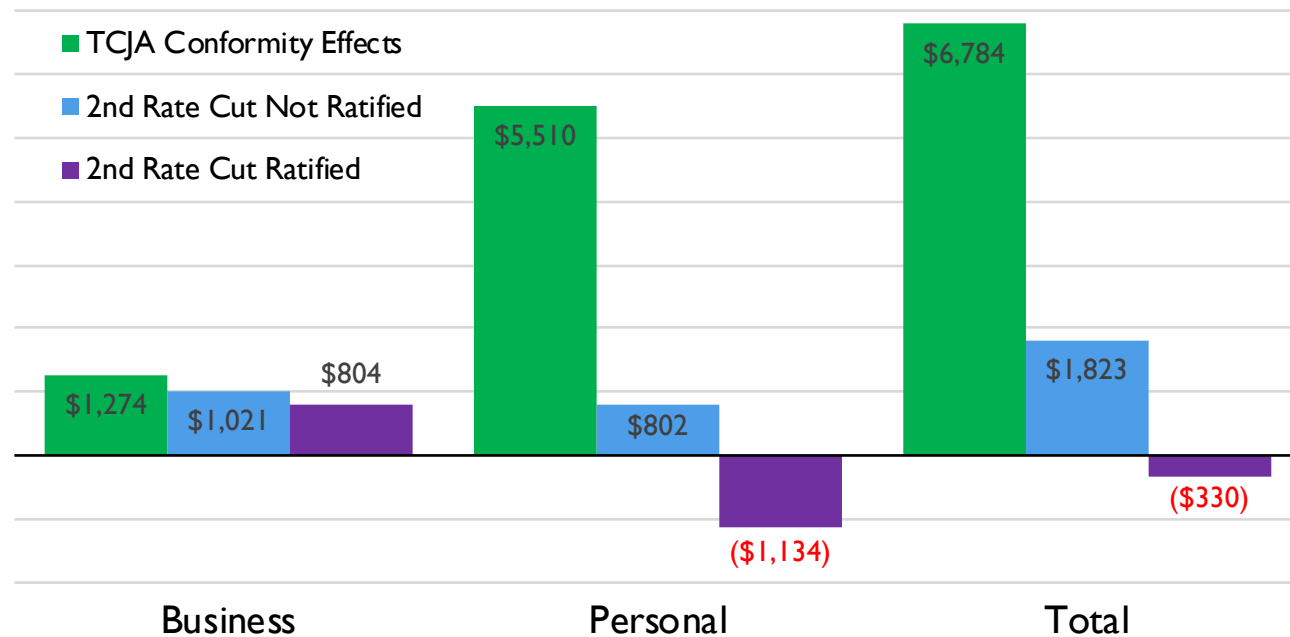
TCJA Impacts on Georgia's State Revenues and Taxpayers

The State Response: HB 918

- Effective for 2018
 - Doubled standard deduction (\$4.6k single, \$6.0k married)
- Effective Jan 1, 2019
 - Reduce flat CIT rate from 6.0% to 5.75% percent
 - Reduce top PIT rate from 6.0% to 5.75% percent
- Effective Jan 1, 2020, subject to ratification by General Assembly and Governor
 - Reduce flat CIT rate from 5.75% to 5.50% percent
 - Reduce top PIT rate from 5.75% to 5.50% percent

TCJA Impacts on Georgia's State Revenues and Taxpayers

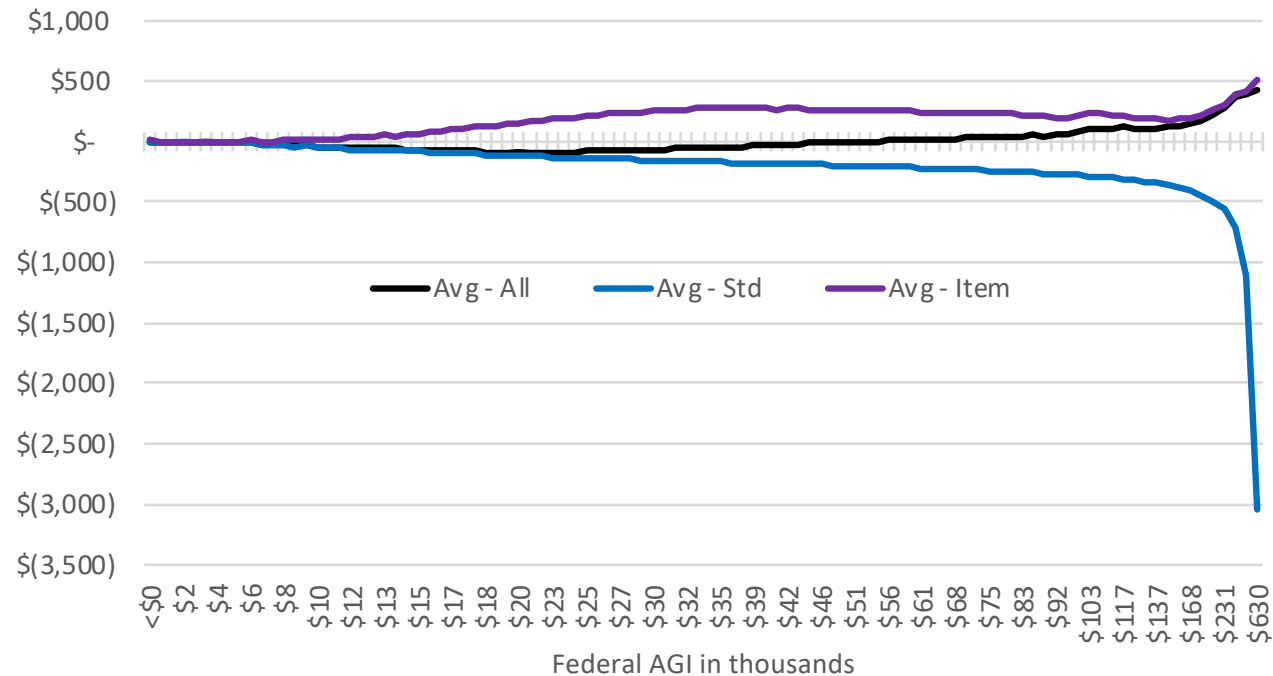
TCJA Conformity and HB 918 Effects FY 2018-23



TCJA Impacts on Georgia's State Revenues and Taxpayers

Distributional Effects: TCJA & the State Response

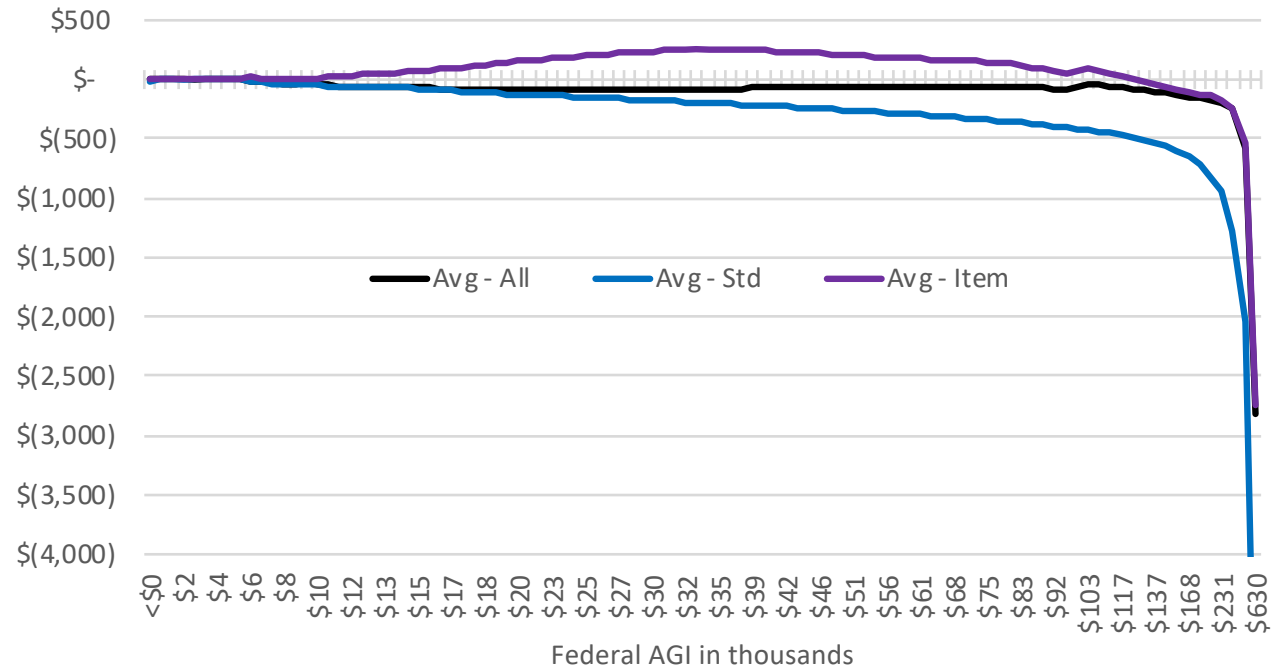
Federal Changes with Dbl Std Deduct, 5.75% Top Rate
Average Tax Change by Income Percentile (2015 \$)



TCJA Impacts on Georgia's State Revenues and Taxpayers

Distributional Effects: TCJA & the State Response

Federal Changes with Dbl Std Deduct, 5.5% Top Rate
Average Tax Change by Income Percentile (2015 \$)





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Thanks!