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

Fiscal Research Center

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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
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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
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Conformity to TCJA (and DTRAEA, 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
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Conformity to TCJA (and DTRAFA, 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
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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
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
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
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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
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Analysis of Personal Provisions

- Distributional effects of TCJA on state tax liability

Federal Changes under the TCJA
Average Tax Change by Income Percentile (2015 $)

Federal AGI in thousands
Summary of the Windfall: All Provisions

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

<table>
<thead>
<tr>
<th></th>
<th>FY 2018</th>
<th>FY 2019</th>
<th>FY 2020</th>
<th>FY 2021</th>
<th>FY 2022</th>
<th>FY 2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Provisions</td>
<td>$161</td>
<td>$249</td>
<td>$1,201</td>
<td>$1,156</td>
<td>$1,136</td>
<td>$1,154</td>
</tr>
<tr>
<td>Business Provisions</td>
<td>$90</td>
<td>$774</td>
<td>$144</td>
<td>$159</td>
<td>$240</td>
<td>$320</td>
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</tbody>
</table>
# 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)

<table>
<thead>
<tr>
<th>Year</th>
<th>Baseline Revenues</th>
<th>TCJA Conformity Effects</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2018</td>
<td>$12,415</td>
<td>$251</td>
</tr>
<tr>
<td>FY 2019</td>
<td>$13,094</td>
<td>$1,023</td>
</tr>
<tr>
<td>FY 2020</td>
<td>$13,692</td>
<td>$1,345</td>
</tr>
<tr>
<td>FY 2021</td>
<td>$14,309</td>
<td>$1,315</td>
</tr>
<tr>
<td>FY 2022</td>
<td>$14,933</td>
<td>$1,376</td>
</tr>
<tr>
<td>FY 2023</td>
<td>$15,571</td>
<td>$1,474</td>
</tr>
</tbody>
</table>

* GA Office of Planning and Budget estimates through FY 2022

~ 9.5%
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

<table>
<thead>
<tr>
<th></th>
<th>FY 2018-23</th>
</tr>
</thead>
<tbody>
<tr>
<td>TCJA Conformity Effects</td>
<td>$5,510</td>
</tr>
<tr>
<td>2nd Rate Cut Not Ratified</td>
<td>$802</td>
</tr>
<tr>
<td>2nd Rate Cut Ratified</td>
<td>($1,134)</td>
</tr>
<tr>
<td>Total</td>
<td>$6,784</td>
</tr>
</tbody>
</table>

Business: $1,274
Personal: $1,021
Total: $1,823

($330)
Federal Changes with Dbl Std Deduct, 5.75% Top Rate
Average Tax Change by Income Percentile (2015 $)

Federal AGI in thousands

- Avg - All
- Avg - Std
- Avg - Item
Federal Changes with Dbl Std Deduct, 5.5% Top Rate
Average Tax Change by Income Percentile (2015 $)
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Thanks!