DOAA
Georgia Department of Audits & Accounts

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Tax Incentive Evaluation: Retirement Income Exclusion

DOAA summary of report prepared by Georgia State University's Fiscal Research Center

BACKGROUND

In 1981, Georgia enacted an income tax exclusion for retirement income received by taxpayers aged 62 years and over. Currently, taxpayers aged 65 and over may exclude up to $65,000, while those 62 to 64 (as well as those permanently and totally disabled) may exclude up to $35,000. The exclusion applies to retirement income such as capital gains, interest, and pensions, as well as up to $4,000 of earned income. Limits apply to individual taxpayers, so a married couple filing jointly may exclude twice the given limit. The exclusion is intended to induce retirees to live in Georgia and provide a boost to economic growth.

This review was requested by the House Ways and Means Committee and performed in accordance with O.C.G.A. § 28-5-41.1. Georgia State University's Fiscal Research Center (FRC) prepared the report.

ECONOMIC ACTIVITY

Studies indicate such exclusions play a limited role in retirees' migration, and Georgia's net in-migration for those over 65 was only 3,000 in 2019. As a result, the economic impact calculated by FRC is limited to the additional money available to retirees that can be spent on goods and services.

While the exclusion may not result in significantly more retirees in Georgia, the increased spending by consumers benefiting from the exclusion does result in additional jobs and economic activity. The figures to the right are estimated for FY 2021 by FRC, though they do not account for opportunity costs.

O.C.G.A. § 28-5-41.1 requires the analysis to include net economic activity, which includes opportunity cost. If the credited taxes had been collected and expended by the state, FRC estimated the creation of 31,182 jobs and economic output of $2.44 billion.

8,966 Jobs

$830M Value Added

$429M Labor Income

$1,416M Economic Output

REVENUE

The exclusion is estimated to grow from $1.16 billion in FY 2021 to $1.37 billion in FY 2023. In 2023, the resulting economic activity is estimated to bring in $81.3 million in new state ($41.8) and local ($39.5) tax revenue.

Finally, FRC estimated that the alternate use of the revenue would have generated $90.6 million in state revenue and $33.3 million in local revenue in FY 2021.

$1,161M Tax Expenditure

$81.3M Revenue Generated

Note: Revenue generated is projected for 2023.

COST

The Department of Revenue reported **negligible cost** associated with administering this exclusion. To the extent that this exclusion is a part of an audited tax return, it can add additional cost to the audit process.

PUBLIC BENEFIT

The exclusion provides relief to lower-income retiree households and reduces the tax burden on residents who do not directly benefit from certain public services that account for a large portion of the state budget (e.g., education).