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Fiscal Research Center

Tax Incentive Evaluation: Georgia Retirement Income Exclusion

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For:

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Executive summary

Georgia first enacted an income-tax exclusion in 1981 for otherwise taxable retirement income received by taxpayers aged 62 or over. The exclusion has been expanded several times since it was created and now allows the exclusion of up to \$65,000 of retirement income per taxpayer for taxpayers aged 65 or over and \$35,000 for those aged 62-64, including up to \$4,000 of earned income. The earned income limit was raised in 2022 legislation to \$5,000, effective in 2024. The purpose or intended state benefit of this exclusion, based on press coverage of a major expansion of it enacted in 2010, is to induce retirees to live in Georgia and provide a boost to economic growth.

The purpose of this report is to evaluate this exclusion in accordance with the provisions of O.C.G.A. § 28-5-41.1 (2021 Senate Bill 6), in terms of its fiscal and economic impacts, as well as its public benefits. This report was prepared under a contract with the Georgia Department of Audits and Accounts (GDA). Administrative tax data used in the report was obtained from the Georgia Department of Revenue (DOR).

The tax expenditure cost of this retirement income exclusion in FY 2021 was an estimated \$1.16 billion, arising from the exclusion of approximately \$28.7 billion of retirement income from taxation on approximately 947 thousand tax returns filed for TY 2020. The mean and median tax savings across these returns were \$1,205 and \$517, respectively.

Based on a review of academic literature on the factors influencing migration decisions of retirees and on the growth effects of in-migration of seniors, we find little support for the exclusion being a significant factor in inducing in-migration to the state or for in-migration of retirees being a significant driver of economic growth. As a result, we model the economic and fiscal effects of taxpayers' increased disposable income from tax savings that result from the exclusion. These tax savings are spent by the taxpayers on goods and services in the economy, and the retiree spending becomes income to the sellers of those goods and services, who then use it to pay their workers or to make other purchases.

This downstream activity from the initial boost in household spending is referred to as an induced economic impact and is estimated using the IMPLAN input-output model for Georgia. IMPLAN results suggest that the \$1.16 billion of forgone tax revenue in FY 2021 induced economic activity measuring approximately \$1.4 billion of gross output, \$830 million of value added or state GDP, and \$429 million of labor income for the estimated 8,966 jobs created. This added economic activity is estimated to result in approximately \$35 million of state and \$33 million of local tax revenues.

These economic and fiscal benefits, however, come with a cost beyond the tax expenditure, the opportunity cost or economic and fiscal benefits that would arise from the use of the \$1.16 billion for some alternate use, which we assume for simplicity to be a like amount of general-fund spending in proportion to recent state-budget spending allocations. This additional state spending is also modelled in IMPLAN to estimate economic activity and state and local revenue gains arising from it. Tables ES1 and ES2 below summarize these state and local fiscal effects, projected out to the FY 2023-27 period.

Table ES1. Retirement Income Exclusion State Fiscal Effects

<i>(\$ millions)</i>	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Revenue gains from economic impact	\$41.8	\$43.2	\$44.7	\$46.2	\$47.8
Less:					
Tax expenditure cost	(\$1,372.3)	(\$1,419.7)	(\$1,468.8)	(\$1,519.6)	(\$1,572.1)
Alternative use revenue gains	(\$90.6)	(\$93.7)	(\$96.9)	(\$100.3)	(\$103.7)
Net Fiscal Effects	(\$1,421.1)	(\$1,470.2)	(\$1,521.0)	(\$1,573.6)	(\$1,628.0)

Table ES2. Retirement Income Exclusion Local Fiscal Effects

<i>(\$ millions)</i>	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Revenue gains from economic impact	\$39.5	\$40.9	\$42.3	\$43.7	\$45.2
Less:					
Alternative use revenue gains	(\$33.3)	(\$34.4)	(\$35.6)	(\$36.9)	(\$38.1)
Net Fiscal Effects	\$6.2	\$6.4	\$6.6	\$6.9	\$7.1

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1. Introduction

In 1981, Georgia first enacted an income-tax exclusion for otherwise taxable retirement income received by taxpayers aged 62 or over. The exclusion has been expanded several times since it was created and now allows the exclusion of up to \$65,000 of retirement income, including up to \$4,000 of earned income, per taxpayer. The purpose of this report is to evaluate this exclusion in accordance with the provisions of O.C.G.A. § 28-5-41.1 (2021 Senate Bill 6), in terms of its fiscal and economic impacts, as well as its public benefits.

This report was prepared under a contract with the Georgia Department of Audits and Accounts (GDAA). Administrative tax data used in the report was obtained from the Georgia Department of Revenue (DOR). The report begins with background on the Georgia retirement income exclusion, followed by estimates of the tax expenditure and administrative costs, a discussion of income tax preferences for seniors in other states, a review of the literature, an IMPLAN analysis of economic and fiscal impacts of the exclusion, and an analysis of the distribution of tax savings and other public benefits of the exclusion.

2. Georgia's Retirement Income Exclusion – History and Overview

The Georgia General Assembly first enacted a limited exclusion of retirement income from the state income tax in 1981, under O.C.G.A. §48-7-27(a)(5). Effective for tax years (TY's) beginning on or after January 1, 1982, taxpayers aged 62 or older for any part of the year, or those permanently and totally disabled, could exclude from state taxable income up to \$2,000 of retirement income otherwise included in Georgia taxable income (Ga. L. 1981, p. 1903, § 4/HB 653). The limit was, and remains, on a per taxpayer basis, so a married couple filing jointly could exclude up to twice the given limit.

In subsequent legislation, the exclusion limit was increased several times as follows:

- to \$4,000 effective 1987 (Ga. L. 1987, p. 191, § 2/HB 87)
- to \$8,000 effective 1989, \$10,000 effective 1990 (Ga. L. 1989, Ex. Sess., p.5, § 1/HB 1)
- to \$11,000 effective 1994, \$12,000 effective 1995 (Ga. L. 1994, p.381, § 2/HB 596)
- to \$13,000 effective 1999 (Ga. L. 1998, p.1516, § 1/HB 1424)
- to \$13,500 effective 2000, \$14,000 effective 2001 (Ga. L. 2000, p.408, § 1/HB 1159)
- to \$14,500 effective 2002, \$15,000 effective 2003 (Ga. L. 2002, p.1150, § 1/HB 1313)
- to \$25,000 effective 2006, \$30,000 effective 2007, \$35,000 effective TY 2008 (Ga. L. 2003, p.665, § 4/HB 43)

In the 2010 legislative session, further increases were enacted to increase the exclusion limit for taxpayers over age 65 in five scheduled steps to \$65,000 in 2012, \$100,000 in 2013, \$150,000 in 2014, \$200,000 in 2015, and without limit beginning in 2016 (Ga. L. 2010, p.9, § 4-1/HB 1055). Taxpayers aged 62-64 or who are disabled (and under age 65) would remain subject to the \$35,000 limit. The House Ways & Means Committee chairman at the time, Rep. Larry O'Neal, said of these changes that “said the cuts should attract higher-income retirees to Georgia. That would boost the state's overall economy,” as described by the Atlanta Journal-Constitution (Tharpe, 2010). However, legislation enacted in 2012 (Ga. L. 2012, p.257, § 2-2/HB 386), would

repeal the limit increases scheduled for 2013-16, freezing the limit for filers over age 65 at \$65,000 per year.

Income that qualifies for the exclusion under current law includes, but is not limited to, “income from military retirement, interest income, dividend income, net income from rental property, capital gains income, income from royalties, income from pensions and annuities, and no more than \$4,000.00 of an individual’s earned income.” Earned income is defined as “including but not limited to net business income earned by an individual from any trade or business carried on by such individual, wages, salaries, tips, and other employer compensation.” Prior to January 1, 1989, earned income did not qualify for the exclusion in any amount. Beginning January 1, 2024, the limit for the amount of earned income that may be excluded is increased to \$5,000 (Ga. L. 2022, p.114, §§ 2-3/HB 1437).

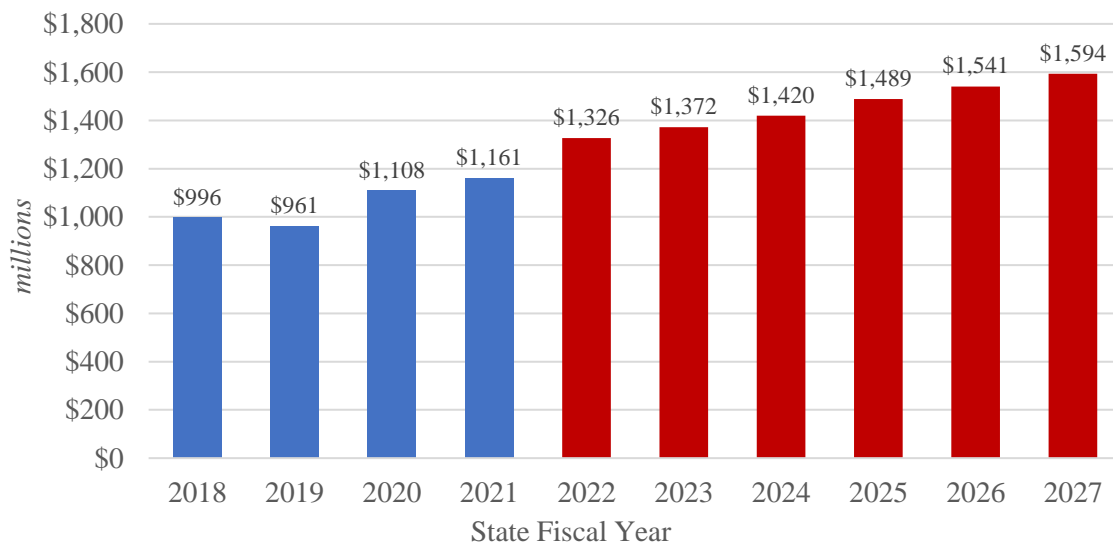
In 2018, the law was amended such that a surviving family member of a deceased veteran could exclude any income that is “based on the service record” of the deceased veteran without regard to the age of the surviving family member. Payments under the Department of Defense Survivor Benefit Plan or other DoD benefit payments to military survivors (collectively, SBP) would qualify for this exemption beginning January 1, 2018.

3. Tax Expenditure Estimates and Administrative Costs

Tax expenditure costs

The tax expenditure cost of the retirement income exclusion (RIE) was estimated using administrative income tax data from DOR in a microsimulation model to estimate the impact on individual income tax liabilities of Georgia taxpayers. Figure 1 below presents the estimated cost in foregone income tax collections for state fiscal years (FY’s) 2018-21 based on tax returns filed for tax years (TY’s) 2017-20, and projects the cost through FY 2027.

Figure 1. Estimated State Tax Expenditure for the Retirement Income Exclusion



Note: Figures through FY 2021 are estimated from DOR tax return data.

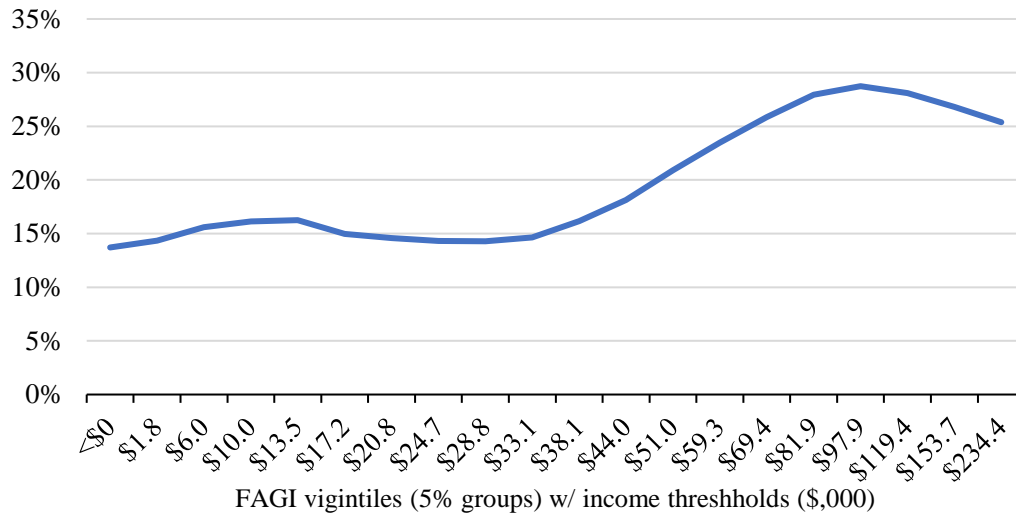
Tax expenditure costs are estimated using administrative tax return data in a microsimulation model, in which tax liabilities are recalculated assuming no exclusion of retirement income. The primary drivers of the tax expenditure cost are growth of the eligible population and of their retirement incomes, which would generally be comprised of both relatively stable components like pension income or defined-contribution plan withdrawals, and components more directly dependent on financial markets, including returns in equity and fixed-income markets. Thus, we see some fluctuations – declines or sharp rises – in excluded retirement income that corresponds to weaker or stronger years in stock and bond markets, but longer-term average growth in line with eligible population growth and inflation. For the six years ending with TY 2020, the latest for which we have tax return data, the estimated tax expenditure cost has grown at an average annual rate of about 3.5 percent, but with a low of -9.3 percent in FY 2016 (TY 2015) and highs of 17.3 and 15.3 percent in FY 2018 and FY 2020, respectively.

Given strong equity markets in TY 2021 – the total return on the S&P 500 index for the year was about 28.7 percent – and rapid overall taxable income growth as evidence by 28.6 percent gains in total state personal income tax revenues in FY 2022, the tax expenditure cost projections assume growth of the tax expenditure cost of the RIE near the upper end of the recent range for FY 2022 at 14.3 percent. For subsequent years, the FY 2015-20 average of about 3.5 percent annual growth is assumed, though FY 2025-27 estimates are adjusted for the tax changes under HB 1437 (2022), which take effect in TY 2024. Relevant changes in that bill include the repeal of the standard deduction (including the additional deductions for taxpayers who are blind or over age 65), increases in personal exemption amounts, the increased earned-income limit for the RIE, and the flat tax rate of 5.49 percent. The cost projections do not adjust for subsequent tax rate cuts in HB 1437 that could occur in TYs 2025 and 2026 because the cuts are contingent on the state’s overall tax revenue growth versus targets defined in the legislation.

Distribution of benefits to consumer households

In this section, we explore the distribution of benefit from the RIE across taxpayers at different income levels. First, Figure 2 illustrates the share of TY 2020 full-year resident returns making use of the RIE in each of twenty vigintiles or 5-percent groupings of taxpayers ranked by federal adjusted gross income (FAGI). Returns in the top two quintiles of earners, those above about \$51 thousand of FAGI in TY 2020, are about 73 percent more likely to make use of the RIE than those in the bottom two quintiles, about 25.9 percent of returns versus 15.0 percent for those below about \$28.8 thousand of FAGI. This distribution is explained in part by the distribution of senior-led households across the overall income distribution. According to the Tax Policy Center (2023), senior-led households were about 34.5 percent more likely to fall in the top two U.S. household-income quintiles than in the bottom two quintiles. Senior’s households in the bottom two quintiles of the income distribution are also much more reliant on social security and supplemental security income (Thompson and King, 2022), which is not subject to income tax in Georgia regardless of the RIE, and thus less likely to have otherwise taxable income to exclude through the RIE.

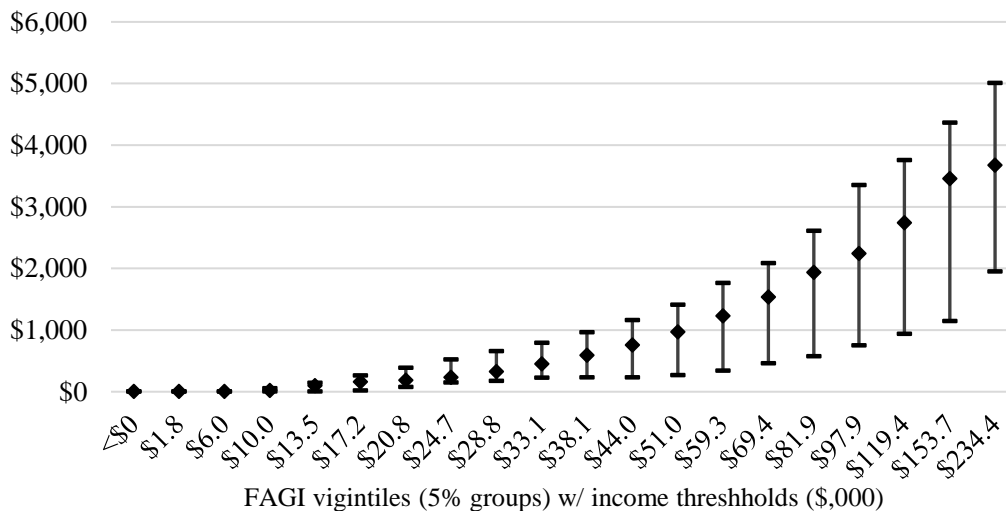
Figure 2. RIE Returns as a Share of Total Returns* by Income Level, TY 2020



* Full-year resident returns only
 Source: DOR tax return administrative data

Figure 3 shows the range of tax savings from the RIE for filers in the same twenty income groups under tax laws applicable for TY 2022. For each income group, the graph bar shows the interquartile range (i.e., half of filers’ savings are within this range) of tax savings for filers in the group, with the diamond marker signifying the median savings for the group. The patterns of tax savings after the 2024 tax changes are similar, though taxpayers between about \$17.2 and \$59.3 thousand of FAGI will save about \$104 more on average while those above about \$119.4 thousand of FAGI will save about \$75 less on average under 2024 law.

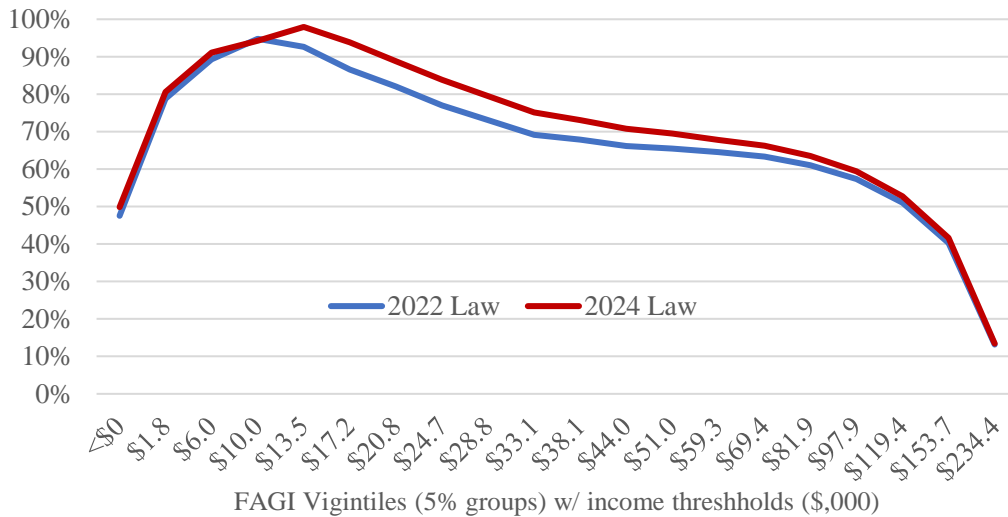
Figure 3. Tax Savings from RIE, 2022 Tax Law, by Income Level



Sources: DOR tax return administrative data and author’s microsimulation results

Figure 4 show the tax savings from the RIE in terms of how much it reduces tax liabilities of taxpayers across the income groups compared to what they would owe without the RIE. The figure shows this percent reduction in tax liability under tax laws applicable for both 2022 and 2024. As the figure illustrates, for taxpayers below \$153.7 thousand of AGI, the RIE eliminates between half and over 90 percent of the taxes that would be owed without the RIE, on average, with the largest percentage savings going to those in the bottom half of the distribution. The tax changes in HB 1437, in particular the replacement of the graduated rate structure with a flat rate, make the value of the RIE greater for taxpayers in the middle two quintiles of the income distribution.

Figure 4. Percent of Tax Liability Eliminated by the RIE, by Income Level



Sources: DOR tax return administrative data and author’s microsimulation results

4. Other States’ Taxation of Retirement Income

Of the 41 states with a general income tax, all offer some kind of income-tax break for seniors, at the very least offering a partial, age-based, or income-limited exclusion of federally taxable social security benefits. Twenty-nine states, including Georgia, fully exclude social security benefits from state income taxes (AARP 2022). Other common state income-tax breaks exclude certain federal and own-state government pension benefits.

Twenty-one states, including Georgia, offer a RIE that applies beyond these more-typical exclusions, terms varying widely as to the types of income covered, exclusion limits, age requirements, and whether there are income limits for eligibility or phaseouts. Five states, for example, exclude or exempt income from public and private defined benefit pension plans without caps or income limits. Four of those also exclude defined contribution plan (traditional IRAs, 401(k) plans, etc.) withdrawals without caps or income limits, but only one of those, Iowa, also excludes interest and dividend income in taxable accounts and none of the five exclude earned income.

The other 16 states all exclude some amount of public and private pensions, with simple dollar caps, income limits, phaseouts or in one case taxing only to the extent of employee contributions. Ten of the 16, including two starting in 2023, also exclude some amount of defined contribution plan withdrawals. Four of the 16 exclude a limited amount of taxable investment income and three exclude a limited amount of other taxable income, including earned income (two of the four through an “age deduction” that can be taken against any taxable income). Georgia, of course, falls in the last group, the three states excluding any type of income, albeit with caps and a lower cap in Georgia on earned income.

RIEs, including age deductions that are functionally equivalent, in Southeastern states other than Georgia are summarized as follows, based on information from the states’ respective revenue departments:

Alabama – Private defined benefit plan, military retirement, and specified public pension income is excluded. Beginning in TY 2023, up to \$6,000 of federally taxable retirement plan withdrawals by taxpayers over age 65 are also excluded.

Florida – No income tax

Mississippi – Public and private pensions, and federally taxable retirement plan withdrawals are excluded without limit after age 59 ½.

North Carolina – Pension income and federally taxable retirement plan withdrawals are fully taxable.

South Carolina – Pension income and federally taxable retirement plan withdrawals up to \$3,000 before age 65 and up to \$10,000 after age 65 are excluded. In addition, taxpayers over age 65 are allowed a deduction of \$15,000 that may be taken against any type of taxable income, thus allowing as much as a \$25,000 combined exclusion.

Tennessee – No income tax

Virginia – Taxpayers over age 65 are allowed a deduction of \$12,000 that may be taken against any type of taxable income, subject to a dollar-for-dollar phaseout of the deduction for federal adjusted gross income above \$50,000 (\$75,000 combined for a married couple).

5. Literature Review

As noted above in reference to the 2010 expansion of Georgia’s RIE, the expectation was that the income tax break would attract retirees to Georgia and thus boost the economy. Georgia officials are not alone in making this case, so there is considerable research into the premise of tax breaks for seniors affecting migration across states. Additional research addresses the conclusion of the argument, that in-migration of seniors boosts the economy. This section highlights the key findings of this research.

State tax breaks and senior migration

The effect of tax policy on migration choices has been a subject of study since Tiebout (1956) theorized that mobile consumer-voters will choose where to reside among local jurisdictions that “which best satisfies [his or her] preference pattern for public goods,” thus based on the given revenue-expenditure mix of the communities, all else the same. Obviously, many factors – some far less tangible – are involved in the choice, but the bundle of government services provided and the tax cost of those services are likely among them for most people considering a relocation.

Among the earlier literature on the subject, Clark and Hunter (1992) used age-specific net-migration data at the county level over the period 1970-80, compiled from Census data, to study the factors that influence migration of white males at different points in their respective lifecycles. Also controlling for a number of local economic and amenity variables, they estimated the effects of property, income, estate or inheritance, and other tax rates on net in-migration for each 5-year age cohort from 20-24 years to 70-74 and 75-plus years. They found that property-tax rates were a consistently negative and significant factor for all cohorts aged 55 or older while estate- or inheritance-tax rates were a negative factor for those aged 50-69. The other-tax category, which included sales and excise taxes, was a negative factor only for the cohorts aged 70 and above. Most relevant to this report, controlling for these taxes and a host of other factors, income tax rates were a negative factor not for the older cohorts, but rather the younger ones. Specifically, income tax rates were a negative factor for all cohorts below age 55 except those aged 40-44, had statistically zero effect on those aged 55-69, and a positive effect on net migration of those over age 70.

More recently, Conway and Houtenville (2003) used state-to-state migration flows, i.e., between paired origin and destination states, from the 1990 U.S. census to estimate the effects of the level and marginal rate of income tax for the median-income elderly households along with interactions of these variables with the amount of pension income exempted. Other tax measures included the proportions of state and local expenditures funded with “death taxes” (estate, gift, or inheritance), property taxes, sales taxes, and all other taxes; they also interacted the sales-tax variable with a dummy variable indicating the exemption of groceries from the sales tax. For each paired origin- and destination-state observation, both states’ measures of these and other variables were included in the regressions. They also ran regressions for subgroups – aged 65-74, 75-84, and 85-plus – in addition to all 65-plus migration. The authors found that origin-state tax parameters were generally not statistically significant, thus not influencing migration decisions. From the results for the destination-state tax parameters, however, they concluded that elderly households “avoid moving to states with high [death] taxes” and that “exempting food from sales taxes makes a state a more desirable destination.” Results for the income tax variables and their interactions with the exemption of pension income were less clear, but they argued the results suggest that “a high [pension] exemption is more likely to discourage out-migration and encourage in-migration the less progressive the state tax code.”

Finally, Önder and Schlunk (2015) use an approach similar to that of Conway and Houtenville (2003) applied to 1995-2000 state-to-state migration. A key difference is in how they measure the tax variables. For personal income taxes, rather than marginal income tax rates at a given income level, as in most of the literature, they divide total state (and local, if applicable) income tax revenue by aggregate personal income to get an overall average effective tax rate or average

income tax burden as a percent of personal income. The average burdens of property and sales taxes are measured the same way. Finally, they include dummy variables to indicate exemptions from sales taxes for prescription drugs, from income taxes for federally taxable social security and for pensions, and from inheritance tax.¹ The pension-exemption dummy variable, which is also interacted with the income tax rate variable, is equal to one if the state exempts at least \$6,000 of otherwise-taxable pension income.

The authors found that the lack of an incremental inheritance tax and the presence of a prescription drug exemption from sales taxes were both significant positive factors for in-migration of seniors across all age groups. They also found, like some earlier literature (Conway and Houtenville, 1998 and 2003), that higher effective property tax rates in the destination state were associated with higher in-migration while, simultaneously, higher rates in the origin state were associated with greater out-migration. They explain this apparent paradox, being both a push and a pull factor, as likely being a result of the tendency for seniors to downsize their homes when they migrate so that, in the destination state, they are paying less in property taxes than the overall average burden suggests but are getting – and are arguably attracted by – the higher level of public services funded by the overall higher property tax.

As for income taxes, Önder and Schlunk (2015) conclude that, taking into account the combined effects of the income tax rate and the pension exemption, they find that “as income taxes increase in an origin state, the elderly out-migrate significantly less, provided such state offers a meaningful pension exemption.” That is, seniors appear to prefer states with higher overall income tax burdens provided they are getting material relief from that burden in the form of a pension exemption. Like their finding with regard to property taxes, this is consistent with the notion that seniors prefer the higher level of public services funded by higher taxes provided they bear less of the tax burden themselves. However, the authors find that overall, the results for income tax rates, pension exemptions, and the interaction between the two in the destination state are “mostly inconclusive.”

Other factors consistently found to be positively related to higher in-migration of seniors include a lower relative cost of living in the destination locations, higher relative state and local health expenditures, and a sunnier, warmer climate. Migrations were also greater between bordering or otherwise relatively close states.

Economic impact of senior migration

Whether senior in-migration to a state is materially affected by income-tax exclusions of retirement income is unclear, but it is occurring nonetheless and encouraging it has long been an economic development strategy particularly for nonmetropolitan areas. We consider next what the literature has to say about the economic impact of new senior residents.

A large body of literature attempts to estimate the job creation and economic growth effects arising from consumption spending by new retiree residents, using a variety of methods and data,

¹ The inheritance-tax exemption dummy variable is equal to one if the state has no incremental inheritance tax over and above the amount eligible for a credit against the federal tax.

and arriving at similar results. Serow (2003) provides a fairly comprehensive review of North American studies, finding job creation estimates consistently around one-half job per in-migrant.

One study not reviewed by Serow, but which is fairly representative of the literature, is Woods et al. (1997), a study of 13 retirement communities in nine counties in Arkansas, Oklahoma, and Texas. Surveying retiree households sampled from the communities, they estimated expenditures of migrant-retiree households in the local economies and used these direct expenditure estimates in an IMPLAN input-output model to estimate new jobs and value added in the local economies. Estimates of jobs per retiree averaged about 0.39 over the counties, in the range of studies reviewed by Serow. Value-added estimates suggest an average multiplier effect of the households' direct expenditures of only about 0.90, or about \$22.5 thousand of added local GDP per retiree household from expenditures averaging about \$25 thousand.

Serow (2003) noted that the studies he reviewed focused “more or less exclusively on the near-term implications of retiree in-migration, which do tend to be overwhelmingly positive from an economic or fiscal perspective,” cautioning that there is “a paucity of knowledge regarding the longer term effects.” He noted the lack of analyses of the costs of the aging in place of the newcomers and observed that the jobs generated tend to be in “comparatively low-skill, low-wage service employment.”

Finally, one study that takes a more sophisticated empirical approach to the question of growth effects of senior migration is Lambert et al. (2007). These authors estimate a regional growth model of southeastern U.S. counties (in 12 states, excluding Florida) from 2000 to 2004. Outcome variables were business establishment and job growth, and they controlled for net in- or out-migration of four age cohorts – migrants aged 25-39, 40-54, 55-69, and 70-plus – in metro and non-metro counties, along with a number of economic, demographic, and other variables. The authors found positive and statistically significant job and business growth effects of in-migration of the 55-69 age cohort in non-metro counties, but no significant effect in metro counties. The 70-plus cohort had a smaller, positive effect on business establishment growth in non-metro counties, but no effect in metro ones or on job growth. A much larger growth effect is found for in-migration of the aged 40-54 cohort, with large job and business establishment growth effects in metro counties and somewhat smaller effects on non-metro job growth.

Before concluding from the results in Lambert et al. that senior migration is a significant factor in non-metro job and business growth, however, a note of caution is in order. Their younger-seniors cohort is likely, given the 55-69 age range, a majority-working cohort at the time of migration and for some years after. Many workers in this age range are not far past the peak earning years for the average American worker, generally considered to be 45-54 years based on Census data on median household income by age, and also more likely to be in their peak saving and investing years as they are approaching, but not yet at *normal* retirement age.

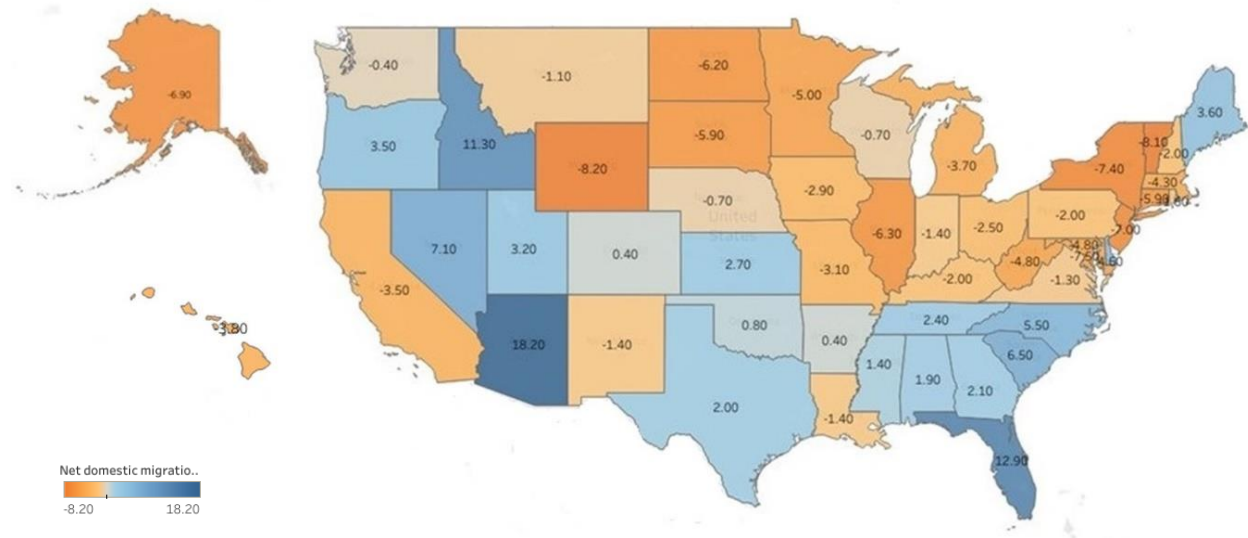
Conclusions from the literature

As Önder and Schlunk put it, evidence of RIEs inducing significant in-migration of retirees is “mostly inconclusive.” To the extent some are induced by RIEs – as opposed to cost of living, availability of healthcare services, climate, amenities, or other factors – to migrate in or to remain

rather than migrate out, the net in-migration numbers are quite small relative to the overall population of seniors statewide who benefit from the RIE.

Figure 5 presents a comparison of aged-65 and older net migration rates across all states as of 2019, based on 2015-19 American Community Survey (ACS) 5-year estimates; positive rates (blue) indicate net in-migration of seniors (Mateyka and He, 2022). During this period, Georgia ranked 13th among all states with a net seniors migration rate of about 2.1. This rate is calculated as 1,000 times the ratio of net in-migration to the prior year senior population, so a rate of 2.1 represents net in-migration equal to 0.21 percent of the senior population eligible for the RIE.

Figure 5. Net Senior Migration Rates by State, 2015-19



Source: U.S. Census Bureau (Mateyka and He, 2022)

The empirical evidence of economic growth effects of senior migration is also inconclusive. The vast majority of the literature consists not of causal empirical analysis, but of input-output or simulation estimates of job creation and induced economic activity arising from the total consumption spending of migrant retirees in their local economies. Results from the one causal study we could identify, Lambert et al. (2007), are clouded by the fact that the younger-senior cohort with an apparent positive growth impact is mostly comprised of working-age migrants, aged 55-64.

Thus, for purposes of this report, we confine our economic and fiscal impact analysis to the economic activity associated with additional disposable household income provided by the RIE, i.e., the tax savings to the eligible population equal to the tax expenditure estimates discussed above.

6. IMPLAN Economic Impact Analysis

In this section, we model the economic impact of the RIE as only induced economic activity from the additional funds flow into the economy, as the additional spending is from households' increased disposable income rather than firms direct spending on inputs. Results reported here

include estimates of employment, wages, value added, and total output associated with the induced economic impact. In addition, as explained further below, we use these economic impact estimates to produce estimates of tax revenue impacts at the state and local levels from this additional household income. All of the benefits of the exemption are deemed to flow to the consumer, and thus, the benefits modeled here are all deemed to flow directly from the full amount of the tax expenditure. The full IMPLAN model is discussed below to explain why only induced effects are used.

Model overview

To estimate the economic impact of the RIE in Georgia, we use IMPLAN, a regional input-output model that is widely used for economic impact analysis. IMPLAN estimates how an initial change in spending or revenue for any industry category works its way through a regional economy, using data on input-output relationships between any industry and its suppliers and customers within or outside the given region—in this case, the state of Georgia. IMPLAN also has data on the size of each industry in the economy in terms of revenue and employment at the state and county levels. The model uses sector multipliers to estimate the impact of the initial spending by firms on suppliers of goods and services to the sectors of interest, or on labor. This analysis uses IMPLAN model data for the year 2019, adjusted forward to represent average annual revenues and wages in 2021 dollars. Below is a discussion of the relevant IMPLAN terms used in the report.

Direct effects are the changes in terms of increased firm output (revenue) that initiate the ripple effects through the economy. For purposes of this analysis, direct effects are zero.

Indirect effects are the economic activity supported by business-to-business purchases in the supply chains of firms increasing *direct* output, which again is zero for purposes of this analysis.

Induced effects are economic activity that occurs from households spending labor income earned from the direct and indirect activities. This activity results from household purchases on consumption items such as food, housing, healthcare, and entertainment. The labor income spent to generate these effects does not include taxes, savings, or compensation of nonresidents (commuters) as these leave the local economy (leakage). For purposes of this analysis, these induced effects can be thought of as the result of downstream household spending after the initial spending increase by households benefiting from the RIE, or the multiplier effect of the initial increase in spending by eligible households.

Output is the value of production. This includes the value of all final goods and services, as well as all intermediate goods and services used to produce them. IMPLAN measures output as annual firm-level revenues or sales, assuming firms hold no inventory. Estimates of output changes resulting from the additional economic activity are then used to estimate state and local sales tax revenue.

Value added measures the contribution to state gross domestic product (GDP).

Labor income includes total compensation—wages, benefits, and payroll taxes—for both employees and self-employed individuals. Wage-gain estimates are used to estimate incremental state income tax revenue.

Employment includes full-time, part-time, and temporary jobs, including the self-employed. Job numbers do not represent full-time equivalents, so one individual may hold multiple jobs.

Economic impact induced effects

Table 3 reports the IMPLAN estimates of direct, indirect, and induced impacts for the additional household income provided by the RIE of \$1,161 million, as estimated for FY 2021. Note again that the direct and indirect impacts are zero, as the additional funds initially flow from household spending. Thus, the \$1.16 billion tax expenditure for FY 2021 is estimated to result in about \$1.42 billion of additional gross output in the economy and \$0.83 billion in added state GDP. Real economic impacts in future years would be projected to grow from these levels with the amount of the tax expenditure, based on population and income growth of eligible taxpayers.

Table 3. Tax Exemption Economic Impact IMPLAN Results

Impact Type	Employment	Labor Income	Value Added	Output
Direct Effect	0	0	0	0
Indirect Effect	0	0	0	0
Induced Effect	8,966	\$428,904,371	\$829,529,386	\$1,416,394,516
Total Effect	8,966	\$428,904,371	\$829,529,386	\$1,416,394,516

Source: IMPLAN and authors' calculations

Alternative-use economic impacts

The induced economic impacts estimated above do not account for the opportunity costs of the forgone state revenues, i.e., the economic impacts of alternative uses of the funds currently expended through the tax exemption. SB 6 requires evaluations of tax incentives to include estimates of *net* economic and fiscal impacts, thus requiring consideration of the economic and revenue effects of alternative uses of the revenues that would be available for other purposes in the absence of the exemption.

Alternatives could include other economic incentives, spending on other policy areas across state government, or a reduction in taxes that could also result in direct, indirect, and induced economic effects. However, absent information as to how the General Assembly would otherwise choose to spend foregone revenue if not on the RIE, we estimate the impact of using the revenue to fund an equivalent increase in state government spending in proportion to existing expenditures. That is, we allocated the foregone revenue to industry sectors as direct effects based on the sector shares of spending in the state budget. The two largest categories of spending—education (53 percent) and healthcare (21 percent)—account for about 75 percent of the state budget. See the Appendix for more detail on the shares allocated to different government services and the IMPLAN industry codes most closely corresponding to the service categories.

As shown in Table 4 below, if the state received the forgone revenue associated with the excluded retirement income and spent the money, it could be expected to generate approximately \$2.44 billion in gross output. This estimate includes \$1,161 million in annual direct government outlays, the FY 2021 estimated tax expenditure for the exemption, plus the amounts shown for indirect and induced effects resulting from the initial, direct outlays.

Table 4. Alternative-Use Economic Activity

Impact Type	Employment	Labor Income	Value Added	Output
Direct Effect	23,202	\$885,908,953	\$827,014,956	\$1,160,513,988
Indirect Effect	2,166	\$111,661,384	\$190,047,780	\$367,476,828
Induced Effect	5,814	\$279,781,589	\$531,862,847	\$910,590,219
Total Effect	31,182	\$1,277,351,927	\$1,548,925,583	\$2,438,581,035

Source: IMPLAN and authors' calculations

Comparisons between RIE and alternative use economic impacts should be made cautiously as the RIE may offer other public benefits, including relief to lower-income retiree households and a reduction of the tax burden on residents who do not directly benefit from certain public services like education that account for a large portion of the state budget.

7. Fiscal Impacts

A summary of the fiscal impacts of the RIE is presented in Table 5 below. Following Table 5, we detail the estimates of the positive revenue effects arising from the induced economic impacts and of the opportunity cost of the tax expenditure, the revenues that could be expected from the alternate use of funds. The detailed estimates are projected forward to obtain the amounts below. Administrative costs are also discussed after Table 5.

Table 5. Retirement Income Exclusion State and Local Fiscal Effects

<i>(\$ millions)</i>	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Tax expenditure cost					
State	(\$1,372.3)	(\$1,419.7)	(\$1,468.8)	(\$1,519.6)	(\$1,572.1)
Revenue gains from economic impact					
State	\$41.8	\$43.2	\$44.7	\$46.2	\$47.8
Local	\$39.5	\$40.9	\$42.3	\$43.7	\$45.2
Alternative use reduction					
State	(\$90.6)	(\$93.7)	(\$96.9)	(\$100.3)	(\$103.7)
Local	(\$33.3)	(\$34.4)	(\$35.6)	(\$36.9)	(\$38.1)
Net fiscal effects					
State	(\$1,421.1)	(\$1,470.2)	(\$1,521.0)	(\$1,573.6)	(\$1,628.0)
Local	\$6.2	\$6.4	\$6.6	\$6.9	\$7.1
Total net fiscal effects	(\$1,414.9)	(\$1,463.8)	(\$1,514.4)	(\$1,566.7)	(\$1,620.9)

Foregone revenue

Foregone revenues from the RIE are the estimated tax expenditures presented in Section 3 above and shown in Table 5.

Revenue effects of induced economic impact

Table 6 shows estimates for state and local tax revenues attributable to economic activity associated with the RIE for the FY 2021 base year. State income tax is estimated using employee compensation generated by IMPLAN. The labor income estimated in the broader consumer-facing economy is comprised mostly of service workers, where the average labor income is approximately \$48,000 per job. Based on Georgia DOR tax data, specifically net tax liability relative to adjusted gross income (AGI) for taxpayers with AGI of \$48-85 thousand in tax year (TY) 2020, we assume an average effective tax rate (AETR) under current law of 3.84 percent on labor income estimated above. Resulting income tax revenues are estimated at about \$16.5 million for FY 2021.

IMPLAN reports estimates of sales tax and property tax. However, the model relies on levels of economic activity rather than sales or property tax rates and tax bases. Thus, they are not our preferred estimates. To estimate sales tax revenues, we use the model's estimated incremental output for the various retail sectors and adjust for the taxable portion of sector sales to arrive at estimates of taxable sales. For retail sectors, IMPLAN reports as output only the retail gross margin, not the total sales at retail, so these estimates are grossed up using average gross margin rates from IMPLAN for each retail sector to arrive at estimated sales to which the tax would be applied. The state sales tax is calculated using the state sales tax rate of 4 percent and the local sales tax is calculated using an average local sales tax rate of 3.37 percent, the population-weighted average as of July 2022, according to the Tax Foundation. The state and local sales tax estimates for the base year are also shown in Table 6.

To estimate the additional property tax due to the economic activity associated with the tax exemption, we calculate the ratio of the IMPLAN's estimate of sales tax to our preferred estimate of sales tax above and apply this to IMPLAN's estimate of property tax revenue. This estimate assumes that economic activity that generates IMPLAN's sales tax estimates is like that which generates the property tax, thus this estimate should be treated cautiously.

Finally, about 79 percent of Georgia state tax collections are from personal income and state sales taxes. Georgia collects a host of other taxes that make up the remaining 21 percent, on average. Two taxes make up about half of the 21 percent: corporate income tax and title ad valorem tax (TAVT) on motor vehicles. Table 6 shows the base year estimated revenue from these other taxes assuming a proportional effect such that the 22 percent of total tax revenues hold for the economic activity resulting from the RIE.

Table 6. State and Local Tax Revenues from RIE Induced Effects, FY 2021

<i>(\$ in Millions)</i>	State tax	Local Tax
GA income tax estimate	\$16.5	-
Sales tax estimates	\$11.5	\$12.6
Property tax estimates	-	\$20.7
All other taxes	\$7.4	-
Total state and local tax estimates	\$35.3	\$33.4

Alternative-use annual state and local tax revenue

New tax revenues resulting from the alternate use case are estimated in an equivalent manner as the RIE in the earlier section and are shown in Table 7.

Table 7. Alternative-Use State and Local Tax Revenue, FY 2021

<i>(\$ in millions)</i>	State Tax	Local Tax
GA income tax estimate	\$49.1	-
Sales tax estimates	\$10.7	\$10.2
Property tax estimates	-	\$18.0
GA all other taxes	\$16.8	-
Total state and local tax estimates	\$76.6	\$28.2

Base year revenue effects, induced or alternative use, are projected forward in the same manner as the estimated tax expenditure upon which they are based and shown in Table 5.

Administrative costs

The Georgia DOR is responsible for administering the RIE claimed on personal income tax returns and reported negligible administrative costs to administer this exclusion. Taxpayers report RIE amounts for themselves and, if a joint return, their spouse along with their respective dates of birth on Schedule 1 of their tax return, the same form used for a variety of gross income additions and subtractions, so there is no additional administrative or processing cost associated with any specific adjustment reported. Additional costs could be associated with auditing this specific exclusion.

8. Conclusion

Georgia's retirement income exclusion, allowing taxpayers aged 65 or over to exclude up to \$65,000 each and those aged 62-64 to exclude up to \$35,000 each from taxation under the state income tax, is among the more generous such tax breaks offered by any U.S. state. The provision cost the state an estimated \$1.16 billion in income tax revenues in FY 2021, a cost that is projected to rise to \$1.5 billion by FY 2026. Approximately 947 thousand Georgia income-tax filers claimed the exclusion on their 2020 tax returns, exclusions totaling \$28.7 billion and averaging \$30.3 thousand per return.

Mean and median tax savings for eligible full-year resident taxpayers in 2020 were estimated to be \$1,205 and \$517, respectively. Though the average percent of tax liability eliminated by the exclusion is lower in the top quintile of earners, and lowest on average among the top 10 percent, 5 percent of eligible returns had savings for 2020 of at least \$4,000.

Taxpayers over age 62, as one might expect, skew more toward higher incomes than younger taxpayers. The median federal AGI reported by filers claiming the exclusion was over \$55.5 thousand in 2020 compared to \$38.1 thousand for all filers. Thus, nearly a third – about 32 percent – of tax savings from the exclusion accrue to taxpayers who are among the top 10 percent of all Georgia taxpayers, ranked by federal AGI; 70 percent of the savings accrue to filers among the top quartile of all filers.

The case for providing this exclusion from the income tax, made by proponents of its expansion in 2010 – an expansion that would have made the exclusion unlimited by 2016 if it hadn't been partially repealed – was that it would attract retirees to Georgia from other states, bringing their retirement savings and income with them, providing a boost to the state's economy.

While Georgia does rank fairly high – 13th in 2019 – among states in net in-migration of seniors, it is not evident that the retirement income exclusion is the driving factor, given the state's other qualities that research suggest are important to seniors considering migrating. Among these are a relatively low cost of living, a mild to temperate climate, and a variety of amenity-rich coastal, mountain, and urban living options. Meanwhile, North Carolina ranks seventh for net in-migration of seniors in 2019 and fully taxes all private pension and retirement plan income. Third-ranked Idaho and first-ranked Arizona also offer no exclusions of private pension or retirement plan income.

The 2019 senior migration rate of 2.1, shown in Figure 5 above, represents net in-migration equal to about 0.21 percent of the 2018 aged 65-plus population and amounts to around three thousand seniors moving to the state. This represents close to 10 percent of total net in-migration in 2019. We do not wholly discount the attractiveness of the low tax burden for seniors that the RIE enables or that it may be a factor in the decisions of some retirees. But again, many other factors have been shown to play a larger role in explaining migration patterns. It is also not clearly evident that retiree in-migration (or retention of potential out-migrants) provides a significant economic boost, even if the RIE is the key to attracting them.

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Appendix: Value of Alternative Use – IMPLAN Code Table

Table A1 shows the approximate breakdown of state expenditures into functional areas that either directly correspond or are similar to the specified IMPLAN sectors in terms of the nature of labor and other inputs.

Table A1. Approximate Distribution of State Expenditures

Category	Share state spending	IMPLAN codes	IMPLAN Sector Descriptions
Education, PK-12	41.6%	480	Elementary and secondary schools
Education, Post-Sec	15.0%	481	Post-secondary education
Health Care	22.5%	493	Individual and family services
Public Safety, excl Corrections	3.5%	471	Facilities support services
Public Safety, Corrections	4.6%	475	Investigation and security services
Mobile Georgia	7.7%	457	Architectural, engineering, related services
Growing Georgia	1.5%	469	Management of companies and enterprises
General Government	3.6%	469	Management of companies and enterprises

Source: Spending shares based on AFY 2019 and FY 2020 Governor's Budget Report, <https://opb.georgia.gov/budget-information/budget-documents/governors-budget-reports>