

ECONOMIC LANDSCAPE FOR THE 2018 LEGISLATIVE SESSION

The state of Georgia continues to make gains in several aspects of the economic landscape. The most recent data from the Bureau of Economic Analysis show that in the first quarter of 2017, Georgia's growth in gross domestic product (GDP) was 0.5 percentage points higher than the national average. Georgia should continue its economic growth into 2018, with an expected annualized growth rate of about 2.2 to 2.3 percent.

As of October 2017, unemployment was at 4.3 percent — less than one percentage point higher than the state's all-time low of 3.4 percent in November of 2000.¹ Long-term projections by the Georgia Department of Labor suggest that employment growth will continue, concentrated primarily in a variety of service sectors (see Table I). Georgia's forecasted growth in employment by sector is similar to that projected for the United States as a whole. Figure I provides a forecast for employment by sector and average annual wages for the United States in 2024. The size of each bubble represents the relative size of employment in that sector. The largest increases in employment are expected to be in the health care and education sectors, where average annual wages are relatively low compared to other industries. However, some higher income sectors including financial services and professional and technical services are also expected to grow. Total employment in these higher income sectors is smaller than in service sectors such as education, health care and accommodation/food service. These employment and earnings forecasts

present a mixed message: overall growth in employment, much of the growth expected to occur at relatively lower income jobs.

Real median household income in Georgia grew by 3.5 percent between 2015 and 2016, surpassing the U.S. average growth of 2.4 percent. At the beginning of 2017, Georgia's median household income was marked at 93 percent of the U.S. median, up from 92 percent in 2015. Real income growth across the United States is still straining to reach pre-Great Recession levels. The stagnation of income growth will continue to be a concern for Georgia as well as for other states, even as Georgia shows more improvement in terms of income than the average state.

While the economy ticks along quite well, the big story on the fiscal front for the 2018 legislative session is the impact of the new federal tax reform. The federal reform has many implications that will be detailed over the next weeks. The federal bill contains several changes to corporate and individual income taxes that will affect Georgia due to the state's "coupling" to certain parts of the federal tax code. For example, Georgia's taxable income calculation begins with federal adjusted gross income (AGI). As a result of the federal tax changes, federal AGI may increase or decrease, and Georgia's income tax base would be similarly affected. The net impact on Georgia's tax base is unknown at this point. In addition, the federal bill contains a number of retroactive provisions that will affect 2017 as well as future years. The impact of the large number of changes in federal law has not been fully analyzed, but the following are among the important impacts for Georgia's income taxes.

¹ Bureau of Labor Statistics, series starting in January 1976 (www.bls.gov/web/laus/lauhsthl.htm).

A Sample of Direct Impacts of Federal Tax Reform on Georgia Taxes

FEDERAL PROVISION	IMPLICATIONS FOR GEORGIA
Increase in standard deduction	Fewer federal itemizers will reduce the number of Georgia itemizers, increasing Georgia's income tax base
Limitation on state income/property/sales tax deductions	Reduces itemizers in Georgia, increasing Georgia's income tax base; increases the "cost" of state and local taxes because deductibility is limited
Deduction for certain pass-through income	Reduces adjusted gross income and Georgia's income tax base
Elimination or reduction of various business expense deductions	Increases Georgia's corporate tax base
Expanded depreciation	Reduces Georgia's corporate tax base

This sample of federal provisions and their expected impacts on Georgia's income tax bases provide an indication of the extent to which the federal law will directly affect Georgia's income taxes. Lawmakers will have to grapple with whether and how to adjust Georgia's tax system in response to the federal legislation. The federal reform will obviously have its own impacts on Georgia taxpayers — individual and corporate — which may increase or decrease federal

income taxes paid by the state's residents and corporations.

While issues of health care, K-12 education and other spending will also be important issues facing the legislature, grappling with the impacts of the federal tax reform will have to be front and center in the work of the General Assembly this year.

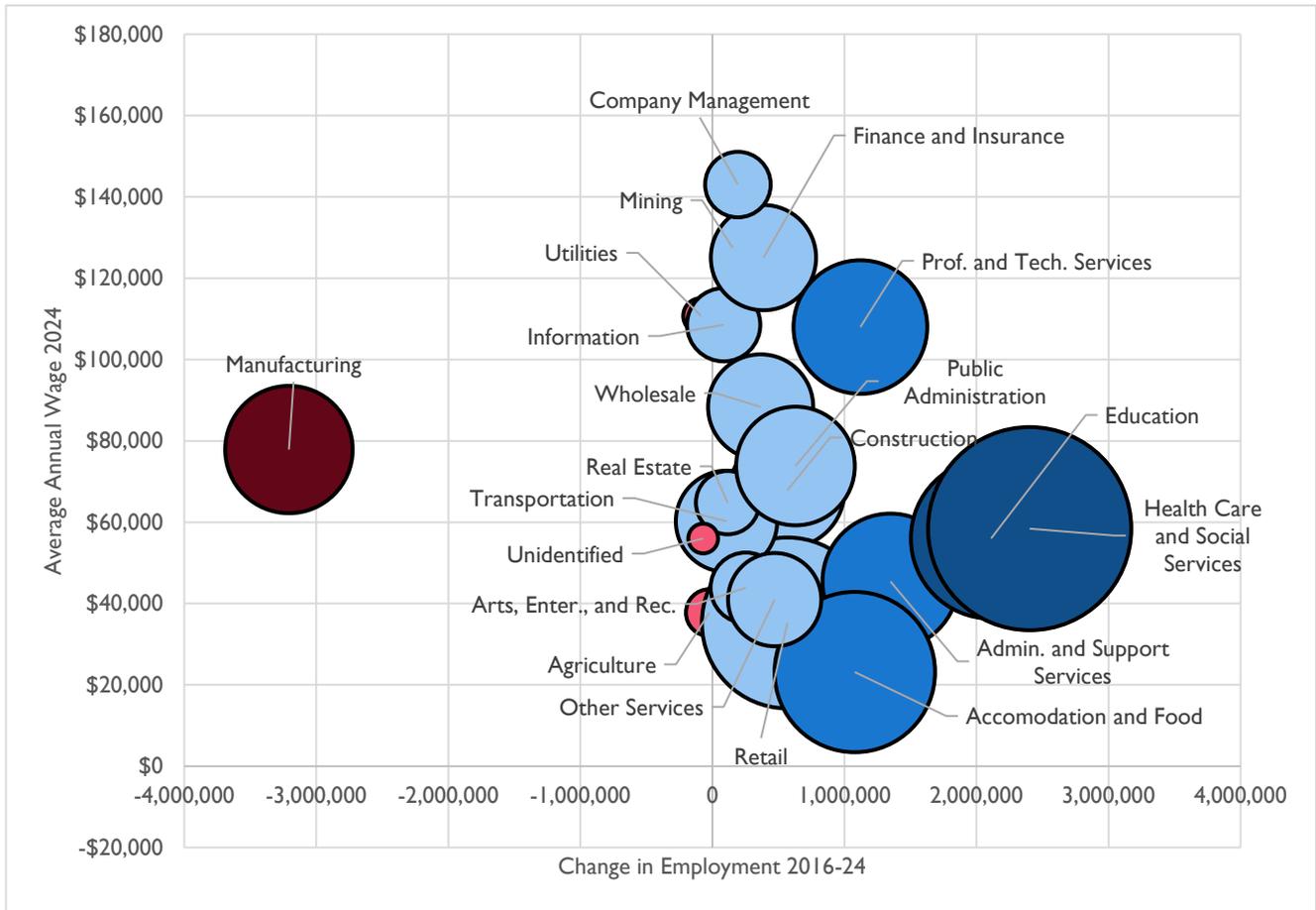
Table I. Long-Term Projections of High Job Growth Industries in Georgia, 2014-24

NAICS CODE	INDUSTRY TITLE	2014 BASE YEAR EMPLOYMENT	2024 PROJ. YEAR EMPLOYMENT	TOTAL CHANGE IN EMPLOYMENT	PERCENT CHANGE IN EMPLOYMENT	PROJ. ANNUAL GROWTH RATE
452900	Other General Merchandise Stores	64,360	113,490	49,130	76.3%	5.8%
561300	Employment Services	130,960	178,390	47,430	36.2%	3.1%
611100	Elementary and Secondary Schools	258,640	301,440	42,800	16.6%	1.5%
722500	Restaurants and Other Eating Places	318,640	358,590	39,950	12.5%	1.2%
621100	Offices of Physicians	81,200	116,390	35,190	43.3%	3.7%
999300	Local Government, Excluding Education and Hospitals	140,890	156,590	15,700	11.1%	1.1%
622100	General Medical and Surgical Hospitals	145,780	161,130	15,350	10.5%	1.0%
541200	Accounting, Tax Preparation, Bookkeeping, and Payroll Services	45,260	58,910	13,650	30.1%	2.7%
621600	Home Health Care Services	22,280	35,440	13,160	59.1%	4.8%
425100	Wholesale Electronic Markets and Agents and Brokers	46,560	58,360	11,800	25.3%	2.3%

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238200	Building Equipment Contractors	51,950	62,810	10,860	20.9%	1.9%
624400	Child Day Care Services	31,620	42,010	10,390	32.9%	2.9%
541500	Computer Systems Design and Related Services	60,480	70,770	10,290	17.0%	1.6%
624100	Individual and Family Services	20,680	30,220	9,540	46.2%	3.9%
623300	Continuing Care Retirement Communities and Assisted Living Facilities for the Elderly	15,870	25,240	9,370	59.0%	4.7%
444100	Building Material and Supplies Dealers	34,040	42,680	8,640	25.4%	2.3%
621300	Offices of Other Health Practitioners	18,960	27,330	8,370	44.2%	3.7%
541600	Management, Scientific, and Technical Consulting Services	31,130	39,210	8,080	26.0%	2.3%
621400	Outpatient Care Centers	12,820	20,640	7,820	61.0%	4.9%
611300	Colleges, Universities, and Professional Schools	76,620	83,560	6,940	9.1%	0.9%

Source: Georgia Department of Labor, Office of Workforce Statistics and Economic Research, Industry Outlooks, explorer.gdol.ga.gov/gsipub/index.asp?docid=386 (July 2016)

Figure I. United States Employment Growth and Wages by Sector 2024
 Size of bubble is relative industry employment in 2024



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