

Statement of Estimated State Revenue Impact

Date: June 27, 2013

Bill Number: S. 261

Authors: Leatherman and Setzler

Committee Requesting Impact: Senate Finance Committee

Bill Summary

TO AMEND SECTION 12-6-40, AS AMENDED, CODE OF LAWS OF SOUTH CAROLINA, 1976, RELATING TO THE APPLICATION OF THE INTERNAL REVENUE CODE TO STATE INCOME TAX LAWS, SO AS TO UPDATE THE REFERENCE TO THE INTERNAL REVENUE CODE TO JANUARY 2, 2013, AND TO DELETE AN INAPPLICABLE SUBITEM.

REVENUE IMPACT ^{1/}

We estimate that updating conformity of the South Carolina income tax statutes to the Internal Revenue Code as amended through January 2, 2013 by the American Taxpayer Relief Act of 2012 will have no impact on General Fund revenue.

Explanation of Bill as amended on March 19, 2012 by the Senate

The adopted amendment adds a new item to §12-6-50 specifying that the State will not adopt Internal Revenue Code (IRC) Section 68 relating to the reduction on itemized deductions and Section 151(d)(3) relating to the reduction on the personal exemption.

These IRC Sections, modified by the American Taxpayer Relief Act of 2012, impose new limitations on itemized deductions and personal exemption similar the limitations imposed prior to 2001. If South Carolina conforms to these IRC Sections, we estimate that the new itemized deductions and personal exemption limitations will affect an estimated 15,333 South Carolina tax returns in 2013. Higher income taxpayers including married couples with taxable incomes above \$300,000 and single taxpayers with taxable incomes above \$250,000 are affected. When taxpayer income exceeds these amounts, the taxpayers' itemized deductions are reduced by 3% of the amount that adjusted gross income exceeds the applicable threshold to a maximum of 80% of total itemized deductions. The personal exemptions for married higher income taxpayers will also be reduced by 2% for each \$2,500 that adjusted gross income exceeds the \$300,000 threshold and for single taxpayers by 2% for each \$1,250 above the \$250,000 threshold. The limitation thresholds are adjusted annually for inflation for tax years after 2013. Based on estimates provided by the staff of the U.S. Joint Committee on Taxation, we estimate that South Carolina General Fund individual income tax revenue will increase by \$3,144,803 in FY 2013-14 due to the increased taxable income from the new limitations on itemized deductions and personal exemptions.

As the proposed amendment to S. 261 precludes the State from adopting these two specific IRC Sections, we expect that updating conformity of the South Carolina income tax statutes to the Internal Revenue Code as amended through January 2, 2013 by the American Taxpayer Relief Act of 2012 will have no impact on General Fund revenue.

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Explanation of Bill as introduced

This bill updates the conformity of the South Carolina income tax statutes to the Internal Revenue Code as amended through January 2, 2013 by the American Taxpayer Relief Act of 2012.

The American Taxpayer Relief Act of 2012, signed on January 2, 2013 makes several changes. First it modifies federal tax rates on ordinary and capital gains income, extends existing marriage penalty relief provisions, increases the federal alternative minimum tax exemption amount and increases this amount by an annual inflation adjustment for tax years beginning after 2012, and modifies the federal estate and gift tax rates and other provisions. These provisions will not affect South Carolina income tax revenue.


The American Taxpayer Relief Act of 2012 also extended 33 tax provisions that South Carolina will conform to if we adopt the Internal Revenue Code as updated through January 2, 2013. These tax extenders include maintaining the Coverdell education savings accounts at \$2,000, the \$2,500 above the line student loan interest deduction, the \$250 teacher classroom expenses deduction, the deduction for state and local sales taxes, the 7-year recovery period for motorsport racing tracks, and maintaining the Code Sec. 179 small business expensing limits at \$500,000 with a \$2,000,000 investment limit. These temporary provisions have generally been in the Internal Revenue Code for years and are routinely extended as they were most recently extended in the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. Since these provisions have been part of our revenue base for years and the BEA General Fund revenue forecast for FY 2013-14 expected taxpayers to continue to utilize these tax provisions, we anticipate no further revenue impact.

Finally, the American Taxpayer Relief Act did impose new limitations on itemized deductions and personal exemptions similar the limitations imposed prior to 2001. The new limitations will affect an estimated 15,333 South Carolina tax returns in 2013. Higher income taxpayers including married couples with taxable incomes above \$300,000 and single taxpayers with taxable incomes above \$250,000 are affected. When taxpayer income exceeds these amounts, the taxpayers' itemized deductions are reduced by 3% of the amount that adjusted gross income exceeds the applicable threshold to a maximum of 80% of total itemized deductions. The personal exemptions for married higher income taxpayers will also be reduced by 2% for each \$2,500 that adjusted gross income exceeds the \$300,000 threshold and for single taxpayers by 2% for each \$1,250 above the \$250,000 threshold. The limitation thresholds are adjusted annually for inflation for tax years after 2013. Based on estimates provided by the staff of the U.S. Joint Committee on Taxation, we estimate that South Carolina General Fund individual income tax revenue will increase by \$3,144,803 in FY 2013-14 due to the increased taxable income from the new limitations on itemized deductions and personal exemptions. The Board of Economic Advisors has not accounted for this projected revenue increase in its forecast of FY 2013-14 General Fund revenue.

A detailed analysis of the federal tax law changes by staff of the Department of Revenue and assistance from the U.S. Joint Committee on Taxation were instrumental in estimating the

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revenue impact of this legislation.



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^{1/} This statement meets the requirement of Section 2-7-71 for a state revenue impact by the BEA, or Section 2-7-76 for a local revenue impact or Section 6-1-85(B) for an estimate of the shift in local property tax incidence by the Office of Economic Research.