



**SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE**  
**STATEMENT OF ESTIMATED FISCAL IMPACT**  
**(803)734-0640 • RFA.SC.GOV/IMPACTS**

---

<b>Bill Number:</b>	S. 0461	Amended by Senate Finance on January 21, 2020
<b>Author:</b>	Sheheen	
<b>Subject:</b>	Income Tax Deductions	
<b>Requestor:</b>	Senate Finance	
<b>RFA Analyst(s):</b>	Jolliff	
<b>Impact Date:</b>	January 22, 2020	

---

### **Fiscal Impact Summary**

This bill will not impact state expenditures for the Department of Revenue (DOR) or Revenue and Fiscal Affairs (RFA), as both agencies can accomplish the requirements with existing staff and resources.

The bill will reduce General Fund individual income tax revenue by \$1,103,000 beginning in FY 2020-21 by increasing the individual income tax deduction from a maximum of \$3,000 to \$6,000 for volunteer firefighters, rescue squad members, hazardous materials response team members, reserve police officers, and others who meet the volunteer activity requirements as specified in §12-6-1140(10).

### **Explanation of Fiscal Impact**

#### **Amended by Senate Finance on January 21, 2020**

##### **State Expenditure**

This bill increases the maximum individual income tax deduction for volunteer firefighters, rescue squad members, and others in §12-6-1140(10) from \$3,000 to \$6,000. Taxpayers eligible for this deduction include volunteer firefighters, rescue squad members, hazardous materials response team members, reserve police officers, Department of Natural Resources deputy enforcement officers, members of the State Guard, and volunteer state constables who meet the volunteer activity requirements as specified in the statute.

Under the bill, qualifying volunteers are allowed a maximum \$6,000 individual income tax deduction or a deduction amount certified by RFA that restricts the income tax revenue loss to a maximum of \$3,100,000 per year. DOR will update tax forms to reflect this change during the annual tax form revisions. Further, RFA currently certifies the tax deduction amount annually. Therefore, the bill will not impact state expenditures for either agency.

##### **State Revenue**

This bill increases the maximum individual income tax deduction for volunteer firefighters, rescue squad members, and others from \$3,000 to \$6,000 beginning in tax year 2020. Under §12-6-1140(10) currently, qualifying volunteers are allowed a maximum \$3,000 individual income tax deduction or a deduction amount certified by RFA that restricts the income tax revenue loss to a maximum of \$3,100,000 per year.

The number of returns claiming the volunteer deduction has fluctuated in recent years as outlined in the table below, and therefore, we have used tax year 2018 to forecast 2020 without applying any growth. Overall, the number of returns has declined since 2011. Should the trend reverse, the impact may increase above our estimates.

<b>Tax Year</b>	<b>Volunteer Deduction Tax Returns</b>	<b>Percent Change</b>
2011	8,099	
2012	7,728	-4.6%
2013	7,943	2.8%
2014	7,931	-0.2%
2015	unavailable	n/a
2016	6,670	n/a
2017	7,109	6.6%
2018	6,735	-5.3%

In tax year 2018, individual income tax data from DOR indicate that 6,735 returns claimed approximately \$21,266,000 in volunteer deductions. Some returns reported deductions for more than one volunteer. Returns claiming more than \$3,000 are assumed to represent two volunteers. Based upon this assumption, these returns represent approximately 7,146 volunteers.

RFA recalculated the tax liability for each return with a volunteer deduction to estimate the amount of the current revenue reduction. This calculation takes into account the taxpayers with no income to claim the deduction, the large number of returns that have zero taxable income, returns that are reduced to zero taxable income by the deduction, and returns that do not benefit from the full amount of the deduction. For tax year 2018, the deduction reduced income tax revenue by approximately \$1,169,000. We then recalculated these tax returns at the new maximum deduction amount of \$6,000.

Increasing the deduction amount to \$6,000 would reduce income taxes for these taxpayers by a total of \$2,272,000 for tax year 2020, which is less than the \$3,100,000 maximum. Therefore, we expect the deduction amount for tax year 2020 will be certified at the full \$6,000.

<b>Deduction Amount</b>	<b>Total Tax Reduction</b>	<b>General Fund Impact</b>
\$3,000 (Current)	\$1,169,000	\$0
\$6,000	\$2,272,000	\$1,103,000

Subtracting the current tax reduction amount of \$1,169,000 from the estimated new total tax reduction of \$2,272,000 yields an additional income tax reduction of \$1,103,000 for the increase in the volunteer deduction amount. Therefore, this bill would reduce General Fund individual income tax revenue by an additional \$1,103,000 beginning in FY 2020-21.

**Local Expenditure and Local Revenue**

N/A

Frank A. Rainwater, Executive Director