~~Indicates Matter Stricken~~

Indicates New Matter

COMMITTEE REPORT

January 31, 2017

**S. 46**

Introduced by Senators Campsen and Bennett

S. Printed 1/31/17--S.

Read the first time January 10, 2017.

**THE COMMITTEE ON FINANCE**

To whom was referred a Bill (S. 46) to amend Section 12‑6‑520, Code of Laws of South Carolina, 1976, relating to inflation adjustments to state individual income tax brackets, etc., respectfully

**REPORT:**

That they have duly and carefully considered the same and recommend that the same do pass with amendment:

Amend the bill, and if amended, by striking SECTION 2 and inserting:

/ SECTION 2. Section 12‑6‑520 of the 1976 Code is amended to read:

“Section 12‑6‑520. Each December ~~15~~ fifteenth, the department shall cumulatively adjust the brackets in Section 12‑6‑510 in the same manner that brackets are adjusted in Internal Revenue Code Section 1(f),. However, the adjustment ~~is limited to one‑half of the adjustment determined by Internal Revenue Code Section (1)(f~~), may not exceed four percent a year, and but the rounding amount provided in Section 1(f)(6) is deemed to be ten dollars. The brackets, as adjusted, apply ~~in lieu~~ instead of those provided in Section 12‑6‑510 for taxable years beginning in the succeeding calendar year. ~~Inflation adjustments must be made cumulatively to the income tax brackets.~~” /

Renumber sections to conform.

Amend title to conform.

HUGH K. LEATHERMAN, SR. for Committee.

**STATEMENT OF ESTIMATED FISCAL IMPACT**

**Explanation of Fiscal Impact**

**Amended by Senate Finance Sales and Income Tax Subcommittee on January 24, 2017**

**State Expenditure**

This bill would require the Department of Revenue to increase the individual income tax brackets by the full inflation adjustment specified in Section 12-6-520 up to four percent a year, as opposed to one-half of the adjustment as currently required. The bill does not significantly change the current procedure to adjust the bracket amount annually and is not expected to impact expenditures for the agency.

**State Revenue**

This bill as amended requires that the individual income tax brackets be adjusted annually for the full inflation adjustment specified by Internal Revenue Code Section 1(f) beginning in tax year 2017. The amendment also retains the current requirement that the adjustment may not exceed four percent a year, which was previously deleted in the bill as introduced. Based upon our current expectations for inflation, this change does not alter our analysis of the fiscal impact.

Presently, the tax brackets are indexed for one-half of the inflation adjustment. For tax year 2017, the full inflation adjustment is 0.79 percent. This would increase the bracket amount from $2,930 to $2,940. Individual income tax would be reduced by approximately $1,952,000 in tax year 2017. The average reduction is $2 per tax return. The impact by taxable income range is included in the attached detailed table. In a typical year, inflation is 2 percent or more, which potentially would double the income tax reduction in future years.

We anticipate that taxpayers who file estimated tax payments will reduce their quarterly declarations in response to the tax reduction. As such, 5.25 percent of the total tax year impact is recognized in the prior fiscal year for the first two calendar quarters of reduced estimated tax payments, and the remaining impact is reflected in next fiscal year through the remaining reduced payments and higher refunds. Given these assumptions, general fund individual income tax revenue would be reduced by $102,000 in FY 2016-17 and $1,850,000 in FY 2017-18.

**Introduced on January 10, 2017**

**State Expenditure**

This bill would require the Department of Revenue to increase the individual income tax brackets by the full inflation adjustment specified in Section 12-6-520, as opposed to one-half of the adjustment as currently required. The bill does not significantly change the current procedure to adjust the bracket amount annually and is not expected to impact expenditures for the agency.

**State Revenue**

This bill amends Section 12-6-520 to require that the individual income tax brackets be adjusted annually for the full inflation adjustment specified by Internal Revenue Code Section 1(f) beginning in tax year 2017. Currently, the tax brackets are indexed for one-half of the inflation adjustment. For tax year 2017, the full inflation adjustment is 0.79 percent. This would increase the bracket amount from $2,930 to $2,940. Individual income tax would be reduced by approximately $1,952,000 in tax year 2017. The average reduction is $2 per tax return. The impact by taxable income range is included in the attached detailed table. In a typical year, inflation is 2 percent or more, which potentially would double the income tax reduction in future years.

We anticipate that taxpayers who file estimated tax payments will reduce their quarterly declarations in response to the tax reduction. As such, 5.25 percent of the total tax year impact is recognized in the prior fiscal year for the first two calendar quarters of reduced estimated tax payments, and the remaining impact is reflected in next fiscal year through the remaining reduced payments and higher refunds. Given these assumptions, general fund individual income tax revenue would be reduced by $102,000 in FY 2016-17 and $1,850,000 in FY 2017-18.

**ESTIMATE OF TAX YEAR 2017 INCOME TAX ADJUSTEMENT BY FULLY INDEXING THE BRACKETS FOR INFLATION**

**Objective: Increase tax bracket amount from $2,930 to $2,940.**

**With these brackets and rates, 100.0% of filers have a lower or unchanged liability and the General Fund impact is ($1,952,000).**

**Current Tax Structure Estimate of Adjusted Tax Structure**

**Baseline Taxable Projected # Cumulative Cumulative Projected Average Adjusted Average Total Dollar**

**Income Range of Filers # of Filers % of Filers Average Tax Average Tax Tax Increase/**

**2014 2017 Taxable Liability Liability Increase/ (Decrease)**

**Income 2017 2017 (Decrease) 2017**

**2017 2017**

**col 1 col 2 (/a) col 3 col 4 col 5 (/b) col 6 col 7 col 8 col 9**

0 790,763 790,763 33.47% 0 0 0 0 0

1-5,000 281,793 1,072,556 45.40% 2,458 0 0 0 (36,184)

5,000-10,000 193,898 1,266,454 53.61% 8,128 179 178 (1) (114,154)

10,000-20,000 281,445 1,547,899 65.53% 16,116 630 628 (2) (416,778)

20,000-30,000 196,469 1,744,368 73.84% 27,175 1,404 1,402 (2) (333,997)

30,000-40,000 141,403 1,885,771 79.83% 38,205 2,176 2,175 (2) (240,385)

40,000-50,000 103,563 1,989,334 84.21% 49,169 2,944 2,942 (2) (176,057)

50,000-60,000 78,674 2,068,008 87.54% 60,186 3,715 3,713 (2) (133,745)

60,000-70,000 60,598 2,128,606 90.11% 71,196 4,486 4,484 (2) (103,017)

70,000-80,000 47,320 2,175,925 92.11% 82,175 5,254 5,252 (2) (80,443)

80,000-90,000 35,973 2,211,898 93.64% 93,178 6,024 6,023 (2) (61,154)

90,000-100,000 27,344 2,239,243 94.79% 104,132 6,791 6,789 (2) (46,486)

100,000-110,000 20,995 2,260,238 95.68% 115,145 7,562 7,560 (2) (35,692)

110,000-120,000 16,356 2,276,594 96.37% 126,136 8,331 8,330 (2) (27,804)

120,000-130,000 12,829 2,289,422 96.92% 137,146 9,102 9,100 (2) (21,809)

130,000-140,000 10,219 2,299,641 97.35% 148,232 9,878 9,876 (2) (17,372)

140,000-150,000 8,281 2,307,923 97.70% 159,146 10,642 10,640 (2) (14,078)

150,000-160,000 6,627 2,314,549 97.98% 170,192 11,415 11,414 (2) (11,266)

160,000-170,000 5,394 2,319,943 98.21% 181,144 12,182 12,180 (2) (9,170)

170,000-180,000 4,680 2,324,623 98.41% 192,176 12,954 12,953 (2) (7,956)

180,000-190,000 3,856 2,328,479 98.57% 203,121 13,720 13,719 (2) (6,555)

190,000-200,000 3,296 2,331,775 98.71% 214,108 14,489 14,488 (2) (5,602)

200,000-225,000 6,316 2,338,091 98.98% 232,579 15,782 15,781 (2) (10,738)

225,000-250,000 4,393 2,342,484 99.16% 260,237 17,719 17,717 (2) (7,467)

250,000-300,000 5,853 2,348,337 99.41% 300,075 20,507 20,505 (2) (9,949)

300,000-400,000 5,730 2,354,066 99.65% 377,889 25,954 25,952 (2) (9,740)

400,000-500,000 2,871 2,356,937 99.77% 488,556 33,701 33,699 (2) (4,880)

500,000- $1M 3,947 2,360,883 99.94% 732,443 50,773 50,771 (2) (6,709)

$1 M - $2 M 966 2,361,849 99.98% 1,474,187 102,695 102,693 (2) (1,642)

$2 M + 406 2,362,255 100.00% 5,374,566 375,721 375,720 (2) (690)

**Total 2,362,255     $29,537 $1,569 $1,568 ($2) ($1,952,000)**

2017 Current Tax Brackets Adjusted Brackets

0.00% $0 to 2,930 0.00% $0 to 2,940

3.00% $2,930 to 5,860 3.00% $2,940 to 5,880

4.00% $5,860 to 8,790 4.00% $5,880 to 8,820

5.00% $8,790 to 11,720 5.00% $8,820 to 11,760

6.00% $11,720 to 14,650 6.00% $11,760 to 14,700

7.00% Over $14,650 7.00% Over $14,700

Frank A. Rainwater, Executive Director

Revenue and Fiscal Affairs Office

**A** **BILL**

TO AMEND SECTION 12‑6‑520, CODE OF LAWS OF SOUTH CAROLINA, 1976, RELATING TO INFLATION ADJUSTMENTS TO STATE INDIVIDUAL INCOME TAX BRACKETS, SO AS TO ENACT THE “TAXPAYER INFLATION PROTECTION ACT”, TO DELETE THE PROVISION LIMITING THE INFLATION ADJUSTMENT TO ONE‑HALF OF THE ACTUAL INFLATION RATE AND THE OVERALL FOUR PERCENT LIMIT ON THE TOTAL INFLATION ADJUSTMENT, AND TO DELETE REDUNDANT LANGUAGE.

Be it enacted by the General Assembly of the State of South Carolina:

SECTION 1. This act may be cited as the “Taxpayer Inflation Protection Act”.

SECTION 2. Section 12‑6‑520 of the 1976 Code is amended to read:

“Section 12‑6‑520. Each December ~~15~~ fifteenth, the department shall cumulatively adjust the brackets in Section 12‑6‑510 in the same manner that brackets are adjusted in Internal Revenue Code Section 1(f),~~. However, the adjustment is limited to one‑half of the adjustment determined by Internal Revenue Code Section (1)(f), may not exceed four percent a year, and~~ but the rounding amount provided in Section 1(f)(6) is deemed to be ten dollars. The brackets, as adjusted, apply ~~in lieu~~ instead of those provided in Section 12‑6‑510 for taxable years beginning in the succeeding calendar year. ~~Inflation adjustments must be made cumulatively to the income tax brackets.~~”

SECTION 2. This act takes effect upon approval by the Governor and first applies for income tax brackets applicable for taxable year 2017.

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