

H.4216 - INDIVIDUAL INCOME TAX REFORM ANALYSIS, ISSUES, AND CONSIDERATIONS



Presented to
South Carolina House Ways & Means Committee

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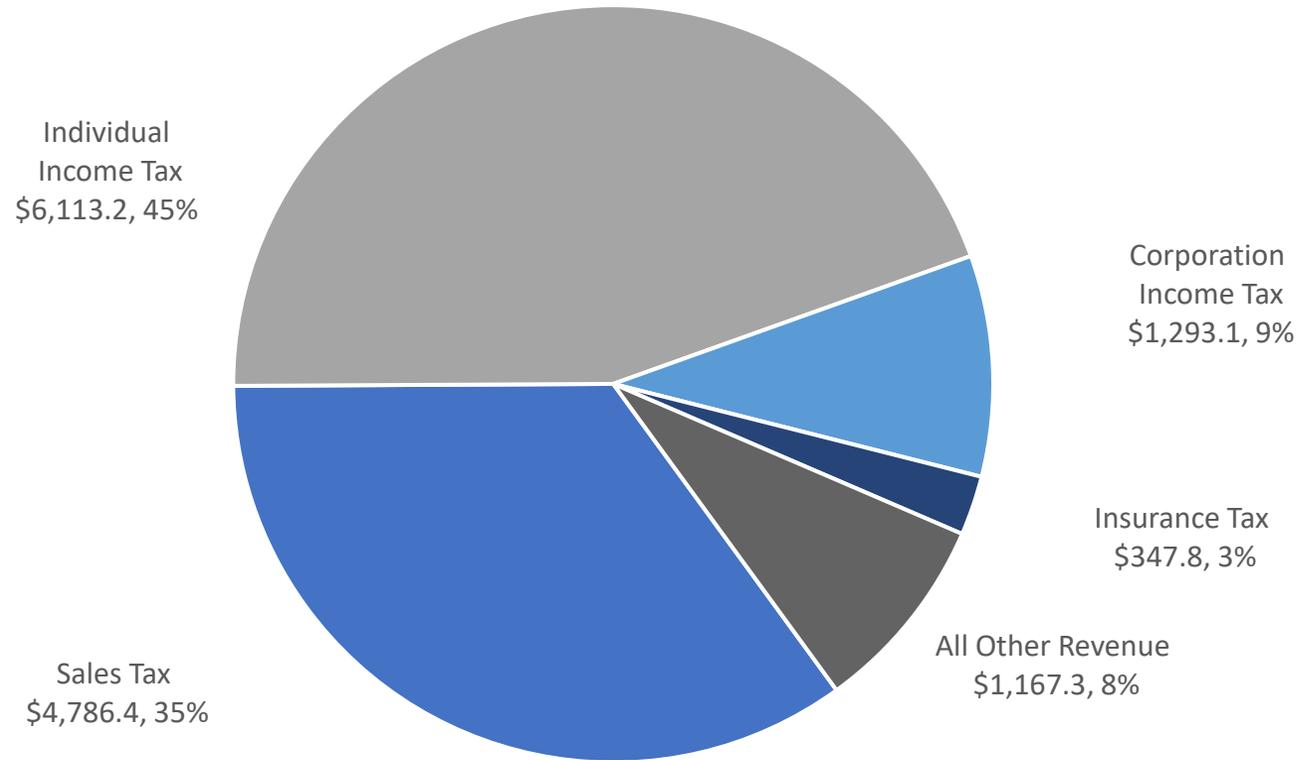
Individual Income Tax Revenue



General Fund Revenue by Category - FY 24

Individual Income tax revenue accounted for 45 percent of total General Fund Revenue in FY 2023-24

FY 2023-24 GENERAL FUND REVENUE
Percentage Distribution By Revenue Type (\$ Millions)

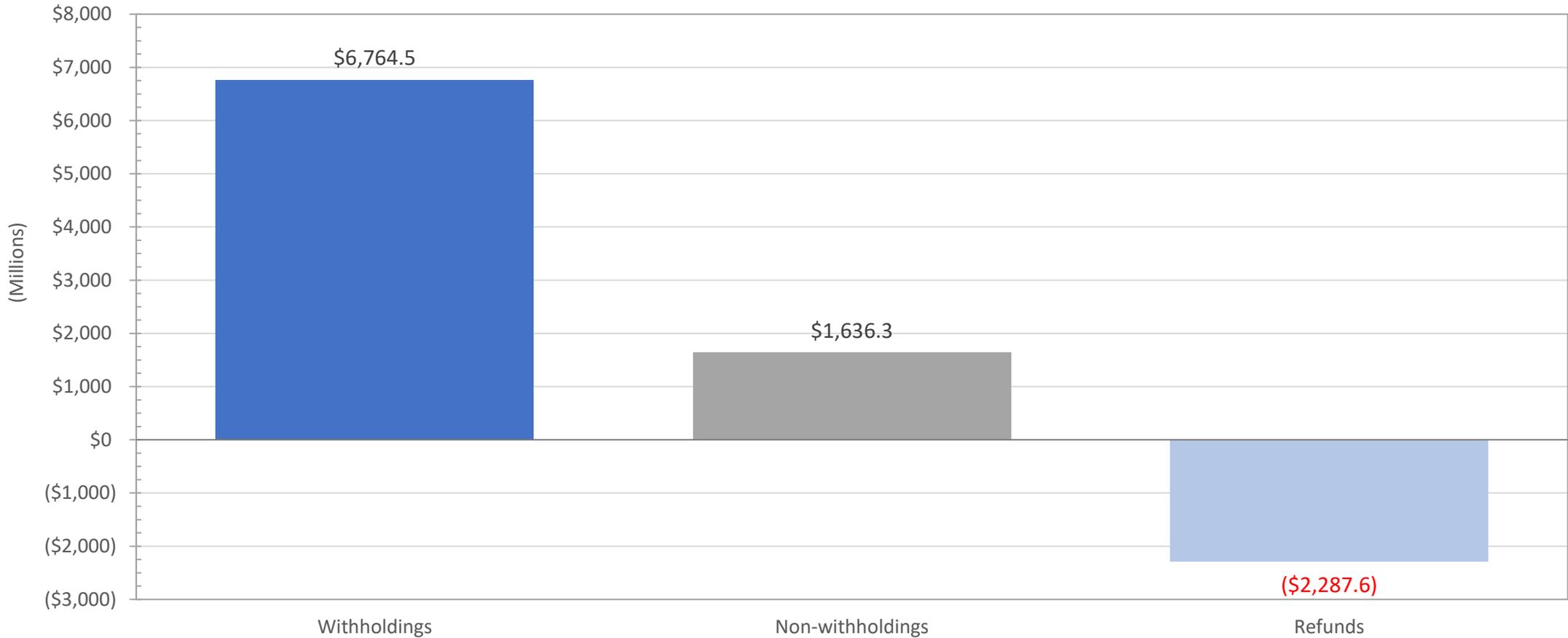


Source: S.C. Revenue and Fiscal Affairs 30 - kav/11/14/2024

Major Components of Individual Income Tax

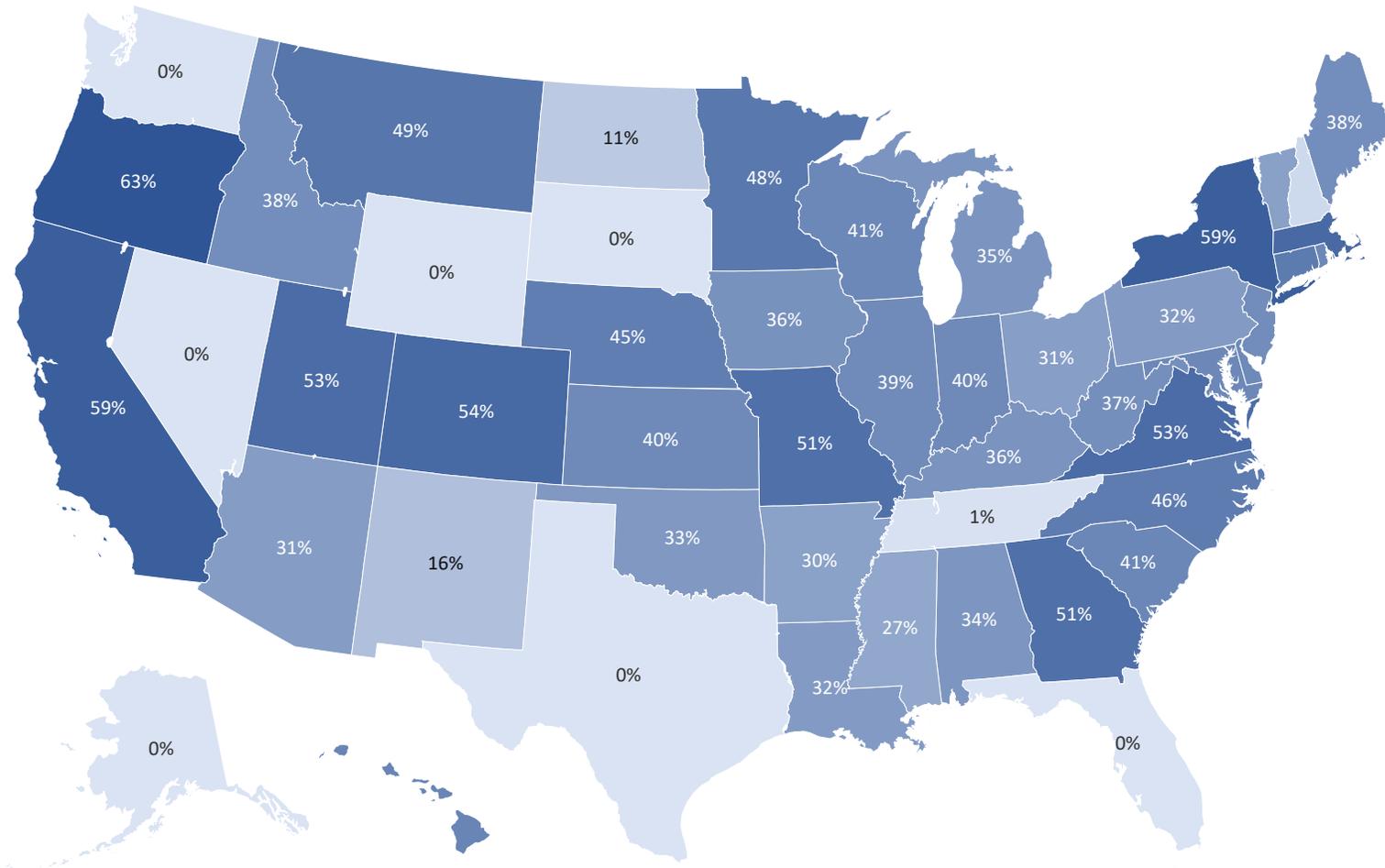
Withholdings on employee wages and other income is the largest component of individual income tax revenue

FY 2023-24 INDIVIDUAL INCOME TAX COMPONENTS

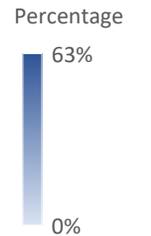


State Tax Revenue from Income Taxes – FY 2020-21

PERCENTAGE OF STATE TAX REVENUE FROM INCOME TAX
for FY 2020-21



- VT 30.06%
- MA 54.17%
- RI 40.46%
- CT 46.49%
- NJ 38.54%
- DE 39.81%
- MD 40.39%



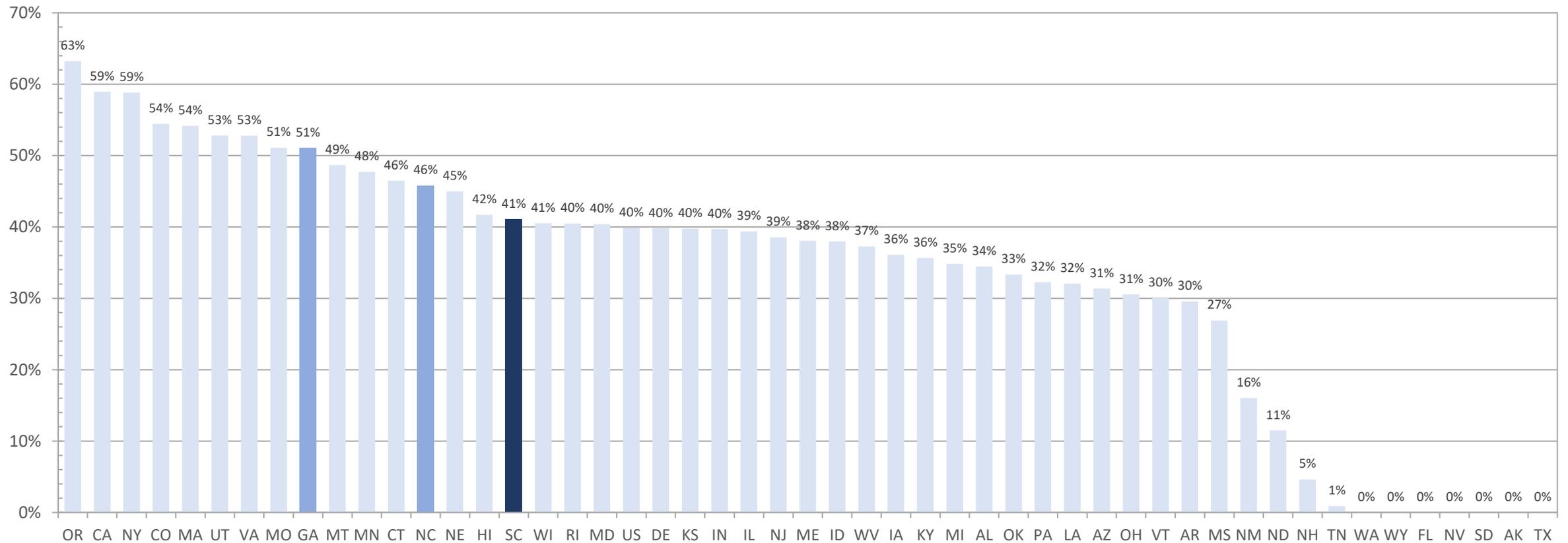
Source: U.S. Census Bureau, 2021 Annual Surveys of State and Local Government Finances. Includes all state tax revenue from income tax, sales tax, motor fuel tax, and others.

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State Tax Revenue from Income Taxes – FY 2020-21

The percentage of state tax revenue states receive from income taxes ranges from 63% to 1%

PERCENTAGE OF STATE TAX REVENUE FROM INCOME TAX
for FY 2020-21

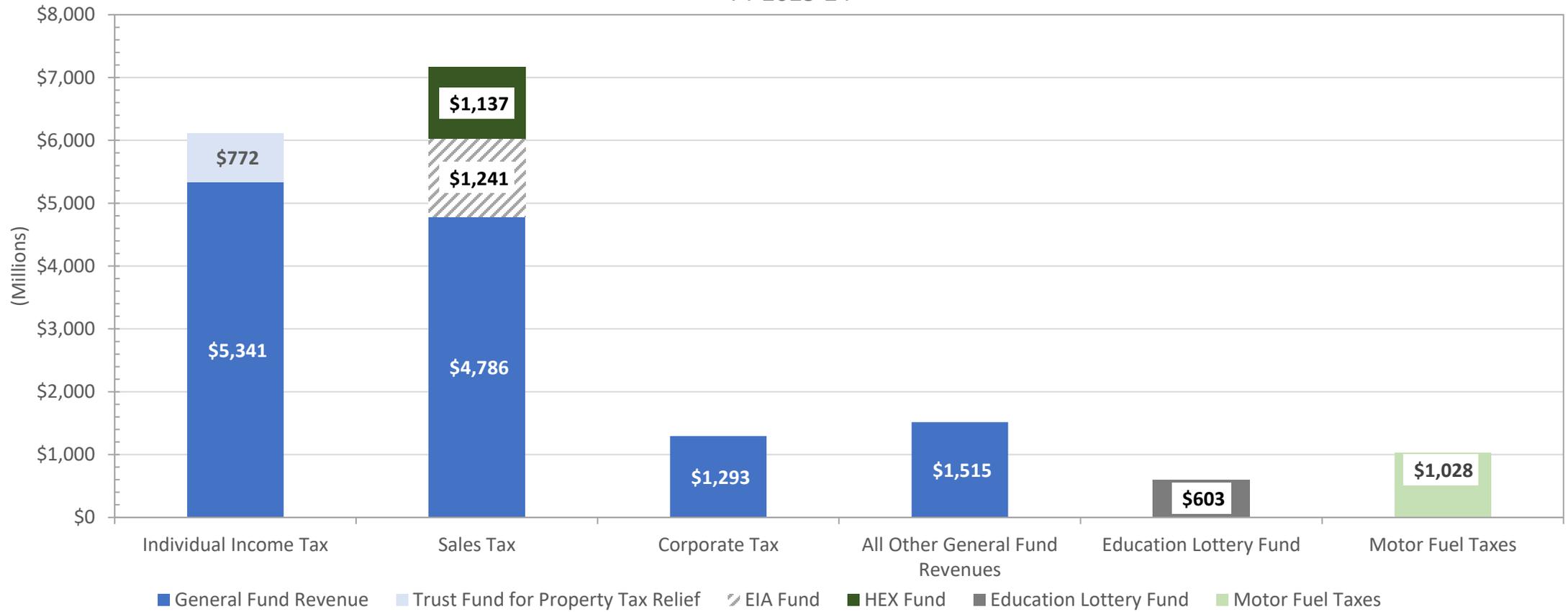


Source: U.S. Census Bureau, 2021 Annual Surveys of State and Local Government Finances. Includes all state tax revenue from income tax, sales tax, motor fuel tax, and others.

General Fund and Major Other Fund Revenues

After total state sales taxes, individual income tax is the second largest source of revenue for state appropriations

GENERAL FUND AND MAJOR OTHER FUND REVENUES
FY 2023-24

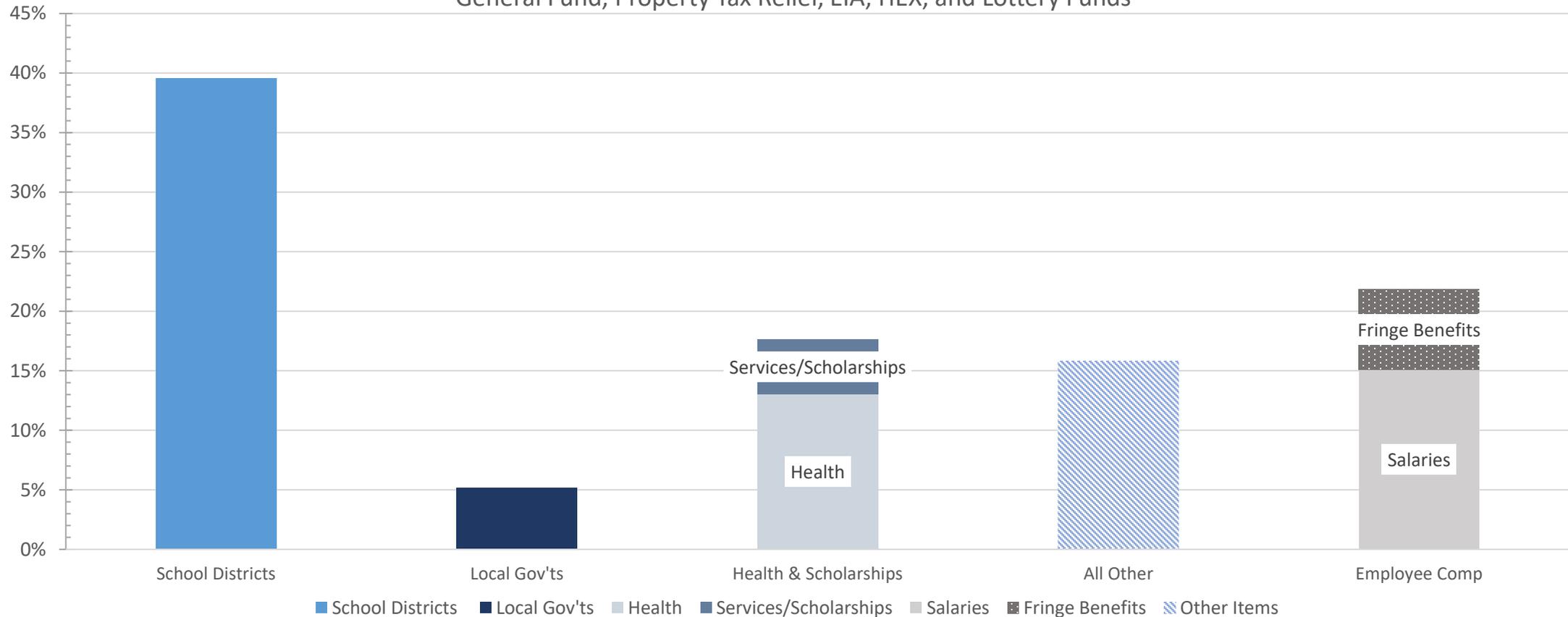


Source: SC Revenue and Fiscal Affairs - 366/kv/3/26/2025

Major Recipients of Budget Allocations – FY 2024-25

Over 60% of funding items provide aid to local governments and the public

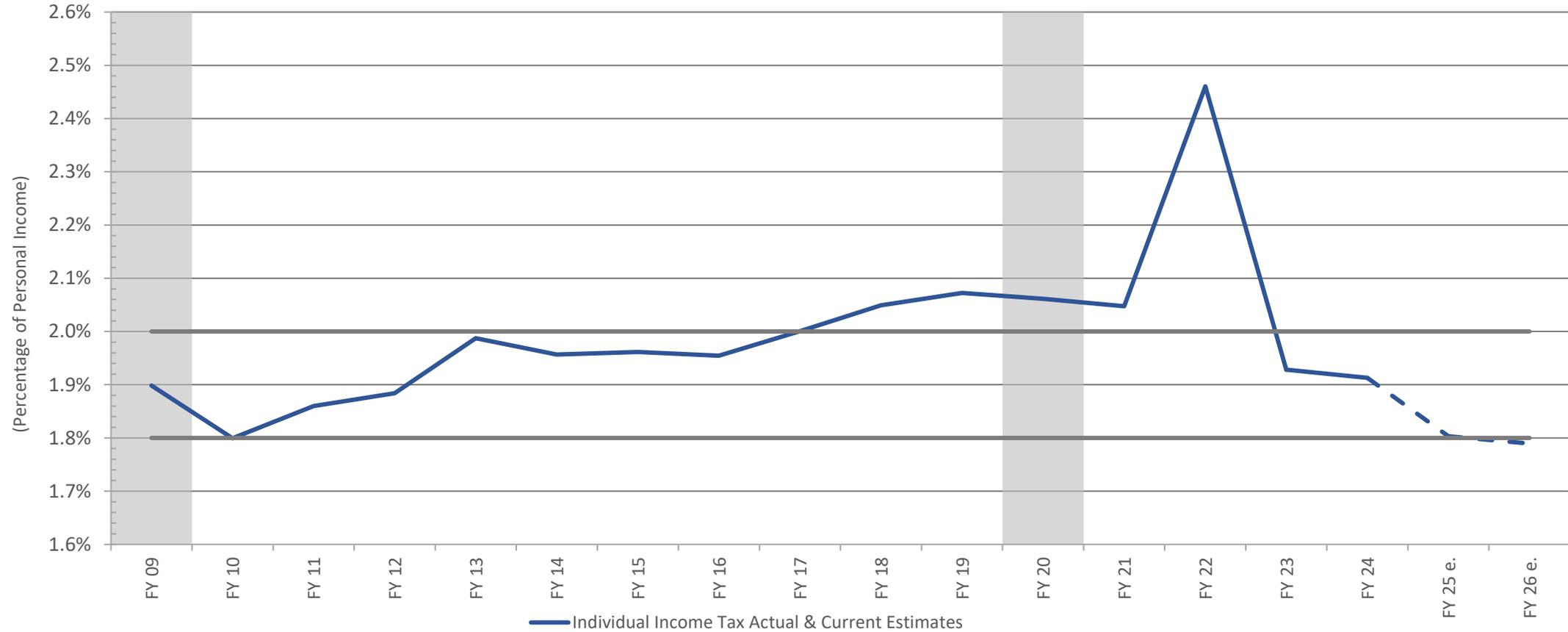
ALLOCATION OF MAJOR FUNDING SOURCES - FY 2024-25
 General Fund, Property Tax Relief, EIA, HEX, and Lottery Funds



Source: SC Revenue and Fiscal Affairs 175/RFA/far/03/12/2025

Individual Income Tax as a Percentage of Personal Income

SOUTH CAROLINA INCOME TAX COLLECTIONS
as a Percentage of Total Personal Income



Source: U.S. Department of Commerce, Bureau of Economic Analysis; SC Revenue and Fiscal Affairs Office 34-lhj/02/13/2025

Individual Income Tax

Types of Income, Filers, and Liability



Income Definitions

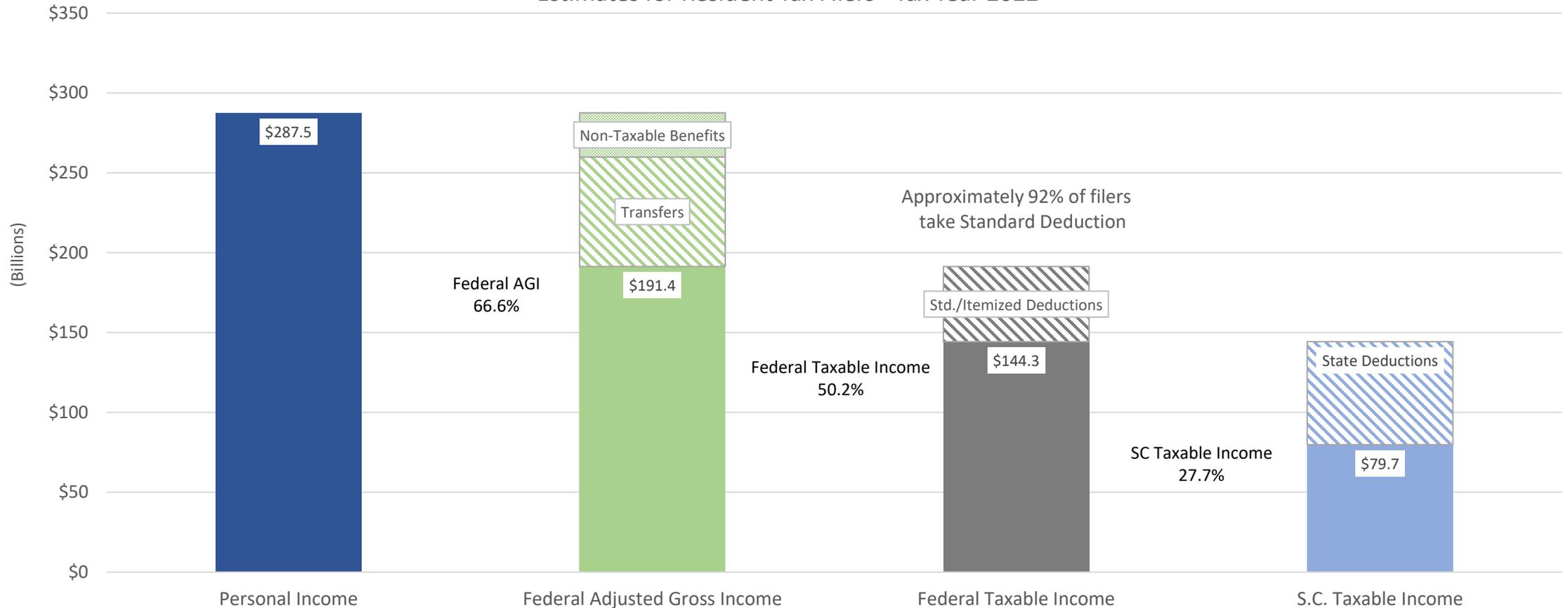
- Federal adjusted gross income (AGI) is gross income, such as wages, tips, taxable benefits, investment income, less items such as
 - Pre-tax benefits (payroll deductions for retirement, health insurance)
 - Most social security
 - Tax-exempt interest income
 - Student loan interest
- Most state individual income tax systems adopt the federal AGI and have state-specific deductions and exemptions
- Federal taxable income is federal AGI adjusted for the federal standard deduction or itemized deductions
- Only five states, including SC, conform to federal taxable income which is the starting point for determining South Carolina taxable income

Measures of SC Income - 2022

SC taxable income is approximately 28% of total personal income

MEASURES OF SOUTH CAROLINA INCOME

Estimates for Resident Tax Filers - Tax Year 2022

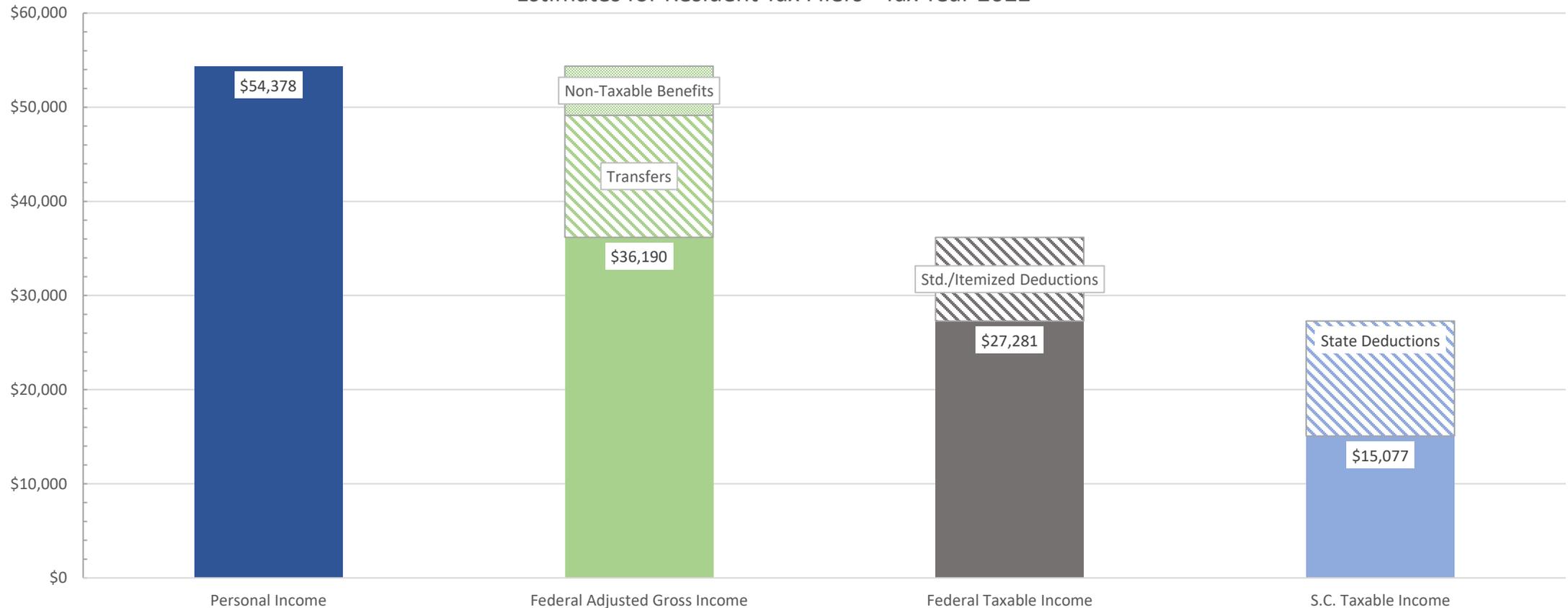


Source: U.S. Dept. of Commerce, Bureau of Economic Analysis; I.R.S. Statistics of Income; S.C. Dept. of Revenue Individual Income Tax Returns
S.C. Revenue and Fiscal Affairs 186B-lhj/04/17/2025

Measures of SC Income Per Capita – 2022

SC taxable income is approximately \$15,077 per person compared to personal income of \$54,378 per person

MEASURES OF SOUTH CAROLINA INCOME - PER CAPITA
Estimates for Resident Tax Filers - Tax Year 2022

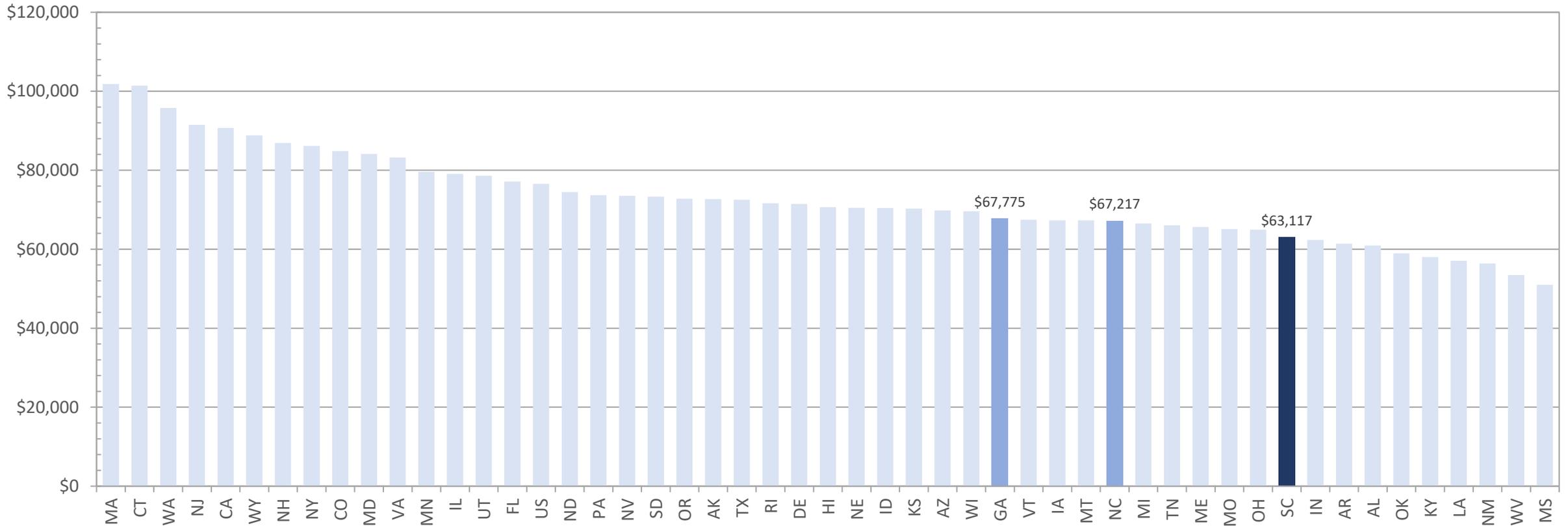


Source: U.S. Dept. of Commerce, Bureau of Economic Analysis; I.R.S. Statistics of Income; S.C. Dept. of Revenue Individual Income Tax Returns
S.C. Revenue and Fiscal Affairs 186-LHJ/04/17/2025

Average Federal AGI – Tax Year 2020

South Carolina had the 10th lowest average AGI in 2020

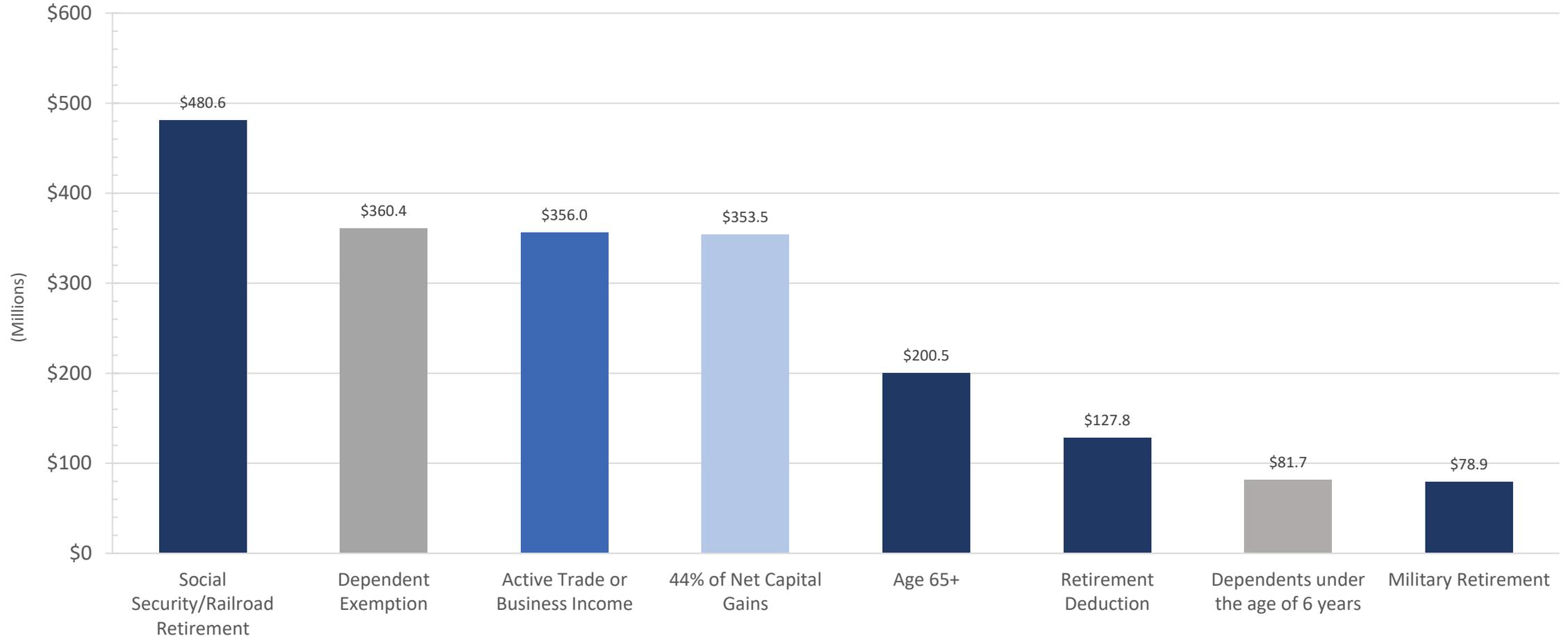
AVERAGE FEDERAL AGI PER TAX RETURN
for Tax Year 2020



Source: IRS, Statistics of Income Division, Individual Master File System, December 2022. Calculations by the S.C. Revenue and Fiscal Affairs Office.

Top South Carolina Income Tax Deductions - 2022

ESTIMATED TAX REDUCTION FROM TOP SC DEDUCTIONS
Tax Year 2022



Source: SC Department of Revenue individual income tax returns; analysis by SC Revenue and Fiscal Affairs 314/lhj/4/17/2025



SC Tax Structure – Tax Rates and Changes

- South Carolina has a marginal tax rate structure that applies to taxable income after all deductions and exemptions have been subtracted.
- In Act 228 of 2022, South Carolina enacted changes to the state’s marginal income tax rates and brackets beginning with tax year 2022. The tax rates were collapsed from six brackets to three brackets.
- If revenue growth thresholds are met, the top marginal tax rate will continue to decrease by 0.1% per year until the rate reaches 6%. The rate will decrease to 6.4% for tax year 2023 and 6.2% for tax year 2024 (additional reduction included in budget).

Tax Year 2021	
Tax Bracket	Tax Rate
\$0 - \$3,110	0%
\$3,111 - \$6,220	3%
\$6,221 - \$9,330	4%
\$9,331 - \$12,440	5%
\$12,440 - \$15,560	6%
Over \$15,560	7%



Tax Year 2022	
Tax Bracket	Tax Rate
\$0 - \$3,200	0%
\$3,201 - \$16,040	3%
Over \$16,040	6.5%

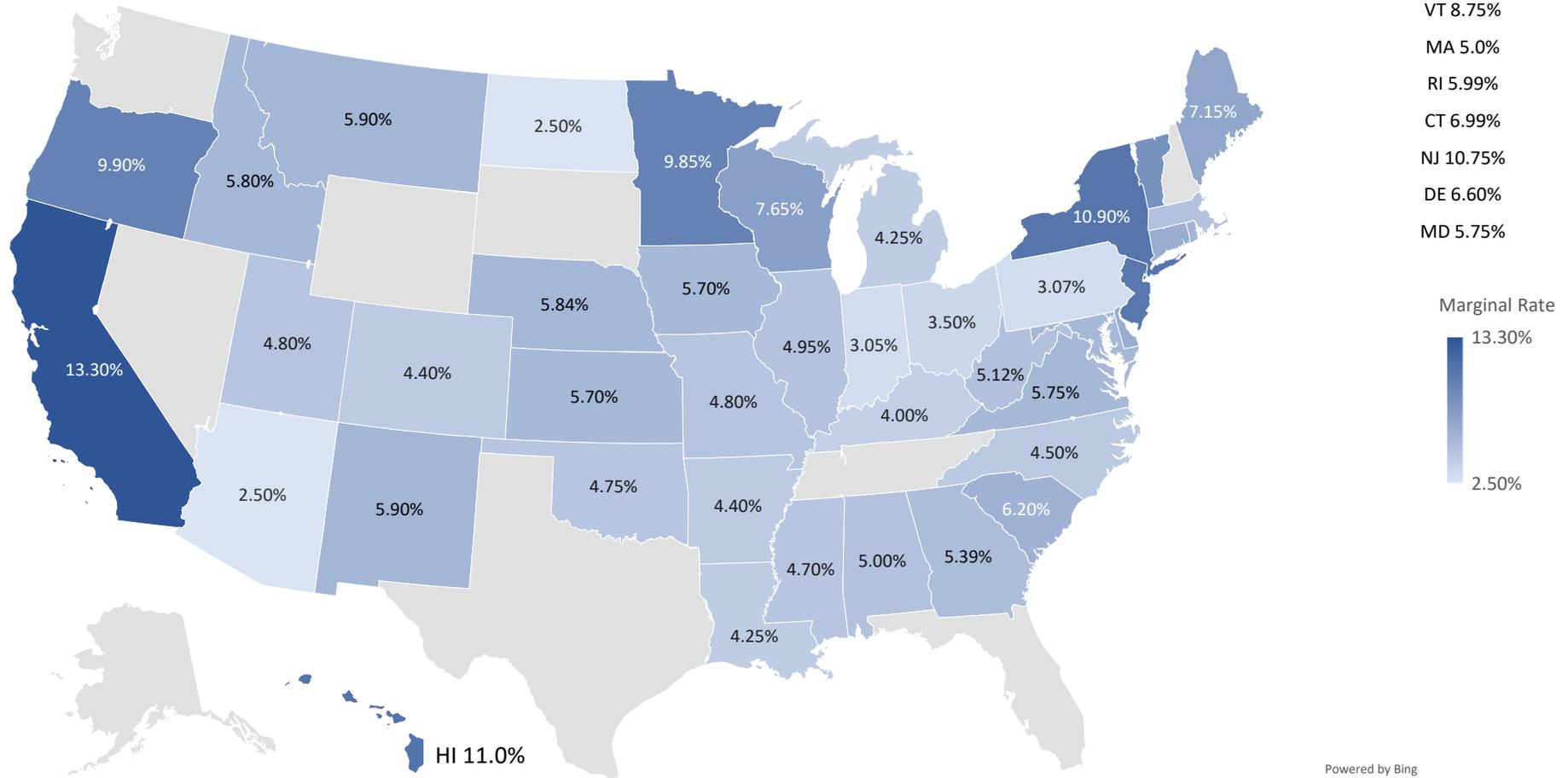


Tax Year 2027* (Estimated - Contingent on Revenue Growth)	
Tax Bracket	Tax Rate
\$0 - \$3,870	0%
\$3,871 - \$19,380	3%
Over \$19,380	6%

State Top Marginal Income Tax Rates – Tax Year 2024

Top marginal tax rates range from 2.5% to 13.3% for states with an individual income tax

HIGHEST STATE MARGINAL INDIVIDUAL INCOME TAX RATES
for Tax Year 2024



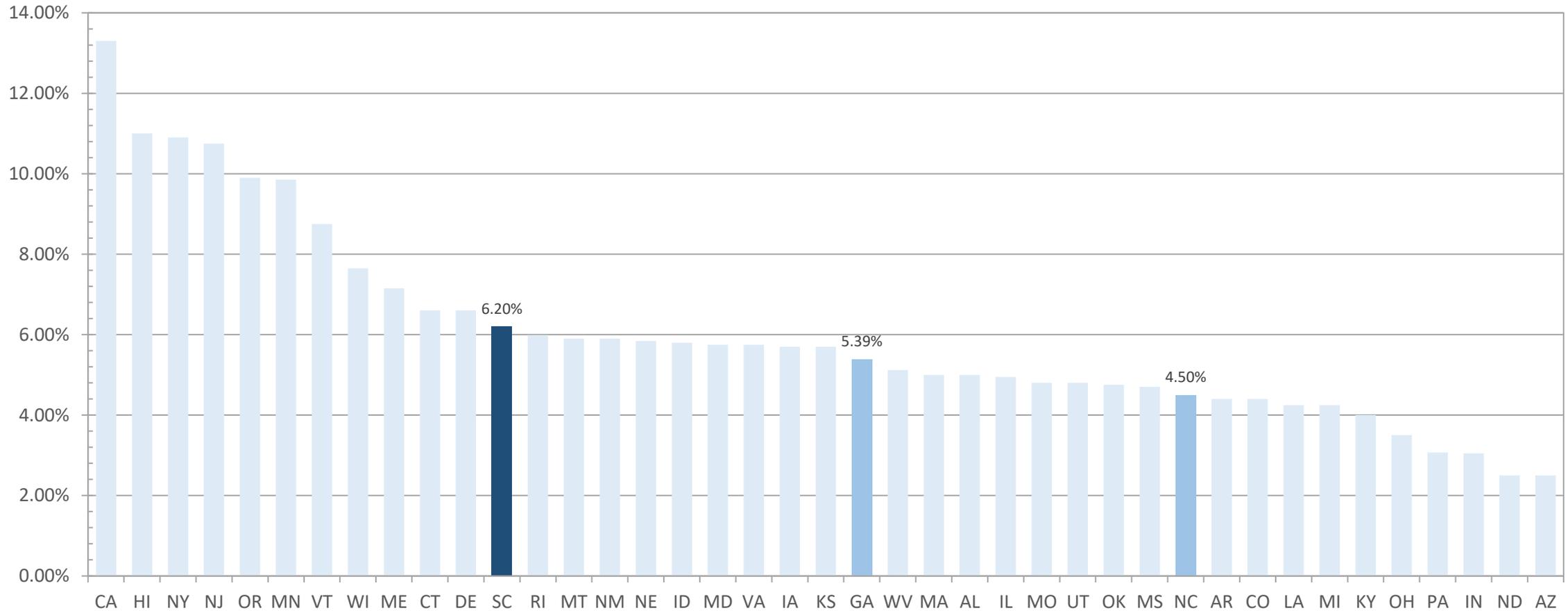
Source: Federation of Tax Administrators (rates as of January 1, 2024) <https://taxadmin.org/tax-rates-new/>; includes updates by SC Revenue and Fiscal Affairs

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State Top Marginal Income Tax Rates – Tax Year 2024

South Carolina's highest top marginal individual income tax rate in 2024 ranks 12th

HIGHEST STATE MARGINAL INDIVIDUAL INCOME TAX RATES
for Tax Year 2024



Source: Federation of Tax Administrators (rates as of January 1, 2024) <https://taxadmin.org/tax-rates-new/>; includes updates by SC Revenue and Fiscal Affairs

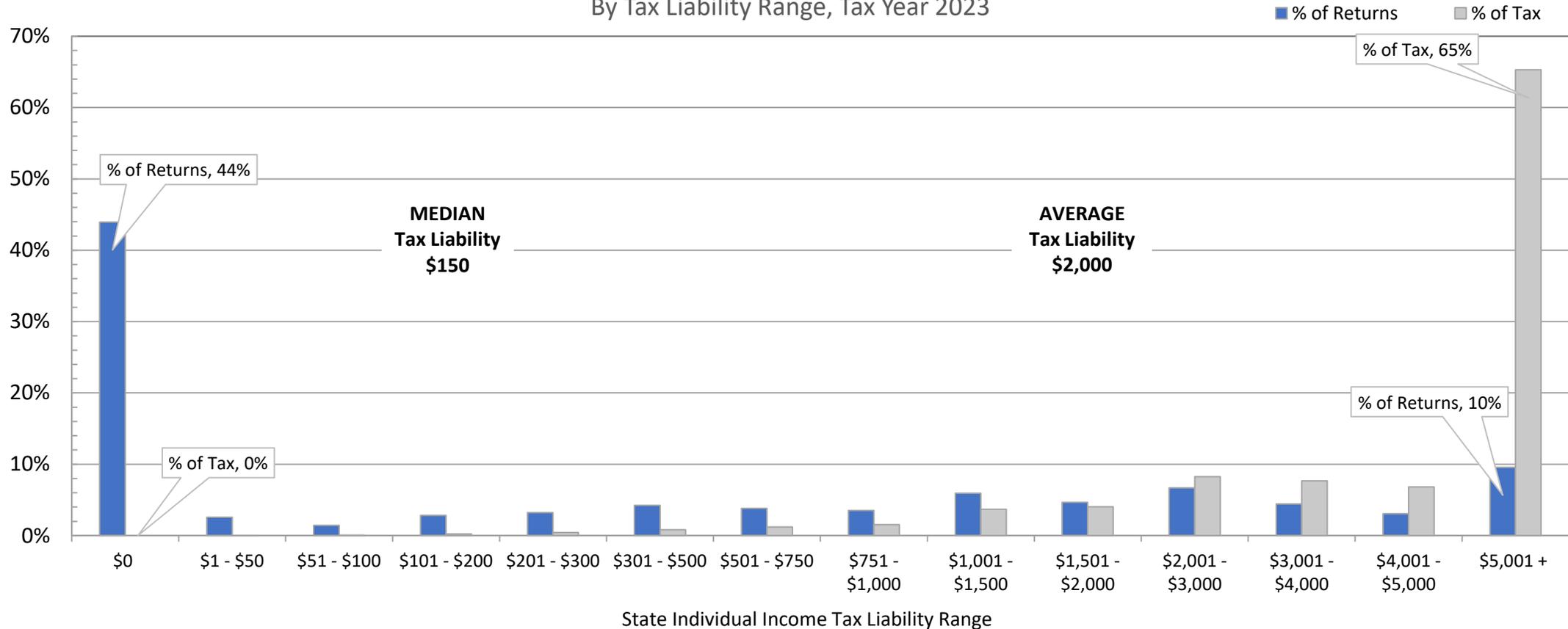


Distribution of South Carolina Tax Liability for Tax Year 2023

44% of returns had \$0 tax liability; 10% of returns accounted for 65% of total income tax liability

ESTIMATED SC INDIVIDUAL INCOME TAX RETURNS AND STATE TAX LIABILITY

By Tax Liability Range, Tax Year 2023

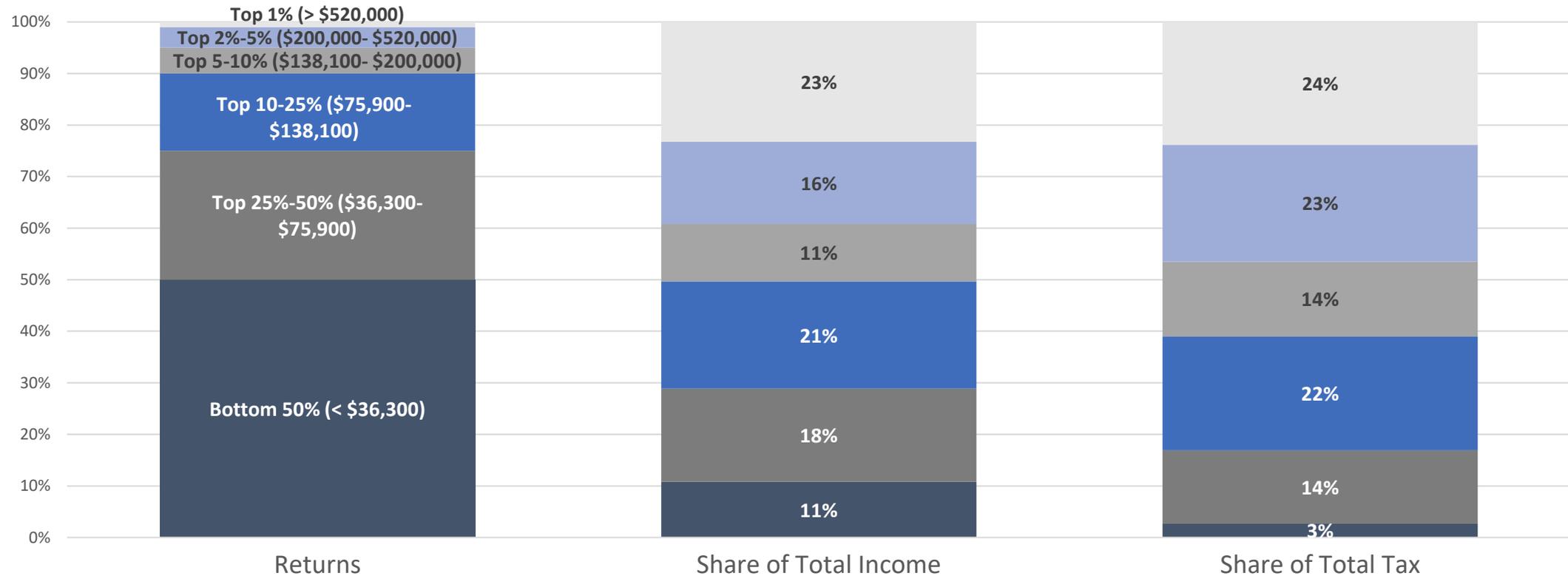


Data Source: Tax year 2021 S.C. Department of Revenue Individual Income Tax Returns; analysis by S.C. Revenue and Fiscal Affairs; Median and average are approximate |hj/8/1/2023

Share of SC Income and Tax – 2021

The top 1% make more than \$520,000, make up 23% of income, and pay 24% of the tax; the bottom 50% of state returns have less than \$36,300 in income, make up 11% of total income, and pay 3% of total state income taxes

SHARE OF FEDERAL ADJUSTED GROSS INCOME AND STATE INCOME TAX
Tax Year 2021



Data Source: S.C. Department of Revenue Individual Income Tax Returns; analysis by S.C. Revenue and Fiscal Affairs 1h/8/1/2023

SC Income Tax Estimates for Tax Year 2021

Single filers represented almost half of returns filed; overall effective tax rate was 3.1%

Filing Status	Returns	Percentage	Federal Adjusted		State Income Tax		Effective Rate*
			Gross Income	Percentage	Liability	Percentage	
Single	1,187,852	46%	\$44,527,765,848	24%	\$1,394,039,345	24%	3.1%
Married Joint	939,650	36%	\$125,517,195,684	67%	\$4,002,216,827	69%	3.2%
Married Separate	81,246	3%	\$4,714,353,427	3%	\$164,073,618	3%	3.5%
Head of Household	372,198	14%	\$13,956,426,902	7%	\$265,111,529	5%	1.9%
Total	2,580,946	100%	\$188,715,741,861	100%	\$5,825,441,319	100%	3.1%

Data Source: 2021 S.C. Department of Revenue Individual Income Tax Returns; analysis and estimates by S.C. Revenue and Fiscal Affairs

*Estimates include non-resident filers and may differ from calculations using other data sources

SC Income Tax Estimates for Tax Year 2021 - Averages

Average federal AGI is \$73,119 and average tax liability is \$2,257 but varies widely by filing status

Filing Status	Returns		Average Federal Adjusted Gross Income		Average State Income Tax Liability	
	Returns	Percentage	Income	Percentage	Income Tax Liability	Percentage
Single	1,187,852	46%	\$37,486	24%	\$1,174	24%
Married Joint	939,650	36%	\$133,579	67%	\$4,259	69%
Married Separate	81,246	3%	\$58,026	3%	\$2,019	3%
Head of Household	372,198	14%	\$37,497	7%	\$712	5%
Total	2,580,946	100%	\$73,119	100%	\$2,257	100%

Data Source: 2021 S.C. Department of Revenue Individual Income Tax Returns; analysis and estimates by S.C. Revenue and Fiscal Affairs

*Estimates include non-resident filers and may differ from calculations using other data sources



H.4216 and Alternative Considerations

H.4216 – Key Provisions

- Beginning in tax year 2026, changes the starting point for SC individual income tax from federal taxable income to federal adjusted gross income (AGI); eliminates the federal standard and itemized deductions
- Creates a new South Carolina Income Adjusted Deduction
 - \$6,000 single filers, \$12,000 for married filing jointly (MFJ), and \$9,000 for head of household (HOH)
 - Deduction phase-out starts at \$30,000 of AGI and ends at \$40,000 for single filers, \$60,000 to \$80,000 for MFJ, and \$45,000 to \$60,000 for HOH
- Establishes a flat tax rate of 3.99%
 - The flat rate is phased-down to 2.49% over time based on income tax growth
- Retains SC deductions, exemptions, and credits
- Adjust Withholdings Tax tables

Alternative A – 3.99%

ESTIMATED SOUTH CAROLINA INDIVIDUAL INCOME TAX IMPACT

Tax Year 2026

Impact: With this tax structure, 17.9% of taxpayers have a lower tax liability, 58.7% have a higher tax liability, and 23.4% are unchanged. The General Fund impact is (\$ 307,800,000).

Estimated Federal Adjusted Gross Income Range	Estimated Tax Return Distribution				Estimated Tax Change (Returns with a Change)							Returns with a Change								Tax Returns with No Change		Tax Returns with Zero Tax Liability	
	Estimated # of Returns	Estimated % of Returns	Old Avg. Tax Liability	New Avg. Tax Liability	Returns with Tax Change	% of Returns in Range	Old Avg. Tax Liability	New Avg. Tax Liability	Average Tax Change	Total Dollar Increase/ (Decrease)	Tax Returns with a Decrease in Liability				Tax Returns with an Increase in Liability				No Tax Change # of Returns	No Change % of Returns	Zero Tax # of Returns	Zero Tax % of Returns	
											Tax Decrease # of Returns	Tax Decrease % of Returns in Range	Total Decrease Amount	Average Decrease Amount	Tax Increase # of Returns	Tax Increase % of Returns in Range	Total Increase Amount	Average Increase Amount					
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	
\$0*	90,171	3.2%	\$65	\$51	1,690	1.9%	\$3,474	\$2,729	(\$745)	(\$1,260,000)	415	0.5%	(\$1,505,000)	(\$3,626)	1,275	1.4%	\$246,000	\$193	88,481	98.1%	88,369	98.0%	
\$1 to \$10,000	316,550	11.2%	\$4	\$27	76,701	24.2%	\$15	\$111	\$96	\$7,383,000	646	0.2%	(\$55,000)	(\$85)	76,056	24.0%	\$7,438,000	\$98	239,848	75.8%	240,104	75.9%	
\$10,001 to \$20,000	322,475	11.4%	\$16	\$145	158,024	49.0%	\$33	\$296	\$264	\$41,648,000	503	0.2%	(\$75,000)	(\$149)	157,521	48.8%	\$41,723,000	\$265	164,451	51.0%	164,445	51.0%	
\$20,001 to \$30,000	277,959	9.8%	\$104	\$391	190,326	68.5%	\$152	\$571	\$419	\$79,826,000	278	0.1%	(\$78,000)	(\$281)	190,048	68.4%	\$79,903,000	\$420	87,633	31.5%	87,352	31.4%	
\$30,001 to \$40,000	270,592	9.6%	\$285	\$714	238,704	88.2%	\$323	\$809	\$487	\$116,139,000	543	0.2%	(\$140,000)	(\$258)	238,162	88.0%	\$116,279,000	\$488	31,888	11.8%	31,597	11.7%	
\$40,001 to \$50,000	238,162	8.4%	\$590	\$1,101	222,172	93.3%	\$633	\$1,180	\$547	\$121,523,000	1,405	0.6%	(\$264,000)	(\$188)	220,767	92.7%	\$121,787,000	\$552	15,990	6.7%	15,712	6.6%	
\$50,001 to \$75,000	407,589	14.4%	\$1,248	\$1,711	386,612	94.9%	\$1,316	\$1,804	\$488	\$188,524,000	16,867	4.1%	(\$2,380,000)	(\$141)	369,744	90.7%	\$190,904,000	\$516	20,977	5.1%	20,331	5.0%	
\$75,001 to \$100,000	253,297	9.0%	\$2,175	\$2,500	250,117	98.7%	\$2,202	\$2,532	\$330	\$82,476,000	78,122	30.8%	(\$24,062,000)	(\$308)	171,995	67.9%	\$106,538,000	\$619	3,180	1.3%	2,922	1.2%	
\$100,001 to \$150,000	300,002	10.6%	\$3,538	\$3,707	297,227	99.1%	\$3,571	\$3,742	\$171	\$50,815,000	118,282	39.4%	(\$73,228,000)	(\$619)	178,945	59.6%	\$124,043,000	\$693	2,775	0.9%	3,035	1.0%	
\$150,001 to \$200,000	145,000	5.1%	\$5,947	\$5,361	143,734	99.1%	\$5,999	\$5,408	(\$591)	(\$84,998,000)	109,110	75.2%	(\$112,192,000)	(\$1,028)	34,624	23.9%	\$27,194,000	\$785	1,265	0.9%	2,141	1.5%	
\$200,001 to \$300,000	109,079	3.9%	\$9,317	\$7,500	107,588	98.6%	\$9,447	\$7,604	(\$1,842)	(\$198,224,000)	96,740	88.7%	(\$208,214,000)	(\$2,152)	10,848	9.9%	\$9,990,000	\$921	1,490	1.4%	2,738	2.5%	
\$300,001 to \$500,000	55,593	2.0%	\$15,594	\$11,567	54,207	97.5%	\$15,992	\$11,863	(\$4,130)	(\$223,852,000)	50,448	90.7%	(\$229,002,000)	(\$4,539)	3,759	6.8%	\$5,150,000	\$1,370	1,385	2.5%	2,396	4.3%	
\$500,001 to \$1,000,000	25,468	0.9%	\$26,791	\$19,132	24,306	95.4%	\$28,071	\$20,046	(\$8,024)	(\$195,041,000)	22,339	87.7%	(\$199,568,000)	(\$8,934)	1,968	7.7%	\$4,527,000	\$2,301	1,161	4.6%	1,626	6.4%	
Over \$1,000,000	12,102	0.4%	\$78,357	\$54,167	10,907	90.1%	\$86,944	\$60,103	(\$26,841)	(\$292,749,000)	9,858	81.5%	(\$303,264,000)	(\$30,763)	1,049	8.7%	\$10,515,000	\$10,025	1,195	9.9%	1,425	11.8%	
Total	2,824,038	100.0%	\$2,392	\$2,283	2,162,318	76.6%	\$3,124	\$2,982	(\$142)	(\$307,800,000)	505,556	17.9%	(\$1,154,000,000)	(\$2,283)	1,656,762	58.7%	\$846,200,000	\$511	661,720	23.4%	664,194	23.5%	

Figures may not add to totals due to rounding. For non-residents, federal AGI is only the amount applicable to South Carolina.

*Returns may have \$0 federal AGI but positive state taxable income due to provisions not adopted by South Carolina or out-of-state income adjustments.

Current 2026 Marginal Tax Rates:	Taxable Income Range:
0%	up to \$3,640
3%	\$3,640-\$18,220
6.3%	over \$18,220

(Rates are based on BEA forecast assumptions. Actual rate is 6.2% for tax year 2025 and after as accounted for in the budget.)

Proposed Flat Tax Rate :	3.99%
SC Income Adj. Deduction	Single \$7,500
	Start Phase out \$35,000
	End Phase out \$60,000

Married Filing Joint - amounts x 2, Head of Household amounts x 1.5
Non-resident phase-out based on total federal AGI and amount is pro-rated

Other Notes:

No standard or itemized deductions.

All other current state adjustments to income (federal conformity provisions), deductions, exemptions, and credits are maintained.

Earned income tax credit limited to \$200.

Active trade or business rate at 3% is maintained.

Disclaimer: Estimates are based on current assumptions at the time of the analysis. Changes in growth rates, base year tax data, or other assumptions may have a positive or negative impact on these estimates and the budget.

Data Source: SC Department of Revenue 2022 federal and state matched individual income tax return 94% sample; Inflated to 100% by RFA

Alternative B – 4.74%

ESTIMATED SOUTH CAROLINA INDIVIDUAL INCOME TAX IMPACT

Tax Year 2026

Impact: With this tax structure, 25.1% of taxpayers have a lower tax liability, 38.6% have a higher tax liability, and 36.2% are unchanged. The General Fund impact is (\$ 282,300,000).

Estimated Federal Adjusted Gross Income Range	Estimated Tax Return Distribution				Estimated Tax Change (Returns with a Change)							Returns with a Change								Tax Returns with No Change		Tax Returns with Zero Tax Liability	
	Estimated # of Returns	Estimated % of Returns	Old Avg. Tax Liability	New Avg. Tax Liability	Returns with Tax Change	% of Returns in Range	Old Avg. Tax Liability	New Avg. Tax Liability	Average Tax Change	Total Dollar Increase/ (Decrease)	Tax Returns with a Decrease in Liability				Tax Returns with an Increase in Liability				No Tax Change # of Returns	No Change % of Returns	Zero Tax # of Returns	Zero Tax % of Returns	
											Tax Decrease # of Returns	Tax Decrease % of Returns in Range	Total Decrease Amount	Average Decrease Amount	Tax Increase # of Returns	Tax Increase % of Returns in Range	Total Increase Amount	Average Increase Amount					
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	
\$0*	90,171	3.2%	\$65	\$56	1,582	1.8%	\$3,711	\$3,191	(\$520)	(\$823,000)	393	0.4%	(\$1,026,000)	(\$2,614)	1,190	1.3%	\$203,000	\$171	88,589	98.2%	88,482	98.1%	
\$1 to \$10,000	316,550	11.2%	\$4	\$20	48,575	15.3%	\$24	\$130	\$106	\$5,171,000	756	0.2%	(\$62,000)	(\$82)	47,819	15.1%	\$5,234,000	\$109	267,975	84.7%	268,499	84.8%	
\$10,001 to \$20,000	322,475	11.4%	\$16	\$38	40,845	12.7%	\$126	\$297	\$171	\$6,994,000	1,413	0.4%	(\$191,000)	(\$135)	39,432	12.2%	\$7,185,000	\$182	281,630	87.3%	282,423	87.6%	
\$20,001 to \$30,000	277,959	9.8%	\$104	\$173	139,843	50.3%	\$207	\$345	\$138	\$19,262,000	1,707	0.6%	(\$212,000)	(\$124)	138,136	49.7%	\$19,474,000	\$141	138,115	49.7%	138,687	49.9%	
\$30,001 to \$40,000	270,592	9.6%	\$285	\$402	166,158	61.4%	\$464	\$655	\$191	\$31,793,000	16,975	6.3%	(\$583,000)	(\$34)	149,183	55.1%	\$32,376,000	\$217	104,434	38.6%	116,629	43.1%	
\$40,001 to \$50,000	238,162	8.4%	\$590	\$683	187,649	78.8%	\$749	\$867	\$118	\$22,160,000	17,672	7.4%	(\$665,000)	(\$38)	169,978	71.4%	\$22,825,000	\$134	50,513	21.2%	59,446	25.0%	
\$50,001 to \$75,000	407,589	14.4%	\$1,248	\$1,275	358,637	88.0%	\$1,419	\$1,450	\$31	\$10,986,000	201,524	49.4%	(\$22,548,000)	(\$112)	157,113	38.5%	\$33,534,000	\$213	48,952	12.0%	52,755	12.9%	
\$75,001 to \$100,000	253,297	9.0%	\$2,175	\$2,285	229,229	90.5%	\$2,403	\$2,525	\$122	\$28,015,000	99,660	39.3%	(\$30,240,000)	(\$303)	129,569	51.2%	\$58,255,000	\$450	24,068	9.5%	26,401	10.4%	
\$100,001 to \$150,000	300,002	10.6%	\$3,538	\$3,392	287,963	96.0%	\$3,686	\$3,534	(\$152)	(\$43,732,000)	184,002	61.3%	(\$86,075,000)	(\$468)	103,961	34.7%	\$42,343,000	\$407	12,040	4.0%	14,095	4.7%	
\$150,001 to \$200,000	145,000	5.1%	\$5,947	\$6,355	143,658	99.1%	\$6,003	\$6,415	\$412	\$59,183,000	32,917	22.7%	(\$17,322,000)	(\$526)	110,741	76.4%	\$76,505,000	\$691	1,341	0.9%	980	0.7%	
\$200,001 to \$300,000	109,079	3.9%	\$9,317	\$8,975	107,578	98.6%	\$9,447	\$9,100	(\$347)	(\$37,374,000)	75,594	69.3%	(\$64,117,000)	(\$848)	31,984	29.3%	\$26,743,000	\$836	1,501	1.4%	1,141	1.0%	
\$300,001 to \$500,000	55,593	2.0%	\$15,594	\$13,782	54,219	97.5%	\$15,989	\$14,131	(\$1,857)	(\$100,707,000)	46,769	84.1%	(\$111,042,000)	(\$2,374)	7,450	13.4%	\$10,334,000	\$1,387	1,374	2.5%	1,221	2.2%	
\$500,001 to \$1,000,000	25,468	0.9%	\$26,791	\$22,628	24,307	95.4%	\$28,069	\$23,708	(\$4,361)	(\$106,012,000)	21,082	82.8%	(\$114,170,000)	(\$5,416)	3,225	12.7%	\$8,158,000	\$2,529	1,160	4.6%	1,121	4.4%	
Over \$1,000,000	12,102	0.4%	\$78,357	\$63,715	10,910	90.2%	\$86,917	\$70,675	(\$16,242)	(\$177,206,000)	9,372	77.4%	(\$194,111,000)	(\$20,711)	1,538	12.7%	\$16,905,000	\$10,993	1,192	9.8%	1,198	9.9%	
Total	2,824,038	100.0%	\$2,392	\$2,292	1,801,154	63.8%	\$3,751	\$3,594	(\$157)	(\$282,300,000)	709,835	25.1%	(\$642,300,000)	(\$905)	1,091,320	38.6%	\$360,000,000	\$330	1,022,884	36.2%	1,053,077	37.3%	

Figures may not add to totals due to rounding. For non-residents, federal AGI is only the amount applicable to South Carolina.

*Returns may have \$0 federal AGI but positive state taxable income due to provisions not adopted by South Carolina or out-of-state income adjustments.

Current 2026 Marginal Tax Rates:	Taxable Income Range:
0%	up to \$3,640
3%	\$3,640-\$18,220
6.3%	over \$18,220

(Rates are based on BEA forecast assumptions. Actual rate is 6.2% for tax year 2025 and after as accounted for in the budget.)

Proposed Flat Tax Rate :	4.74%
SC Income Adj. Deduction	Single \$19,000
	Start Phase out \$65,000
	End Phase out \$80,000
Married Filing Joint - amounts x 2, Head of Household amounts x 1.5	
Non-resident phase-out based on total federal AGI and amount is pro-rated	

Other Notes:

No standard or itemized deductions.

All other current state adjustments to income (federal conformity provisions), deductions, exemptions, and credits are maintained.

Earned income tax credit limited to \$200.

Active trade or business rate at 3% is maintained.

Disclaimer: Estimates are based on current assumptions at the time of the analysis. Changes in growth rates, base year tax data, or other assumptions may have a positive or negative impact on these estimates and the budget.

Data Source: SC Department of Revenue 2022 federal and state matched individual income tax return 94% sample; Inflated to 100% by RFA

Alt. C – 1.99% & 5.49%

ESTIMATED SOUTH CAROLINA INDIVIDUAL INCOME TAX IMPACT

Tax Year 2026

Impact: With this tax structure, 39.1% of taxpayers have a lower tax liability, 28.0% have a higher tax liability, and 33.0% are unchanged. The General Fund impact is (\$ 289,800,000).

Estimated Federal Adjusted Gross Income Range	Estimated Tax Return Distribution				Estimated Tax Change (Returns with a Change)							Returns with a Change						Tax Returns with No Change		Tax Returns with Zero Tax Liability		
	Estimated # of Returns	Estimated % of Returns	Old Avg. Tax Liability	New Avg. Tax Liability	Returns with Tax Change	% of Returns in Range	Old Avg. Tax Liability	New Avg. Tax Liability	Average Tax Change	Total Dollar Increase/ (Decrease)	Tax Returns with a Decrease in Liability			Tax Returns with an Increase in Liability			No Tax Change # of Returns	No Change % of Returns	Zero Tax # of Returns	Zero Tax % of Returns		
											Tax Decrease # of Returns	Tax Decrease % of Returns in Range	Total Decrease Amount	Average Decrease Amount	Tax Increase # of Returns	Tax Increase % of Returns in Range					Total Increase Amount	Average Increase Amount
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23
\$0*	90,171	3.2%	\$65	\$55	1,583	1.8%	\$3,710	\$3,153	(\$556)	(\$880,000)	709	0.8%	(\$925,000)	(\$1,305)	874	1.0%	\$44,000	\$50	88,588	98.2%	88,472	98.1%
\$1 to \$10,000	316,550	11.2%	\$4	\$10	51,876	16.4%	\$22	\$62	\$40	\$2,073,000	836	0.3%	(\$87,000)	(\$104)	51,041	16.1%	\$2,160,000	\$42	264,673	83.6%	265,193	83.8%
\$10,001 to \$20,000	322,475	11.4%	\$16	\$27	80,095	24.8%	\$64	\$107	\$43	\$3,435,000	3,193	1.0%	(\$280,000)	(\$88)	76,902	23.8%	\$3,715,000	\$48	242,380	75.2%	243,003	75.4%
\$20,001 to \$30,000	277,959	9.8%	\$104	\$111	142,801	51.4%	\$203	\$215	\$13	\$1,839,000	48,132	17.3%	(\$1,918,000)	(\$40)	94,669	34.1%	\$3,758,000	\$40	135,158	48.6%	134,634	48.4%
\$30,001 to \$40,000	270,592	9.6%	\$285	\$218	176,504	65.2%	\$437	\$335	(\$102)	(\$17,975,000)	142,890	52.8%	(\$20,105,000)	(\$141)	33,614	12.4%	\$2,131,000	\$63	94,088	34.8%	105,836	39.1%
\$40,001 to \$50,000	238,162	8.4%	\$590	\$397	196,708	82.6%	\$715	\$481	(\$234)	(\$45,992,000)	141,113	59.3%	(\$51,315,000)	(\$364)	55,595	23.3%	\$5,323,000	\$96	41,454	17.4%	53,076	22.3%
\$50,001 to \$75,000	407,589	14.4%	\$1,248	\$1,021	366,321	89.9%	\$1,389	\$1,136	(\$254)	(\$92,900,000)	294,370	72.2%	(\$105,761,000)	(\$359)	71,951	17.7%	\$12,861,000	\$179	41,268	10.1%	51,217	12.6%
\$75,001 to \$100,000	253,297	9.0%	\$2,175	\$2,001	240,901	95.1%	\$2,287	\$2,104	(\$182)	(\$43,947,000)	183,877	72.6%	(\$56,929,000)	(\$310)	57,024	22.5%	\$12,982,000	\$228	12,396	4.9%	14,640	5.8%
\$100,001 to \$150,000	300,002	10.6%	\$3,538	\$3,611	295,991	98.7%	\$3,586	\$3,660	\$75	\$22,113,000	128,005	42.7%	(\$37,746,000)	(\$295)	167,986	56.0%	\$59,859,000	\$356	4,011	1.3%	3,261	1.1%
\$150,001 to \$200,000	145,000	5.1%	\$5,947	\$6,267	143,706	99.1%	\$6,001	\$6,323	\$323	\$46,362,000	28,667	19.8%	(\$16,998,000)	(\$593)	115,039	79.3%	\$63,360,000	\$551	1,294	0.9%	973	0.7%
\$200,001 to \$300,000	109,079	3.9%	\$9,317	\$9,262	107,494	98.5%	\$9,455	\$9,399	(\$56)	(\$6,048,000)	58,772	53.9%	(\$30,474,000)	(\$519)	48,722	44.7%	\$24,427,000	\$501	1,585	1.5%	1,096	1.0%
\$300,001 to \$500,000	55,593	2.0%	\$15,594	\$14,842	54,195	97.5%	\$15,996	\$15,225	(\$771)	(\$41,791,000)	44,475	80.0%	(\$52,729,000)	(\$1,186)	9,720	17.5%	\$10,938,000	\$1,125	1,398	2.5%	1,038	1.9%
\$500,001 to \$1,000,000	25,468	0.9%	\$26,791	\$25,037	24,301	95.4%	\$28,077	\$26,240	(\$1,838)	(\$44,657,000)	19,991	78.5%	(\$55,186,000)	(\$2,761)	4,310	16.9%	\$10,529,000	\$2,443	1,167	4.6%	906	3.6%
Over \$1,000,000	12,102	0.4%	\$78,357	\$72,454	10,910	90.2%	\$86,916	\$80,368	(\$6,548)	(\$71,441,000)	8,774	72.5%	(\$97,457,000)	(\$11,107)	2,136	17.7%	\$26,016,000	\$12,178	1,192	9.8%	1,030	8.5%
Total	2,824,038	100.0%	\$2,392	\$2,290	1,893,386	67.0%	\$3,568	\$3,415	(\$153)	(\$289,800,000)	1,103,803	39.1%	(\$527,900,000)	(\$478)	789,583	28.0%	\$238,100,000	\$302	930,652	33.0%	964,376	34.1%

Figures may not add to totals due to rounding. For non-residents, federal AGI is only the amount applicable to South Carolina.

*Returns may have \$0 federal AGI but positive state taxable income due to provisions not adopted by South Carolina or out-of-state income adjustments.

Current 2026 Marginal Tax Rates:

0%	up to \$3,640
3%	\$3,640-\$18,220
6.3%	over \$18,220

Proposed Tax Rates :

1.99%	up to \$35,000
5.49%	over \$35,000

SC Income Adj. Deduction:

Single	\$15,000
Start Phase out	\$35,000
End Phase out	\$78,000

Married Filing Joint - amt. x 2, Head of Household amt. x 1.5 (Does not apply to tax brackets)

Non-resident phase-out based on total federal AGI and amount is pro-rated

Other Notes:

No standard or itemized deductions.

All other current state adjustments to income (federal conformity provisions), deductions, exemptions, and credits are maintained. Earned income tax credit limited to \$200.

Active trade or business rate at 3% is maintained.

Disclaimer: Estimates are based on current assumptions at the time of the analysis. Changes in growth rates, base year tax data, or other assumptions may have a positive or negative impact on these estimates and the budget.

Summary of H. 4216 and Alternatives A, B, and C

	H. 4216 (3.99%)	Alt – A (3.99%)	Alt – B (4.74%)	Alt – C (1.99% & 5.49%)
Revenue Loss*	(\$216.6m)	(\$307.8m)	(\$282.3m)	(\$289.8m)
<u>Returns with \$0 Tax Liability</u>				
Percentage	22.8%	23.5%	37.3%	34.1%
<u>Returns with a Tax Liability Increase</u>				
Percentage	59.4%	58.7%	38.6%	28.0%
Average Change	\$560	\$511	\$330	\$302
<u>Returns with a Tax Liability Decrease</u>				
Percentage	19.4%	17.9%	25.1%	39.1%
Average Change	(\$2,110)	(\$2,283)	(\$905)	(\$478)

*The revenue loss is compared against the 0%, 3%, and 6.3% marginal tax rates included in the revenue forecast by the Board of Economic Advisors. Actual rate is 6.2% for tax year 2025 and after and is accounted for in the budget.

Closing Thoughts

- Individual income tax is a significant part of General Fund appropriations
- Comparisons of state Individual income tax are difficult because many different factors (income, deductions, rates) are involved
 - South Carolina is one of a handful of states that start with federal taxable income and exempt a significant amount of income through state deductions, exemptions, and credits, which results in an effective rate lower than the top marginal rate, but this explanation gets lost when tax tables are compared
- Taxpayers can have similar federal adjusted gross incomes but widely varying tax liabilities depending on the source of the income, filing status, and other factors
- The current 6.2% top tax rate is higher than our neighboring states

Questions?

Thank you!

For more information: www.rfa.sc.gov

