



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
(803)734-3780 • RFA.SC.GOV/IMPACTS

This fiscal impact statement is produced in compliance with the South Carolina Code of Laws and House and Senate rules. The focus of the analysis is on governmental expenditure and revenue impacts and may not provide a comprehensive summary of the legislation.

Bill Number: H. 3388 Introduced on January 12, 2021
Author: McCravy
Subject: Taxation
Requestor: House Ways and Means
RFA Analyst(s): Jolliff
Impact Date: March 15, 2021

Fiscal Impact Summary

This bill allows an individual income taxpayer filing a married joint return to calculate the income tax liability separately as though the taxpayers filed separate returns and reduce the tax liability by the difference. We anticipate that the Department of Revenue (DOR) will implement the necessary changes to individual income tax forms and instructions in the annual updates, and therefore, the bill is not expected to impact expenditures for DOR.

The bill will reduce General Fund individual income tax revenue by up to \$273,241,000 in FY 2021-22. We do not anticipate that taxpayers will adjust their income tax declarations prior to the end of FY 2020-21, given the limited time remaining in the fiscal year. However, if the bill were enacted prior to July 1, a small portion of the impact may be realized in reduced declarations for FY 2020-21. For this analysis, the bill is interpreted to impact only the calculation of the tax liability and not impact the ability for taxpayers to claim any tax credits or deductions. Any change in the ability of taxpayers to claim additional deductions or expenses would impact these estimates.

Explanation of Fiscal Impact

Introduced on January 12, 2021

State Expenditure

This bill allows an individual income taxpayer filing a married joint return to calculate the income tax liability separately as though the taxpayers filed separate returns and reduce the tax liability by the difference. The change is effective beginning in tax year 2021. We anticipate that DOR will implement the necessary changes to individual income tax forms and instructions in the annual updates. Therefore, the bill is not expected to impact expenditures for DOR.

State Revenue

This bill allows individual income taxpayers filing a federal married joint return to calculate the amount of income tax owed as though the taxpayers each filed a single return and reduce the tax liability owed on the joint return by the difference. The change is effective beginning in tax year 2021. Currently, South Carolina's individual income tax rates range from 0 percent to 7 percent as outlined below and are the same for single and married joint income tax filers. This bill would allow married joint filers to divide their income and calculate the tax liability for each taxpayer

separately, effectively allowing the filers to reduce their income tax liability by each taking advantage of the lower tax rates and brackets for the initial taxable income attributable to each filer.

2021 Individual Income Tax Brackets

Tax Rate	Taxable Income Range
0.00%	\$0 to 3,110
3.00%	\$3,110 to 6,220
4.00%	\$6,220 to 9,330
5.00%	\$9,330 to 12,440
6.00%	\$12,440 to 15,550
7.00%	Over \$15,550

For this analysis, the bill is interpreted to impact only the calculation of the tax liability and not impact the ability for taxpayers to claim any tax credits or deductions. Any change in the ability of taxpayers to claim additional deductions or expenses would impact these estimates.

As of tax year 2019, South Carolina has 912,766 married joint filers, including qualifying widow(er) filers, which is 37 percent of the total 2,491,272 tax returns. These taxpayers reported a total tax liability of approximately \$3,285,150,000, accounting for approximately 70 percent of the total reported tax liability.

Currently, state income tax returns do not specify how much of the taxable income is attributable to each filer. In order to estimate the impact, we recalculated the 2019 tax returns assuming the tax liability is split evenly between taxpayers. Under this bill, each spouse would be entitled to receive the lower tax rates on the first \$15,550 of taxable income, which equals up to \$529 in savings. Adjusting to account for income and return growth, this analysis suggests that the bill would reduce income tax liability by approximately \$273,241,000 for tax year 2021. This reduction would apply to 597,132 returns with taxable income, or 65 percent of married joint filers, and reduce their income tax liability by 9.1 percent overall. The average reduction for those with a reduction in tax liability would be \$457.

As stated, we do not have data to accurately split the current reported taxable income between filers and, therefore, have calculated the estimated reduction based upon an even split, which would be the upper end of the impact. If the income is split 75/25 between taxpayers instead of 50/50, the reduction decreases to approximately \$253,678,000. Given the data limitations, we estimate that the bill will reduce General Fund individual income tax data by up to \$273,241,000 in FY 2021-22. We do not anticipate that taxpayers will adjust their income tax declarations prior to the end of FY 2020-21, given the limited time remaining in the fiscal year. However, if the bill were enacted prior to July 1, a small portion of the impact may be realized in reduced declarations for FY 2020-21.

Local Expenditure and Local Revenue

N/A



Frank A. Rainwater, Executive Director