



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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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: S. 0969 Introduced on January 17, 2024
Author: Alexander
Subject: Income Tax Deductions
Requestor: Senate Finance
RFA Analyst(s): Jolliff
Impact Date: February 15, 2024

Fiscal Impact Summary

This bill increases the individual income tax subsistence allowance deduction for law enforcement officers and full-time firefighters and emergency medical service personnel from \$8 to \$16 per day beginning in tax year 2024. The bill also increases the maximum deduction for 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 from \$3,000 to \$6,000. The allowable deduction per taxpayer must be certified by Revenue and Fiscal Affairs (RFA) annually such that the total revenue loss does not exceed an aggregate limit of \$3,100,000 per year in total, which remains unchanged.

This bill is not expected to impact expenditures for the Department of Revenue (DOR). We anticipate that the necessary updates to tax forms and guidance can be completed in the revisions that are completed annually. Further, the bill will not impact expenditures for RFA as the agency currently provides this certification annually.

This bill is expected to reduce General Fund individual income tax revenue by a total of \$2,602,000 beginning in FY 2024-25. Of this amount, \$1,547,000 is due to the increase in the subsistence allowance. The remaining impact of \$1,055,000 is for the increase in the volunteer deduction. For reference, the total volunteer deduction impact is estimated to be \$2,157,000, which is less than the \$3,100,000 maximum, and taxpayers will be allowed to claim the full increased deduction of \$6,000 in tax year 2024.

Explanation of Fiscal Impact

Introduced on January 17, 2024

State Expenditure

This bill increases the individual income tax subsistence allowance deduction for law enforcement officers and full-time firefighters and emergency medical service personnel from \$8 to \$16 beginning in tax year 2024. The bill also increases the maximum deduction for 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 from up to \$3,000 to \$6,000. The allowable deduction per taxpayer must be certified by RFA annually such that the total revenue loss does not exceed an aggregate limit of \$3,100,000 per year in total, which remains unchanged.

This bill is not expected to impact expenditures for DOR. We anticipate that the necessary updates to tax forms and guidance can be completed in the revisions that are completed annually. Further, the bill will not impact expenditures for RFA as the agency currently provides this certification annually.

State Revenue

Section 1 of the bill increases the individual income tax subsistence allowance for federal, state, and local law enforcement officers and full-time firefighters and emergency medical service personnel from \$8 to \$16 per day. These taxpayers receive a subsistence allowance for each regular workday in a taxable year. As of tax year 2021, approximately 22,118 tax returns claimed a total of \$31,664,000 in deductions. The deduction reduced income taxes by approximately \$1,963,000 in tax year 2021, which equates to approximately \$89 per return. Further, based on a recalculation of these tax returns, doubling the subsistence allowance would reduce income taxes by slightly less than the current tax reduction, approximately 98.2 percent of the current amount, because these taxpayers do not have sufficient tax liabilities to claim the full increased deduction.

Based on historical growth trends and the applicable marginal tax rates for 2024, we estimate that this deduction will reduce individual income taxes by approximately \$1,575,000 in FY 2024-25. Therefore, increasing the subsistence allowance from \$8 to \$16 per day will reduce General Fund individual income tax revenue by approximately \$1,547,000 beginning in FY 2024-25 after accounting for the returns that will not be able to use the full increased deduction.

Section 2 of the bill increases the amount volunteers are allowed to deduct for individual income tax purposes from \$3,000 to \$6,000 beginning in tax year 2024. Currently, specified 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. 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. RFA has certified the maximum deduction at \$3,000 for tax year 2024.

In tax year 2021, approximately 5,923 returns claimed deductions totaling \$18,661,414. This deduction reduced income taxes by approximately \$1,157,000, or \$195 per return. Based on a recalculation of these tax returns, doubling the maximum deduction to \$6,000 would reduce income taxes by slightly less than the current tax reduction, approximately 95.7 percent of the current amount, because these taxpayers do not have sufficient tax liabilities to claim the full increase in the deduction.

Based on historical growth trends and the applicable marginal tax rates for 2024, the total income tax reduction from the current deduction is expected to be \$1,102,000 in tax year 2024. Therefore, after accounting for the returns that will not be able to use the full increased deduction, we estimate that increasing the volunteer deduction amount to \$6,000 will reduce General Fund individual income taxes by approximately \$1,055,000 beginning in FY 2024-25. Based on these estimates, the total revenue reduction will be approximately \$2,157,000, which is less than the \$3,100,000 maximum, and taxpayers will be allowed to claim the full increased deduction of \$6,000 in tax year 2024.

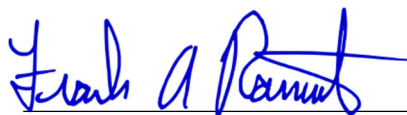
In total, the bill will reduce General Fund individual income tax revenue by approximately \$2,602,000 beginning in FY 2024-25.

Local Expenditure

N/A

Local Revenue

N/A



Frank A. Rainwater, Executive Director