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. 3498 Introduced on January 14, 2025
Subject:	Income Tax Brackets
Requestor:	House Ways and Means
RFA Analyst(s):	Jolliff
Impact Date:	January 14, 2025

Fiscal Impact Summary

This bill amends the individual income tax brackets in Section 12-6-510 beginning in tax year 2025. Currently, the income tax brackets for 2025 are expected to be 0 percent on taxable income up to $3,560, 3 percent on income from $3,560 to $17,830, and 6.2 percent on income above $17,830. The revised brackets under this bill will be 0 percent up to $1,000,000 of taxable income and 6 percent on taxable income over $1,000,000.

The Department of Revenue (DOR) anticipates that the bill will not have a significant impact on expenses. Although the number of taxpayers required to file will decline significantly, DOR will continue to administer individual income taxes, which will require some staff. Further, the agency indicates it will reallocate staff to other areas of the agency as appropriate.

The bill will reduce individual income tax liability for tax year 2025 by approximately $6,346,181,000 as shown in the attached table by taxable income ranges. However, the impact by fiscal year will depend on how quickly taxpayers adjust to the change and how quickly new withholdings tables are implemented. Based on historical proportions of estimated payments to tax liability, we anticipate this bill will reduce General Fund individual income tax revenue by at least $333,175,000 in the last quarter of FY 2024-25 for reduced payments. Also, the bill would reduce revenue by up to $6,013,006,000 in FY 2025-26 for the remaining reduction in the 2025 tax liability not reflected in FY 2024-25. Additionally, since the withholdings tax tables will be adjusted to account for the change in tax liability, there would be a one-time additional revenue reduction of up to $3,173,090,000 in FY 2025-26 for withholdings that would not be collected from January 2026 to June 2026 for tax year 2026. In total, the bill would reduce revenue by up to $333,175,000 in FY 2024-25 and $9,186,096,000 in FY 2025-26 for the reduction in taxes in 2025 and the change to withholdings collections for 2026. In subsequent years, the impact would be reduced to approximately $6,346,181,000, plus any growth in income, after the withholdings table change is implemented.

This change in tax liability for individuals will result in a significant reallocation of money from appropriations for state and local government services and employment to private spending. The shift may increase spending by consumers and private industry but would also reduce income and spending from government appropriations. Consumer and private spending may also result in a transfer of funds to out-of-state purchases. Therefore, the bill is expected to largely shift the type of economic activity but not increase activity on a net basis.

Please note, this reduction in withholdings and tax collections would also impact current programs that are based on withholdings taxes and tax refunds. For example, job development credits for businesses that create new jobs and can claim a credit against withholdings would no longer be available as employee withholdings will largely be eliminated. These credits totaled $62,033,939 in FY 2022-23 based on DOR’s Annual Report. Also, debt setoff collections for state and local governments that are imposed against income tax refunds would also be significantly reduced or eliminated. For reference, debt setoff collections for state and local government entities totaled $171,398,786 in FY 2022-23 based on DOR’s Annual Report of which approximately $64,100,000 was collected for state government and $107,300,000 was collected for local governments.

Explanation of Fiscal Impact

Introduced on January 14, 2025
State Expenditure
This bill amends the individual income tax brackets in Section 12-6-510. Currently, the income tax brackets for 2025 are expected to be 0 percent on taxable income up to $3,560, 3 percent on income from $3,560 to $17,830, and 6.2 percent on income above $17,830. The top marginal rate will depend on revenue growth and will not be finalized until February 2025. The revised brackets will be 0 percent up to $1,000,000 of taxable income and 6 percent on taxable income over $1,000,000.

DOR anticipates that the bill will not have a significant impact on expenses. Although the number of taxpayers required to file will decline significantly, DOR will continue to administer individual income taxes, which will require some staff. Further, the agency indicates it will reallocate staff to other areas of the agency as appropriate.

State Revenue
This bill amends the individual income tax brackets in Section 12-6-510. Currently, the income tax brackets for 2025 are expected to be 0 percent on taxable income up to $3,560, 3 percent on income from $3,560 to $17,830, and 6.2 percent on income above $17,830. The top marginal rate will depend on revenue growth and will not be finalized until February 2025. The revised brackets will be 0 percent up to $1,000,000 of taxable income and 6 percent on taxable income over $1,000,000.

The bill will reduce individual income tax liability for tax year 2025 by approximately $6,346,181,000 as shown in the attached table by taxable income ranges. The impact by fiscal year will depend on how quickly taxpayers adjust to the change and how quickly new withholdings tables are implemented. Assuming the bill is enacted prior to the end of FY 2024-25, we anticipate taxpayers will reduce their estimated tax payments based on their reduced liability for tax year 2025. Based on historical proportions of estimated payments to tax liability, we anticipate this bill will reduce General Fund individual income tax revenue by at least $333,175,000 in the last quarter of FY 2024-25.

In FY 2025-26, the bill would reduce revenue by up to $6,013,006,000 for the remaining reduction in the 2025 tax liability not reflected in FY 2024-25. This reduction in liability would result in reduced payments, lower withholding collections, and increased refunds. Further, DOR will revise the withholdings tables to reflect the change to tax liability following enactment of the bill, which would reduce withholdings collected starting in the first month of the change. We anticipate that the change to withholdings tables will occur as soon as practical in FY 2025-26. Because of the withholdings change, there would be a one-time additional revenue reduction of up to $3,173,090,000 in FY 2025-26 for withholdings that would not be collected from January 2026 to June 2026 for tax year 2026. In total, the bill would reduce revenue by up to $333,175,000 in FY 2024-25 for reduced payments for tax year 2025 and $9,186,096,000 in FY 2025-26 for the remaining reduction in taxes in 2025 and the change to withholdings collections for 2026. In subsequent years, the impact would be reduced to approximately $6,346,181,000, plus any growth in income, after the withholdings table change is implemented.

This change in tax liability for individuals will result in a significant reduction in revenue for state appropriations. Based on the November 2024 forecast by the Board of Economic Advisors, the bill would reduce gross revenue for appropriations, currently forecasted to be $13,982,155,000, by $9,186,096,000, or approximately 66 percent, in FY 2025-26. As the State is required to have a balanced budget that does not spend more than the total forecasted revenue, this bill would require a significant reduction in state government appropriations to agencies and local governments in FY 2025-26. The change would shift economic activity from state appropriations for government services and employment to consumer and private spending. The shift may increase some sales tax due to increased spending by consumers and private entities but would also reduce income and spending from government appropriations. Consumer spending may also result in a transfer of funds to out-of-state purchases or spending on services. Therefore, the change is expected to largely shift the type of economic activity but not increase activity on a net basis.

Please note, this reduction in withholdings and tax collections would also impact current programs that are based on withholdings taxes and tax refunds. For example, job development credits for businesses that create new jobs and can claim a credit against withholdings would no longer be available as employee withholdings will largely be eliminated. These credits totaled $62,033,939 in FY 2022-23 based on DOR's Annual Report. Debt setoff collections for state and local governments that are imposed against income tax refunds would also be significantly reduced or eliminated. For reference, debt setoff collections totaled $171,398,786 in FY 2022-23 based on DOR's Annual Report, of which approximately $64,100,000 was collected for state government.

Local Expenditure
N/A

Local Revenue
The reduction in tax liability from this bill would significantly reduce income tax refunds for individuals. Debt setoff collections for state and local governments that are imposed against income tax refunds would also be significantly reduced or eliminated. For reference, debt setoff

collections for state and local government totaled $171,398,786 in FY 2022-23 based on DOR's Annual Report, of which approximately $107,300,000 was collected for local governments.

Frank A. Rainwater, Executive Director