



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. 0234 Introduced on January 16, 2025
Subject: Income Tax
Requestor: Senate Finance
RFA Analyst(s): Manic
Impact Date: February 25, 2025

Fiscal Impact Summary

This bill excludes income from tips received during the taxable year from the calculation of total gross income, which would exempt this income from state income taxes. The bill defines tips as discretionary payments made by a customer to an employee, including, but not limited to, cash tips as well as tips made through electronic settlement or payment. This bill is effective upon approval by the Governor.

The bill is not expected to impact expenditures for the Department of Revenue (DOR) as we anticipate the agency will implement the new exemption with existing staff and resources.

This bill will reduce General Fund individual income tax revenue by approximately \$13,688,000 beginning in FY 2025-26 due to the exclusion of tip income from income tax.

Explanation of Fiscal Impact

Introduced on January 16, 2025

State Expenditure

This bill excludes income from tips received during the taxable year from the calculation of total gross income, which would exempt this income from state income taxes. This bill is effective upon approval by the Governor.

This bill will require DOR to update forms and guidance for the change to taxable income. We anticipate that the bill will have no expenditure impact on DOR and that the agency will implement the exemption with existing staff and resources.

State Revenue

This bill excludes income from tips received during the taxable year from the calculation of total gross income. The bill defines tips as discretionary payments made by a customer to an employee, including, but not limited to, cash tips as well as tips made through electronic settlement or payment. By excluding tips from gross income, this bill would exempt this income from state income taxes. This bill is effective upon approval by the Governor.

Based on the rules published by the U.S. Department of the Treasury, individuals receiving income from tips must report it to their employers regularly so that employers can withhold

federal individual income tax and the Federal Insurance Contribution Act (FICA) taxes. Individuals are required to report tips of \$20 or more received during any one-month period from any one job. Any tips reported to the employer as required during the tax year are included in the wages on the individual's Form W-2. During tax filing, taxpayers with tip income report all such income along with all other wage income.

Due to the combination of tip income with all other wage income, detailed data on tip income is limited. According to a report by the Congressional Research Service from 2024, the Internal Revenue Service reported approximately \$38 billion in tip income in 2018, the most recent year available.¹ Assuming that most tip income originates in Food Preparation and Serving occupations, we used data from the U.S. Department of Labor, Bureau of Labor Statistics (BLS) to estimate the total annual earnings of workers in Food Preparation and Serving occupations in the United States and in SC for each year from 2018 to 2023. The share of the total earnings for this group of workers in the state in 2018 was approximately 1.34 percent. Applying this share to the reported total tip income of \$38 billion in 2018, we estimated that SC tip income in 2018 was approximately \$509,906,000. Next, we used growth rates for the total annual earnings of SC workers in the Food Preparation and Serving occupations for each year from 2019 to 2023 as well as the average annual growth rate for the same historical period to estimate the 2025 level of SC tip income, which is approximately \$786,673,000.

Based on BLS earnings data from 2023 in SC, workers in Food Preparation and Serving occupations have lower than average incomes. Therefore, we used the average tax rate for taxpayers with federal adjusted gross income of up to \$100,000 to estimate the potential reduction in income tax. We estimate that these individuals will have an average tax rate of approximately 1.74 percent for tax year 2025 after accounting for all other deductions and exemptions. Applying the 1.74 percent average tax rate to the estimated tip income of \$786,673,000 results in a tax liability of \$13,688,000 on this income in tax year 2025. Therefore, we estimate this bill will reduce General Fund revenue from individual income tax by approximately \$13,688,000 beginning in FY 2025-26.

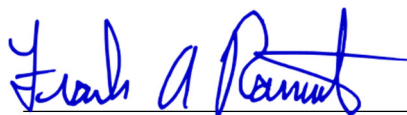
Local Expenditure

N/A

Local Revenue

N/A

¹ Congressional Research Service, *Taxation of Tip Income*, October 24, 2024, <https://crsreports.congress.gov/product/pdf/IF/IF12728>



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