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REMBERT DENNIS BUILDING
 1000 ASSEMBLY STREET, SUITE 442
 COLUMBIA, SOUTH CAROLINA 29201
 (803) 734-3805

March 2, 2010

Mr. Craig H. Parks
 Senior Budget Analyst:
 Senate Finance Committee
 Columbia, SC 29211

Dear Mr. Parks:

This letter is in response to member questions during the last Tax Realignment Commission meeting. The first question requested information on the percentage of South Carolina individual income taxpayers' reporting zero tax liability. Tax year 2007 data from the Department of Revenue reported that 870,609, or 41% of the 2,125,527 returns filed, resulted in zero income tax liability. Adjusting this data for 2 taxpayers per jointly filed return, as shown in the table below, suggests that 38% of all South Carolina taxpayers reported zero income tax liability.

Filing Status	Zero Tax Liability Returns by Filing Status	Total Returns	Percentage of Total Returns with Zero Balance	Zero Tax Liability Returns by Taxpayers	Total Taxpayers	Percentage of Total Taxpayers with Zero Balance
Single	388,725	845,669	18.3%	388,725	845,669	13.2%
Joint	246,922	816,264	11.6%	493,844	1,632,528	16.8%
Separate	13,525	58,010	0.6%	13,525	58,010	0.5%
Head Household	220,829	404,300	10.4%	220,829	404,300	7.5%
Widow	608	1,284	0.0%	1,216	2,568	0.0%
Total	870,609	2,125,527	41.0%	1,118,139	2,943,075	38.0%

The second question from the Commission requested additional information on North Carolina's income tax surtax of 2% to 3% that was enacted subsequent to the finalization of our 50 state income tax comparison. The North Carolina surtax for 2009 and 2010 is 2% or 3% and is imposed on taxable income that equates to their highest bracket rate of 7.75%. This additional surtax means that the highest marginal tax rate in North Carolina for 2009 can reach 10.75% for married taxpayers filing jointly with taxable income above \$250,000. Information on the surtax from the North Carolina Department of Revenue's website is enclosed.

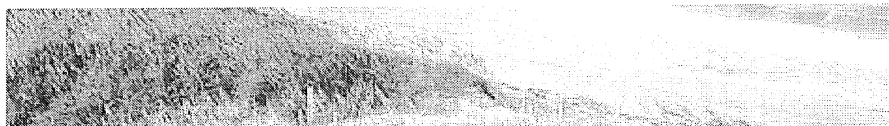
If I can be of any further assistance, please advise.

Sincerely,

William C. Gillespie, Ph.D.

WCG:gos
 Enclosure

North Carolina Department of Revenue


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Income Tax Surtax

A surtax is due for tax years 2009 and 2010 if your North Carolina taxable income exceeds a certain amount. Complete Step 1 to determine if you owe the surtax.

Step 1.

Is the amount on Line 13, Form D-400, more than the amount shown below for your filing status?

Married Filing Jointly/Qualifying Widow(er)	\$100,000
Head of Household	\$ 80,000
Single	\$ 60,000
Married Filing Separately	\$ 50,000

Yes – Use the **Surtax Percentage Table** below to determine your applicable percentage and compute the surtax in **Step 2** below. Enter the surtax on Line 15, Form D-400. (see examples below)

No – Skip **Step 2**. You do not owe the surtax. **Do not** enter an amount on Line 15, Form D-400.

Surtax Percentage Table		
If Filing Status is	And NC Taxable Income on Line 13, Form D-400 is	The Applicable Percentage is
Married Filing Jointly/Qualifying Widow(er)	Greater than \$100,000 but does not exceed \$250,000	2%
	Greater than \$250,000	3%
Head of Household	Greater than \$80,000 but does not exceed \$200,000	2%
	Greater than \$200,000	3%
Single	Greater than \$60,000 but does not exceed \$150,000	2%
	Greater than \$150,000	3%
Married Filing Separately	Greater than \$50,000 but does not exceed \$125,000	2%
	Greater than \$125,000	3%

Step 2. Surtax Computation

_____	X	_____	=	_____
NC income tax		Applicable percentage		Surtax
(Enter amount from Line 14, Form D-400)		(from table above)		(Enter this amount on Line 15, Form D-400)

Example 1: If your filing status is single and your NC taxable income on Line 13, Form D-400, is \$75,000, your income tax on Line 14, Form D-400, is \$5,235 and your surtax is \$105 (\$5,235 x 2%).

Example 2: If your filing status is single and your NC taxable income on Line 13, Form D-400, is \$175,000, your income tax on Line 14, Form D-400, is \$12,985 and your surtax is \$390 (\$12,985 x 3%).

Last modified on: 12/18/09 08:28:01 AM.