

**REPORT OF THE
REVENUE POLICY SUBCOMMITTEE**
(Crawford, Bannister, Stavrinakis, Lowe & Hewitt - Staff Contact: Julia Foster)

**HOUSE BILL 3368
INCOME TAX ON OVERTIME**

Summary of Bill:

This bill exempts overtime earnings and the first \$2,500 of annual bonus compensation from an individual's taxable gross income.

Estimated Fiscal Impact:

Revenue and Fiscal Affairs estimates that the bill, as amended updating South Carolina's conformity to the IRC through December 31, 2025, will reduce General Fund revenue by \$534.1 million in FY 2026-2027. The Fiscal Impact notes that this estimate is based on the state's current tax structure, which starts with federal taxable income.

If the income tax structure is changed with the passage and enactment of H. 4216, as amended by the Senate on February 24, 2026, the impact on General Fund revenue lowers to \$288.5 million for FY 2026-2027.

Subcommittee Action/Explanation:

The Subcommittee will meet on Tuesday, March 3 at 11:30am.

Full Committee Action/Explanation:

Full Committee will meet on Tuesday, March 3 at 4:00pm.

Other Notes/Comments:

This Summary will be updated after Subcommittee and resent before Full Committee to reflect any potential amendments.

SOUTH CAROLINA
HOUSE AMENDMENT

AMENDMENT NO. _____

David Good
February 26, 2026

ADOPTED	REJECTED	TABLED	ADJOURN DEBATE	RECONSIDERED	ROO
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Clerk of the House

ADOPTION NO. _____

BILL NO: H. 3368

(Reference is to the original version)

The Revenue Policy Subcommittee proposes the following amendment (LC-3368.DG0002H):

Amend the bill, as and if amended, by striking all after the enacting words and inserting:

SECTION 1. Section 12-6-40(A)(1)(a) and (c) of the S.C. Code is amended to read:

(a) Except as otherwise provided, "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended through December 31, ~~2024~~2025, and includes the effective date provisions contained in it.

(c) If Internal Revenue Code sections adopted by this State which expired or portions thereof expired on December 31, ~~2024~~2025, are extended, but otherwise not amended, by

congressional enactment during ~~2025~~2026, these sections or portions thereof also are extended for South Carolina income tax purposes in the same manner that they are extended for federal income tax purposes.

SECTION 2. This act takes effect upon approval by the Governor.

Renumber sections to conform.
Amend title to conform.



**SOUTH CAROLINA
REVENUE AND FISCAL AFFAIRS OFFICE**

EDWARD B. GRIMBALL, Chairman
C. CURTIS HUTTO
G. MICHAEL MIKOTA, Ph.D.

FRANK A. RAINWATER
Executive Director

March 3, 2026

Ms. Julia Foster
Legislative Director
House Ways and Means Committee
525 Blatt Building
Columbia, SC 29201

Dear Ms. Foster:

This letter is in response to your request for the revenue impact of a proposed amendment to H. 3368 referenced as LC-3368.DG0002H, which updates South Carolina's conformity to the Internal Revenue Code (IRC) through December 31, 2025.

The bill as amended will update South Carolina's conformity to the IRC through December 31, 2025. Research by the Department of Revenue (DOR) identified one federal tax law enacted by Congress that impacts South Carolina's conformity through December 31, 2025:

- H.R. 1 of 2025 (Public Law 119-21), known as the One Big Beautiful Bill Act (OBBBA)

Please note, this analysis is based on the state's current income tax structure, which starts with federal taxable income. If the income tax structure is changed, such as if H. 4216 is enacted to change the starting point to federal adjusted gross income, these estimates would also change.

To estimate the impact of conforming to the OBBBA changes, Revenue and Fiscal Affairs (RFA) utilized U.S. estimates by the Joint Committee on Taxation and the Congressional Budget Office and adjusted those estimates to project the impact of adopting these federal provisions on South Carolina. Further, RFA made additional adjustments to refine these estimates with respect to South Carolina. Our analysis incorporates the latest growth assumptions and income tax return data for tax year 2024 and feedback provided by the SC Association of CPAs.

Ms. Julia Foster
March 3, 2026
Page 3

If we may be of further assistance, please advise.

Sincerely,

A handwritten signature in blue ink that reads "Frank A. Rainwater". The signature is fluid and cursive, with a large, sweeping flourish at the end.

Frank A. Rainwater
Executive Director

FAR/lhj

Enclosure: Explanation of Provisions, Table 1, and Table 2

cc: Ms. Meredith Ross, House Ways and Means Committee

Form 1099, or other specified statement furnished to the individual. Maximum annual deduction is \$12,500 (\$25,000 for joint filers). Deduction phases out for taxpayers with modified adjusted gross income over \$150,000 (\$300,000 for joint filers). Deduction is available for both itemizing and non-itemizing taxpayers.

Line 6. No tax on tips: Effective for 2025 through 2028, employees and self-employed individuals may deduct qualified tips received in occupations that are listed by the IRS as customarily and regularly receiving. Maximum annual deduction is \$25,000; for self-employed, deduction may not exceed individual's net income (without regard to this deduction) from the trade or business in which the tips were earned. Deduction phases out for taxpayers with modified adjusted gross income over \$150,000 (\$300,000 for joint filers). Deduction is available for both itemizing and non-itemizing taxpayers.

Line 7. No tax on car loan interest: Effective for tax year 2025 through 2028, individuals may deduct interest paid on a loan used to purchase a qualified vehicle, provided the vehicle is purchased for personal use and meets other eligibility criteria. Maximum annual deduction is \$10,000. Deduction phases out for taxpayers with modified adjusted gross income over \$100,000 (\$200,000 for joint filers). Deduction is available for both itemizing and non-itemizing taxpayers.

Businesses (Pass-through Entities or Corporations)

Line 10. Full expensing of domestic research and experimental expenditures: Beginning in tax year 2025, taxpayers are allowed to immediately deduct domestic research and experimental (R&E) expenditures. Beginning with tax year 2022, the TCJA required taxpayers to capitalize and amortize all R&E expenditures. Under the new rules, taxpayers can fully expense domestic R&E costs in the year incurred beginning in tax year 2025. In addition to now allowing full expensing, transition rules are provided permitting certain taxpayers to deduct unamortized domestic R&E expenditures paid or incurred in 2022 through 2024 by filing for a change in accounting method.

Line 11. Increased dollar limitations for expensing of certain depreciable business assets: IRC §179 allows a deduction for taxpayers who elect to expense a specified amount of the cost of qualifying property purchased for use in a business. This deduction applies to tangible property, such as machinery and equipment purchased for use in a trade or business. Eligible property includes qualified real property and certain property used to furnish lodging. Qualified real property includes improvements to roofs, HVAC, fire alarm systems, and security systems to nonresidential real property. Beginning in 2025, the maximum expensing under IRC §179 is increased from \$1.22 million to \$2.5 million, and the investment limitation is increased from \$3.05 million to \$4 million. Amounts are indexed for inflation beginning after 2025.

PROPOSED AMENDMENT TO H. 3368 TABLE 1 - PROVISIONS BY TAX YEAR AND TYPE

(Amounts are in millions of dollars)

Line No.	Provision	§IRC	Tax Type	Affects Fed. AGI (V/N) [1]	Effective	Tax Year 2025	Tax Year 2026	Tax Year 2027	Tax Year 2028	Tax Year 2029	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
2025 - Individual Provisions														
1														
2	Temporary senior deduction (\$6,000) [2]	\$151(c) and (d)(5)	I	N	2025	(\$62.7)	(\$63.8)	(\$64.9)	(\$66.0)	\$0	(\$126.5)	(\$64.9)	(\$66.0)	\$0
3	Increase to standard deduction (S: \$750, MFJ: \$1,500, HOH: \$1,125) [2]	§63(e)(7)	I	N	2025	(\$80.8)	(\$82.2)	(\$83.6)	(\$85.0)	(\$86.5)	(\$163.1)	(\$85.6)	(\$85.0)	(\$86.5)
4	Temporary increase to limitation on deduction for state and local taxes (exp 12/31/29) [2]	\$164(b)(6)	I	N	2025	(\$2.7)	(\$2.7)	(\$2.7)	(\$2.8)	(\$2.8)	(\$5.4)	(\$2.7)	(\$2.8)	(\$2.8)
5	No tax on overtime (exp 12/31/28)	§225	I	N	2025	(\$47.1)	(\$49.2)	(\$51.7)	(\$54.3)	\$0	(\$96.3)	(\$51.7)	(\$54.3)	\$0
6	No tax on tips (exp 12/31/28)	§224	I	N	2025	(\$18.2)	(\$18.4)	(\$19.4)	(\$20.5)	\$0	(\$36.7)	(\$19.4)	(\$20.5)	\$0
7	No tax on car loan interest (exp 12/31/28)	§163(h)(4)	I	N	2025	(\$13.0)	(\$19.4)	(\$23.8)	(\$29.3)	\$0	(\$32.4)	(\$23.8)	(\$29.3)	\$0
2025 - Business Provisions														
9	Treatment of payments from partnerships to partners for property or services	§707(e)(2)	I	n/a	2025	\$2.2	\$3.2	\$2.7	\$2.2	\$1.6	\$5.4	\$2.7	\$2.2	\$1.6
10	Full expensing of domestic research and experimental expenditures	§174	B	n/a	2025	(\$50.4)	(\$11.8)	(\$8.0)	(\$4.3)	(\$1.8)	(\$62.2)	(\$8.0)	(\$4.3)	(\$1.8)
11	Increased dollar limitations for expensing of certain depreciable business assets	§179(b)	B	Y	2025	(\$6.1)	(\$5.1)	(\$4.3)	(\$3.6)	(\$3.0)	(\$11.2)	(\$4.3)	(\$3.6)	(\$3.0)
12	Termination of cost recovery for energy property	§168(e)(3)(B)(vii)	B	n/a	2025	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.2	\$0.1	\$0.1	\$0.1
13	Spaceports are treated like airports under exempt facility bond rules	§142	B	n/a	2025	Negligible	Negligible	Negligible	Negligible	Negligible	\$0	\$0	\$0	\$0
2026 - Individual Provisions														
14														
15	Deduction for charitable contributions for individuals who do not itemize [3]	§170(b) (see Notes)	I	N	2026	\$0	(\$18.7)	(\$19.6)	(\$20.4)	(\$21.6)	(\$18.7)	(\$19.6)	(\$20.4)	(\$21.6)
16	Extension and modification of limitation on deduction for qualified residence interest	§163(h)(3)(F)	I	N	2026	\$0	(\$0.6)	(\$0.6)	(\$0.6)	(\$0.5)	(\$0.6)	(\$0.6)	(\$0.6)	(\$0.5)
17	Extension and modification of limitation on casualty loss deduction	§165(h)(5)	I	N	2026	\$0	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)
18	Termination of miscellaneous itemized deductions other than educator expenses	§67(g)	I	N	2026	\$0	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)
19	Adjustment of charitable deduction for certain expenses incurred in support of native Alaskan subsistence whaling	§170(m)	I	N	2026	\$0	Negligible	Negligible	Negligible	Negligible	\$0	\$0	\$0	\$0
20	Extension and modification of limitation on wagering losses	§165(d)	I	N	2026	\$0	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3
21	0.5 percent floor on deduction of charitable contributions made by individuals	§170(b)(1)	I	N	2026	\$0	\$8.7	\$8.9	\$9.1	\$9.3	\$8.7	\$8.9	\$9.1	\$9.3
22	Exclusion for employer payments of student loans	§127	I	Y	2026	\$0	(\$2.5)	(\$2.7)	(\$2.8)	(\$3.0)	(\$2.5)	(\$2.7)	(\$2.8)	(\$3.0)

Line No.	Provision	§IRC	Tax Type	Affects Fed. AGI (Y/N) [1]	Effective	Tax Year 2025	Tax Year 2026	Tax Year 2027	Tax Year 2028	Tax Year 2029	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
43	Other Tax Types													
44	Nonprofit Community Development Activities in Remote Native Villages	Subchapter F, Chapter 1, Exempt Organizations	NP	n/a	2025	Negligible	Negligible	Negligible	Negligible	Negligible	\$0	\$0	\$0	\$0
45	Exclusion of interest on loans secured by rural or agricultural real property	§139L	S&L	n/a	2025	Negligible	Negligible	Negligible	Negligible	Negligible	\$0	\$0	\$0	\$0
46														
47	Total Individual (includes portion of business provisions)					(\$240.1)	(\$245.5)	(\$258.5)	(\$270.4)	(\$103.8)	(\$485.6)	(\$258.5)	(\$270.4)	(\$103.8)
48	Total Corporate (includes portion of business provisions)					(\$38.6)	(\$9.9)	(\$5.1)	(\$1.3)	\$1.3	(\$48.5)	(\$5.1)	(\$1.3)	\$1.3
49	Total					(\$278.7)	(\$255.4)	(\$263.5)	(\$271.7)	(\$102.5)	(\$534.1)	(\$263.5)	(\$271.7)	(\$102.5)

Tax Types:

- B- Both individual and corporate income tax
- C - Corporate income tax
- I - Individual income tax
- NP - Nonprofits
- S&L - Savings and loan tax

Notes:

- n/a - See note [1]
- Negligible - impact of provision is immaterial
- * - Provision extends existing program in current revenue base; no additional impact
- Internal revenue code section references provided by SC Department of Revenue
- [1] - Federal AGI column only applies to individuals; does not address businesses (pass-through or corporate)
- [2] - Impact is an allocation of the net impact of all three provisions- each provision would have a higher impact separately
- [3] - SC did not adopt IRC 170(p) for 2021. Year reference would need to be updated to avoid the impact.

South Carolina General Assembly
126th Session, 2025-2026

H. 3368

STATUS INFORMATION

General Bill

Sponsors: Reps. Long and Forrest

Document Path: LC-0052DG25.docx

Introduced in the House on January 14, 2025

Currently residing in the House Committee on **Ways and Means**

Summary: Income tax on overtime pay

HISTORY OF LEGISLATIVE ACTIONS

<u>Date</u>	<u>Body</u>	<u>Action Description with journal page number</u>
12/5/2024	House	Prefiled
12/5/2024	House	Referred to Committee on Ways and Means
1/14/2025	House	Introduced and read first time (House Journal-page 182)
1/14/2025	House	Referred to Committee on Ways and Means (House Journal-page 182)

View the latest [legislative information](#) at the website

VERSIONS OF THIS BILL

12/05/2024

1
2
3
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5
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9
10

A BILL

11 TO AMEND THE SOUTH CAROLINA CODE OF LAWS BY AMENDING SECTION 12-6-1120,
12 RELATING TO MODIFICATIONS TO GROSS INCOME FOR INDIVIDUAL INCOME TAX
13 PURPOSES, SO AS TO EXCLUDE OVERTIME PAY AND CERTAIN BONUS PAY FROM
14 GROSS INCOME.
15

16 Be it enacted by the General Assembly of the State of South Carolina:

17

18 SECTION 1. Section 12-6-1120 of the S.C. Code is amended by adding:

19

20 (12) South Carolina gross income does not include any overtime pay received by an individual
21 pursuant to the requirements of the Fair Labor Standards Act nor does it include the first two thousand
22 five hundred dollars of bonus pay received by an individual in the tax year.

23

24 SECTION 2. This act takes effect upon approval by the Governor and applies to tax years beginning
25 after 2024.

26

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