**PROPOSED SOUTH CAROLINA INCOME TAX ACT FOR INDIVIDUALS, TRUSTS, AND ESTATES**

**COMPARED WITH CURRENT INDIVIDUAL INCOME TAX LAW**

**IN BRIEF**

**I RATES**

 (A) **CURRENT LAW** ‑ Graduated rates of 3, 4, 5, 6, and 7 percent applying to income tax brackets with the 7 percent rate applying to South Carolina taxable income in 2018 over $14,860.

 (B) **PROPOSED LAW** ‑ A single “flat” tax rate of 4.85 percent on all South Carolina taxable income.

**II SOUTH CAROLINA TAXABLE INCOME CALCULATION**

 (A) **CURRENT LAW** ‑ Starts with federal taxable income, already reduced by the federal standard deduction or itemized deductions with additional South Carolina modifications among which are:

 (1) exclusion of out‑of‑state business income, and income derived on out‑of‑state real estate transactions

 (2) add back of losses of an out‑of‑state business;

 (3) exclusion of state income tax refund amount;

 (4) exclusion of interest income on federal debt obligations;

 (5) add back of interest income of indebtedness obligation of state and local governments other than South Carolina or political subdivisions of this state;

 (6) additional exemptions and deductions as described in III(A)(1) and (2).

 (B) **PROPOSED LAW** ‑ Starts with federal adjusted gross income, a broad measure of income that includes income from all sources, however derived. South Carolina residents will pay state income tax on their “worldwide” income. If some of that income is also taxed by another state or country, South Carolina allows a credit against South Carolina individual income tax to offset “double taxation”. Other modifications include:

 (1) a South Carolina standard deduction amount based on the taxpayer’s federal income tax return filing status follows:

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 Married, filing jointly, surviving spouse $20,000

 Head of Household S15,000

 Single $10,000 Married filing separately $10,000;

 South Carolina will not allow itemized deductions;

 (2) a South Carolina personal exemption for the taxpayer and exemptions for each

 of the taxpayer’s dependents; $4,150 Standard deduction amounts, personal exemption amounts, and dependent exemption amounts are annually adjusted for inflation; and

 ;

 (3) other modifications allowed in current law described in II (A)(3), (4), and (5).

**III SOUTH CAROLINA INDIVIDUAL INCOME TAX PREFERENCE ITEMS**

 (A) **CURRENT LAW--A NONCOMPREHENSIVE LISTING** ‑ South Carolina state individual income tax law contains numerous tax preference provisions that reduce a taxpayer’s individual income tax liability. These preference items include an exemption, deductions from income subject to tax, tax credits that reduce an income tax liability, and a maximum tax rate on a certain type of income. The exemption and deductions act to reduce federal taxable income, which is the current starting base for calculating the state individual income tax. By starting with federal taxable income, a South Carolina taxpayer has already benefited by the applicable standard or itemized deductions allowed by federal income tax law. Credits reduce the South Carolina income tax liability calculated on the taxpayer’s income tax return. The maximum state income tax rate of 3 percent applicable to active trade or business income is calculated on a separate schedule and the result carried over to the taxpayer’s SC1040 form. A non-comprehensive listing of these various preference items include, but are not limited to:

 (1) **Exemption** ‑ An additional dependent exemption for a child under age 6. This, for state purposes, stacks an additional dependent exemption on top of the federal dependent exemption amount. In 2017, the federal dependent exemption was $4050. For state income purposes, the exemption amount is $8100.

 (2) **Deductions** ‑ The individual income tax deductions allowed, include, but are not limited to, in no particular order, the following:

 (a) social security benefit income subject to tax on the taxpayer’s federal income tax return;

 (b) total and permanent disability income subject to tax on the taxpayer’s federal income tax return;

 (c) 44 percent of net capital gain income. This deduction results in a maximum 3.92 percent tax rate on net capital gain income;

 (d) 3,000 dollars for eligible volunteer firefighter, rescue squad, and HAZMAT workers; eligible reserve police officers, DNR deputy enforcement officers, and State Guard members; and eligible volunteer state constables;

 (e) amounts contributed to the state’s 529 college savings program;

 (f) up to 3,000 dollars of retirement income before age 65 and 10,000 dollars of retirement income on attaining age 65. A surviving spouse retains the deduction if the surviving spouse receives survivor benefit income;

 (g) up to 15,000 dollars (30,000 on a joint return) for taxpayers who have attained age 65. The deduction applies to all types of income. This deduction is reduced by the amount of retirement income deducted pursuant to item 6) above;

 (h) a deduction for military retirement benefits. For military retirees under age 65, and when fully phased in, the deduction is up to 17,500 dollars of retirement income, but the deduction is allowed only from the retiree’s earned income. On attaining age 65, when fully phased in, a military retiree may deduct up to 30,000 in military retirement income, and the deduction does not have to be claimed from earned income;

 (i) inactive duty pay and active duty training pay of members of the National Guard and Reserves

 (j) retirement income paid by the United States to the taxpayer on account of the taxpayer’s service in the Reserves or National Guard;

 (k) a subsistence allowance of 8 dollars each workday for police and all publicly employed commissioned law enforcement officers and 8 dollars each workday for fulltime firefighters and fulltime emergency medical service personnel;

 (l) contributions, subject to plan limits, to a Catastrophe Savings Account.

 (3) **Credits** ‑ Individual income tax credits allowed, include, but are not limited to, in no particular order, the following:

 (a) for income taxes paid to another state on income also taxed by South Carolina;

 (b) an amount equal to 7 percent of the federal credit allowed for Child and Dependent Care expenses;

 (c) a credit for working spouses based on the income of the lower earning spouse. The maximum credit allowed was increased in the “roads” bill from 210 to 350 dollars;

 (d) a refundable tuition tax credit for students in higher education ineligible to receive state scholarship assistance. The maximum amount of the credit (when fully phased in) was increased in the roads bill from 850 dollars for a four‑ year institution and 350 dollars for a two‑year institution to 1,500 dollars for both such institutions;

 (e) a maximum credit of 300 dollars for nursing home or in home care expenses paid by the taxpayer for the taxpayers care or the care of another;

 (f) a credit for eligible contributions for Exceptional Needs Children scholarships. This credit is not permanent law;

 (g) a refundable credit allowed eligible school teachers and other specified school employees for unreimbursed purchases of school supplies and teaching materials. The maximum credit amount is 275 dollars. This credit is not permanent law;

 (h) a credit equal to 125 percent of the federal EITC credit allowed a taxpayer. The credit was enacted in the “roads” bill;

 (i) a refundable credit for preventative maintenance expenses of maintaining a motor vehicle to offset the increased expense of motor fuel. This credit was enacted in the “roads” bill. It begins for tax year 2018 and sunsets after 5 years;

 (j) a credit for a percentage of the value of a conservation easement donated by taxpayer if the taxpayer is allowed a charitable deduction on the taxpayer’s federal individual income tax return for the value of the donation. This credit may be claimed by the taxpayer, or if the taxpayer elects, sold to a third party;

 (k) a credit for shareholders of banks organized as Subchapter S corporations for the shareholder’s pro rata share of banks South Carolina bank income tax.. Banks do not pay state corporate income tax but instead pay a separately imposed South Carolina bank income tax.

 (4) **Reduced Income Tax Rate** ‑ Income defined as “active trade or business income” received by a business operated as a sole proprietorship or a pass‑through business is subject to a maximum state income tax rate of 3 percent.

 (B) **PROPOSED** **LAW** ‑ **A COMPREHENSIVE LISTING**

 (1) a tax credit for income taxes paid to another state or country on income which is also taxed in South Carolina;

 (2) transitional tax credits allowed by prior law against a South Carolina taxpayer’s individual income tax liability earned but not claimed before 2018 and which were allowed to be carried forward under prior law. Only amounts in carry forward status may be credited. No new credits are allowed after 2017.