

# **FEDERAL TAX CONFORMITY TAX YEAR 2017 AND 2018**

**PRESENTED TO  
HOUSE WAYS AND MEANS  
INCOME TAX SUBCOMMITTEE**

**April 17, 2018**



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# CONFORMITY

## Tax Year 2017 and 2018

- Conformity is more complicated due to major federal tax reform
- Winners and losers
  - Detailed RFA report on federal tax changes:  
*Estimated South Carolina Impact of Federal “Tax Cuts and Jobs Act” of 2017* (<http://rfa.sc.gov/econ/reports/econanalysis>)
- Taxpayers, tax professionals, and DOR need time for implementation of tax changes



# CONFORMITY - RETROACTIVE

## Tax Year 2017 (April 2018 filings)

- Conforming to federal tax changes for tax year 2017 will allow taxpayers under 65 to claim higher medical deductions: \$3.5 million revenue reduction
- Twelve tax provisions extended in the Bipartisan Budget Act affect taxpayers for 2017
  - Total of \$11.8 million including:
    - Medical deductions for taxpayers over 65 (\$4.8 M)
    - Qualified tuition and related expenses (\$2.8 M)
- Current filers will have to file amended returns if these provisions are adopted



# CONFORMITY

## Tax Year 2018 (April 2019 Filings)

### Adopt Federal Income Tax Changes

- Simplest for taxpayers and least likely to result in non-compliance
- No changes to tax processing or revenue flow

### BUDGET/REVENUE ISSUES

**\$205 Million Revenue Increase\*  
(\$180 Indiv.; \$25 Corp.)**

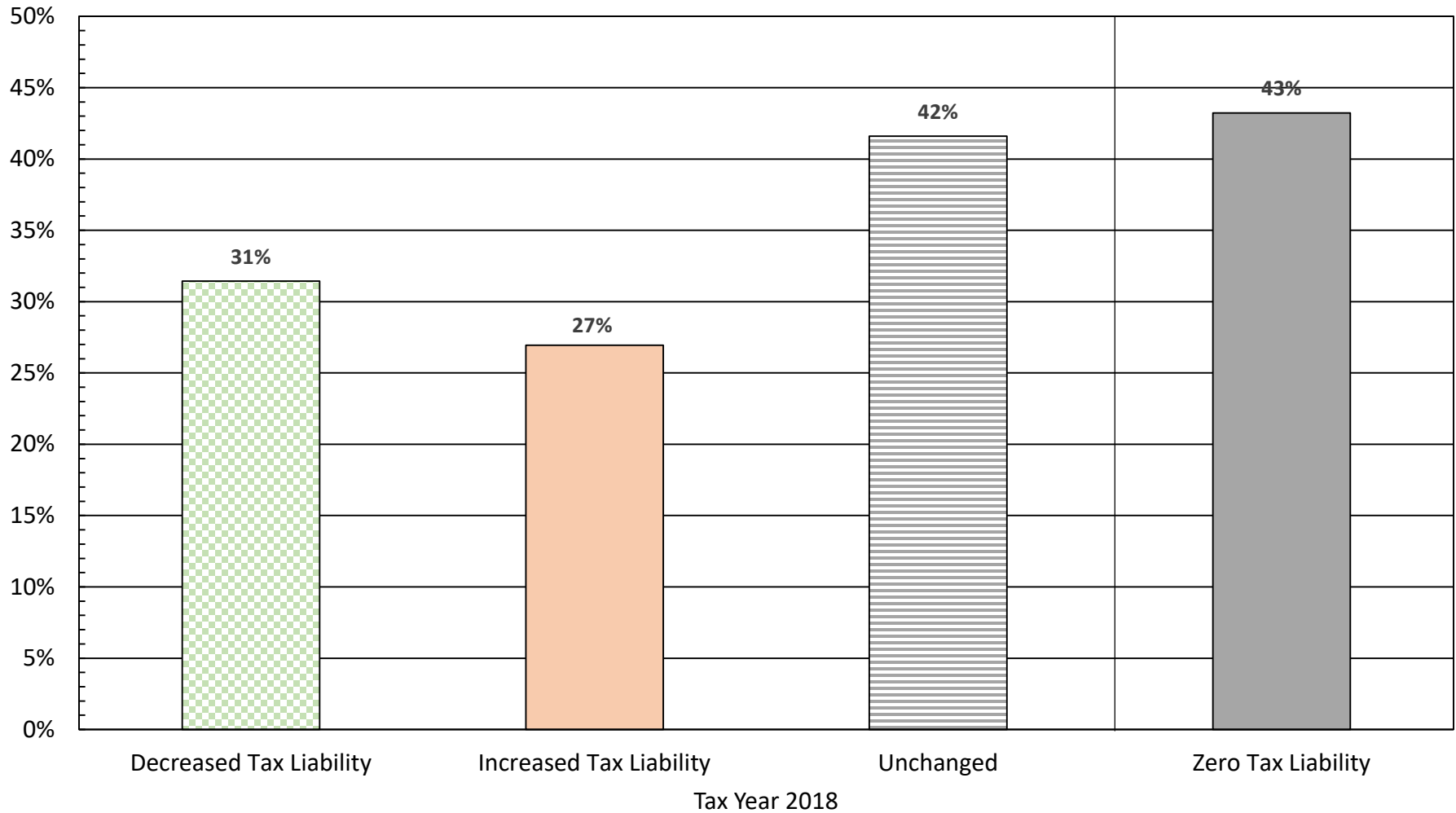
#### For Individual Tax Filers:

- **Decreased Tax Liability:**  
31%
- **Increased Tax Liability:**  
27%
- **Unchanged Tax Liability:**  
42%

**\*Before any state tax reform**



**SOUTH CAROLINA STATE INDIVIDUAL INCOME TAX LIABILITY IMPACT**  
**Tax Year 2018 - Projected Impact of Federal Tax Changes**  
**Percentage of Returns**



# **NONCONFORMITY**

## **No Action (Maintain 2016 Tax Code)**

### **Decouple from Federal Tax Code**

- **Significant change for taxpayers, tax professionals, and DOR**
- **Potential for unintended tax liability impacts**
- **Taxpayers must follow two sets of tax laws**

### **BUDGET/REVENUE ISSUES**

#### **Unknown Impacts on Compliance**

- **Voluntary Compliance**
  - **Taxpayer confusion may have unintended revenue effects**
- **Involuntary Compliance**
  - **Tens of millions in audit revenue affected**
- **Short Time for Implementation**
  - **Processing Delays - revenue timing and budget cash flow would be affected, especially if electronic filings are affected**



# NONCONFORMITY - SPECIFIC CONCERNS

## Tax Year 2018 Issues for Taxpayers

- Federal and state tax law differences
  - Significant differences between federal and state standard deductions and personal exemptions may affect compliance
  - Different thresholds for medical deductions
- Taxpayers will need to follow two sets of tax rules and complete another set of forms to duplicate federal returns under old law
  - Individuals and business may have much higher tax preparation expenses. For example, Indiana estimates their businesses' expenses will increase by \$100 million.<sup>1</sup>
- Delays in processing would mean taxpayers would have to wait to receive refunds

<sup>1</sup> *Indianapolis Business Journal*, March 23, 2018 <https://www.ibj.com/articles/68093-without-state-fix-federal-tax-change-could-cost-indiana-firms-100m>

