

REPORT OF THE REVENUE POLICY SUBCOMMITTEE

(White, J.R. Smith, Bingham, Herbkersman & Pitts - Staff Contact: Rena N. Grant)

HOUSE BILL 4996

H. 4996 -- Reps. Stringer, Bingham, Harrell, White, McCoy, Norman, Clemmons, Quinn, Ballentine, Ryan, Brannon, Bedingfield, Spires, Thayer, Parker, Taylor, Daning, Hearn, J.R. Smith, Patrick, Murphy, Bowen, Lowe, Nanney, Hiott, Sottile, Loftis, Allison, Atwater, Bannister, Chumley, Crosby, Delleney, Erickson, Hamilton, Hardwick, Henderson, Herbkersman, Hixon, Horne, Limehouse, Long, Merrill, D.C. Moss, V.S. Moss, Owens, Pinson, Pope, Sandifer, Simrill, G.M. Smith, G.R. Smith, Tallon, Willis, Young and Forrester: A BILL TO AMEND SECTION 12-6-545, AS AMENDED, CODE OF LAWS OF SOUTH CAROLINA, 1976, RELATING TO INCOME TAX RATES FOR PASS-THROUGH TRADE AND BUSINESS INCOME, SO AS TO REDUCE THE TAX RATE FROM FIVE PERCENT TO THREE PERCENT.

Summary of Bill:

This bill reduces the income tax rates for pass-through active trade and business income from 5%, as currently stipulated in law, to 3%.

Introduced: 3/13/2012

Received by Ways and Means: 3/13/2012

Estimated Fiscal Impact:

Per the fiscal impact, the General Fund individual income tax revenue will be reduced by \$59,727,608 in FY12-13 either by way of reduced income tax payments or an increase in the amount of refunds.

Subcommittee Recommendation: Favorable

Full Committee Recommendation: Pending

Other Notes/Comments:

Per the tax year 2010 data from the DOR inflated to tax year 2012, the BEA estimates that 58,884 taxpayers will report \$3,008,947,529 in pass-through trade active trade or business income on their 2012 income tax returns. At the current rate of 5% these taxpayers would remit \$150,447,376 in individual income tax for FY12-13. At the rate of 3% proposed by this legislation, the BEA estimates that 0.5% more pass-through active trade or business income or \$3,023,992,267 would be reported on tax returns. This 0.5% would generate \$90,719,768 in income tax liability at the proposed 3% rate compare to the estimated \$150,447,376 at the current 5% rate in FY 12-13.

Statement of Estimated State Revenue Impact

Date: Tuesday, March 14, 2012

Bill Number: H.4996

Author: Reps. Stringer, Bingham, Harrell, White, *et al.*

Committee Requesting Impact: Ways and Means

Bill Summary


TO AMEND SECTION 12-6-545, AS AMENDED, CODE OF LAWS OF SOUTH CAROLINA, 1976, RELATING TO INCOME TAX RATES FOR PASS-THROUGH TRADE AND BUSINESS INCOME, SO AS TO REDUCE THE TAX RATE FROM FIVE PERCENT TO THREE PERCENT.

REVENUE IMPACT ^{1/}

We expect that General Fund individual income tax revenue will be reduced by \$59,727,608 in FY 2012-13 from reduced income tax payments or increased refunds.

Explanation

This bill reduces the optional tax rate on active trade or business income received by a pass-through business from 5% to 3% beginning in tax year 2012. Based on tax year 2010 data from the Department of Revenue inflated to tax year 2012, we estimate that 58,884 taxpayers will report \$3,008,947,529 in pass-through active trade or business income on their 2012 income tax returns. At the current 5% tax rate these taxpayers would remit \$150,447,376 in individual income tax in FY 2012-13. At the proposed 3% tax rate we estimate that 0.5% more pass-through active trade or business income, or \$3,023,992,267, would be reported on taxpayer returns. This would generate \$90,719,768 in income tax liability at the proposed 3% tax rate compared to the estimated \$150,447,376 in tax at the current 5% tax rate in FY 2012-13. We expect that General Fund individual income tax revenue will be reduced by \$59,727,608 in FY 2012-13 from reduced income tax payments or increased refunds.


Frank A. Rainwater
Chief Economist

Analyst: Shuford

^{1/} This statement meets the requirement of Section 2-7-71 for a state revenue impact by the BEA, or Section 2-7-76 for a local revenue impact or Section 6-1-85(B) for an estimate of the shift in local property tax incidence by the Office of Economic Research.

South Carolina General Assembly
119th Session, 2011-2012

H. 4996

STATUS INFORMATION

General Bill

Sponsors: Reps. Stringer, Bingham, Harrell, White, McCoy, Norman, Clemmons, Quinn, Ballentine, Ryan, Brannon, Bedingfield, Spires, Thayer, Parker, Taylor, Daning, Hearn, J.R. Smith, Patrick, Murphy, Bowen, Lowe, Nanney, Hiott, Sottile, Loftis, Allison, Atwater, Bannister, Chumley, Crosby, Delleney, Erickson, Hamilton, Hardwick, Henderson, Herbkersman, Hixon, Horne, Limehouse, Long, Merrill, D.C. Moss, V.S. Moss, Owens, Pinson, Pope, Sandifer, Simrill, G.M. Smith, G.R. Smith, Tallon, Willis, Young and Forrester

Document Path: 1:\council\bills\nbd\12192dg12.docx

Companion/Similar bill(s): 4994, 4995, 4997

Introduced in the House on March 13, 2012

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

Summary: Income tax rates

HISTORY OF LEGISLATIVE ACTIONS

Date	Body	Action Description with journal page number
3/13/2012	House	Introduced and read first time (<u>House Journal-page 10</u>)
3/13/2012	House	Referred to Committee on Ways and Means (<u>House Journal-page 10</u>)
3/13/2012	House	Member(s) request name added as sponsor: Forrester

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VERSIONS OF THIS BILL

3/13/2012

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A BILL

TO AMEND SECTION 12-6-545, AS AMENDED, CODE OF LAWS OF SOUTH CAROLINA, 1976, RELATING TO INCOME TAX RATES FOR PASS-THROUGH TRADE AND BUSINESS INCOME, SO AS TO REDUCE THE TAX RATE FROM FIVE PERCENT TO THREE PERCENT.

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

SECTION 1. Section 12-6-545(B)(2) of the 1976 Code is amended read:

“(2) The rate of the income tax imposed pursuant to this subsection is:

Taxable Year Beginning in	Rate of Tax
2006	6.5 percent
2007	6 percent
2008	5.5 percent
<u>after 2008 through 2011</u>	5 percent
<u>after 2011</u>	<u>3 percent</u> ”

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

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