Bill Number:	S. 250 Introduced on January 12, 2017
Author:	Leatherman
Subject:	Internal Revenue Code Conformity
Requestor:	Senate Finance
RFA Analyst(s):	Shuford
Impact Date:	January 17, 2017

Estimate of Fiscal Impact

	FY 2017-18	FY 2018-19
State Expenditure		
General Fund	$0	$0
Other and Federal	$0	$0
Full-Time Equivalent Position(s)	0.00	0.00
State Revenue		
General Fund	$0	$0
Other and Federal	$0	$0
Local Expenditure	$0	$0
Local Revenue	$0	$0

Fiscal Impact Summary
This bill will not have an expenditure impact on the General Fund, Federal Funds, or Other Funds. In addition, we expect that updating IRC conformity through the end of 2016 will have no revenue impact on General Fund income tax revenue in FY 2017-18

Explanation of Fiscal Impact

Introduced on January 12, 2017
State Expenditure
Senate Bill 250 requires the Department of Revenue to administer any tax form or instruction changes from updating South Carolina's conformity to the Internal Revenue Code (IRC) through December 31, 2016. These activities are a continuation of existing agency responsibilities and will not have an expenditure impact on the General Fund, Federal Funds, or Other Funds.

State Revenue
This bill updates South Carolina's conformity to the Internal Revenue Code (IRC) through December 31, 2016. Research by the Department of Revenue reports that of the five federal tax acts passed in 2016, only two provisions within these five acts may affect South Carolina income tax revenue.

The first provision is contained in the U.S. Appreciation for Olympians and Paralympians Act of 2016, which creates a new exclusion from taxable income for the value of the medals awarded to U.S. Olympic or Paralympic athletes and the cash prizes given by the U.S. Olympic Committee.

The second provision requires the Department of Defense to ensure that amounts are not withheld for tax purposes from severance payments to veterans with combat-related injuries when such payments are not considered gross income under the IRC. This provision is enacted as part of the Combat-Injured Veterans Tax Fairness Act.

The U.S. Joint Committee on Taxation estimates that these two provisions would reduce federal tax revenue by a negligible amount in tax year 2017. Therefore, we expect that updating IRC conformity through the end of 2016 will have no revenue impact on General Fund income tax revenue in FY 2017-18.

In addition, this bill proactively adopts for South Carolina certain expired provisions of the federal code that are extended, but not otherwise amended by congressional enactment in 2017. This contingency is required since the U.S. Congress allowed thirty-seven federal exemptions to expire at the end of 2016. Adopting these exemptions retroactively is still under consideration by Congress, which has occurred previously in recent years. Of these thirty-seven exemptions, twelve potentially impact South Carolina taxable income and are noted in the table below.

If Congress does not reinstate these provisions, the resulting increase in South Carolina taxable income would increase General Fund income tax revenue by $11,790,000 in FY 2017-18. This revenue impact would occur whether or not the General Assembly enacts legislation to update the IRC conformity through December 31, 2016. The table below provides a brief summary of the twelve provisions including their expected $11,790,000 revenue impact on General Fund income tax revenue in FY 2017-18.

These temporary provisions have generally been in the IRC for years and are routinely extended as they were most recently extended in the Protecting Americans from Tax Hikes Act of 2015. While Congress is expected to address these expired provisions at some point in 2017, there is no certainty. Should Congress fail to reinstate these provisions in 2017, South Carolina General Fund income tax revenue will increase, even if South Carolina enacts conformity legislation.

In November 2016 when the Board of Economic Advisors (BEA) set the initial forecast for FY 2017-18, the expectation was that Congress would extend these expiring federal tax provisions. The BEA General Fund forecast included the revenue impact of extending these provisions as part of the income tax base since most of these provisions have been in effect for many years.

At this point, we expect these expired provisions will be reinstated; therefore, we anticipate no revenue impact from federal actions that retroactively reinstate or extend the expired provisions. In other words, if Congress reauthorizes or extends these items in 2017 with no amendments, we anticipate no impact on South Carolina income tax revenue. The BEA will monitor this situation and any adjustment to the FY 2017-18 revenue forecast will be addressed later in the legislative session based on any federal or state legislation.

Local Expenditure and Revenue
N/A

	Expired 2016 Federal Tax Provisions Under Consideration by Congress	First Enacted	Potential Impact
1	Medical expense deduction floor of 7.5% of adjusted gross income for individuals age 65 and older	2010	$ 4,819,000
2	Deduction for qualified tuition and related expenses	1978	$ 2,768,000
3	Discharge of indebtedness on principal residence excluded from gross income of individuals	2007	$ 2,050,000
4	Premiums for mortgage insurance deductible as interest that is qualified residential interest	2006	$ 1,070,000
5	Special rule for sales or dispositions to implement Federal Energy Regulatory Commission or state electric restructuring policy	2004	$ 406,000
6	Extension of energy efficient commercial buildings deduction	2006	$ 246,000
7	Change the depreciation classification for race horses that are two years old or younger from seven-year property to three-year property	2008	$ 215,000
8	Empowerment zone tax incentives	1993	$ 76,000
9	Seven-year recovery period for certain motorsports racing facilities	2004	$ 58,000
10	Special expensing rules for certain film and television productions	2004	$ 39,000
11	Election to expense advanced mine safety equipment	2006	$ 32,000
12	Five-year cost recovery for certain energy property	2005	$ 11,000
	Total		$ 11,790,000

Frank A Rainwater

Frank A. Rainwater, Executive Director