



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
(803)734-3780 • RFA.SC.GOV/IMPACTS

This fiscal impact statement is produced in compliance with the South Carolina Code of Laws and House and Senate rules. The focus of the analysis is on governmental expenditure and revenue impacts and may not provide a comprehensive summary of the legislation.

Bill Number:	S. 1087	Introduced on February 17, 2022
Author:	Peeler	
Subject:	Comprehensive Tax Cut of 2022	
Requestor:	Senate Finance	
RFA Analyst(s):	Jolliff and Miller	
Impact Date:	February 24, 2022	

Fiscal Impact Summary

This bill enacts the Comprehensive Tax Cut Act of 2022. The act lowers the top marginal individual income tax 6 and 7 percent rates to 5.7 percent in tax year 2022 and allows taxpayers to claim a full deduction of military retirement income. Further, the act increases the manufacturing value exemption for property taxes to 42.8571 percent of the value, which equates to lowering the 10.5 percent manufacturing assessment ratio to 6 percent. The act also eliminates the reimbursement cap for this exemption and the phase-in of the current manufacturing property tax exemption. The act provides that local governments will be reimbursed for the exemption. Lastly, the act appropriates one billion dollars from the Contingency Reserve Fund to the Taxpayer Rebate Fund, which may be used to provide a rebate to taxpayers in a manner prescribed by the General Assembly.

This bill will not impact expenditures for the Department of Revenue (DOR). DOR will implement the changes during the annual updates to tax forms and instructions. The agency can also implement the changes to the manufacturing property exemption with existing staff. Further, we anticipate that the State Treasurer's Office will establish the Taxpayer Rebate Fund with existing staff and resources. However, any expenditure impact for distributing taxpayer rebates will depend on additional legislation.

This bill will reduce General Fund individual income tax revenue by \$23,281,000 in FY 2021-22 and \$886,902,000 in FY 2022-23 for the individual income tax rate reduction.

Further, the proposed complete deduction of all remaining military retirement income beginning in tax year 2022 will reduce General Fund individual income tax revenue by an additional \$7,972,000 in FY 2022-23.

The change in the manufacturing property value exemption will increase the required state reimbursements from the Trust Fund for Tax Relief to local governments by \$106,120,000 beginning in FY 2022-23. The Trust Fund for Tax Relief is deducted from the state individual and corporate income tax revenue, the remaining of which is allocated to the General Fund. Therefore, this section will result in an additional transfer of \$106,120,000 from General Fund revenue to the Trust Fund for Tax Relief beginning in FY 2022-23. The reimbursement funds will offset the local property tax revenue reduction.

In total, the bill will reduce General Fund individual income tax revenue by \$23,281,000 in FY 2021-22 and \$894,874,000 in FY 2022-23. The bill will transfer an additional \$106,120,000 from General Fund revenue to the Trust Fund for Tax Relief, for net reduction in available General Fund revenue of \$1,000,994,000 in FY 2023-23.

Explanation of Fiscal Impact

Introduced on February 17, 2022

State Expenditure

This bill will not impact expenditures for the Department of Revenue (DOR). DOR will implement the changes during the annual updates to tax forms and instructions. The agency can also implement the changes to the manufacturing property exemption with existing staff.

We anticipate that the State Treasurer’s Office will establish the Taxpayer Rebate Fund with existing staff and resources. However, any expenditure impact for distributing taxpayer rebates will depend on additional legislation.

State Revenue

Section 1. This section provides that the act may be cited as the “Comprehensive Tax Cut Act of 2022”.

Section 2. This section reduces the individual income tax marginal 6 percent and 7 percent rates to 5.7 percent beginning in tax year 2022. We have estimated the impact of the rate reduction using the latest data and expectations for personal income, inflation, and individual income tax return data for 2019. The projected individual income tax reduction for tax year 2022 is included in the attached table by taxable income range.

Assuming the bill is enacted prior to the end of the legislative session, we anticipate that taxpayers who file estimated tax payments will begin reducing their quarterly declarations in response to the tax reduction. As such, 2.625 percent of the total tax year impact for tax year 2022 is recognized as reduced estimated tax payments in FY 2021-22 for the second calendar quarter, and the remaining impact is reflected in the next fiscal year through the remaining reduced payments and higher refunds. The projected General Fund impact on a fiscal year basis is provided in Table 1 below based upon these assumptions.

Table 1. Estimated Fiscal Year Impact of Individual Income Tax Rate Reduction

Fiscal Year	General Fund Individual Income Tax Revenue	Annual Additional General Fund Individual Income Tax Revenue
FY 2021-22	(\$23,281,000)	(\$23,281,000)
FY 2022-23	(\$886,902,000)	(\$863,621,000)

Please be advised, this estimate affects the current fiscal year, FY 2021-22, and the reduction is not reflected in the current FY 2021-22 revenue base. As such, the General Fund revenue impact

on the budget is a reduction of \$23,281,000 for FY 2021-22 and the total reduction of \$886,902,000 for FY 2022-23, as opposed to the annual additional amount.

Section 3. This section allows taxpayers to claim a full deduction of military retirement income. Presently, Section 12-6-1171 provides an individual income tax deduction of up to \$17,500 of earned income for taxpayers that also have military retirement income. The deduction is equal to the amount of military retirement income included in taxable income, not to exceed \$17,500. Taxpayers age 65 and over may also deduct up to \$30,000 of military retirement income without regard to earned income. This bill will amend that section so that all taxpayers may deduct total military income with no earned income requirement.

Please be advised that in SC Revenue Ruling 21-13 issued in late 2021, the Department of Revenue stated that a taxpayer age 65 and over is eligible for both the earned income deduction of \$17,500 and a military retirement deduction of up to \$30,000, as opposed to only the military retirement deduction. This guidance has affected our analysis of the impact.

DOR's guidance that taxpayers age 65 and over may claim both the earned income and military retirement deductions was not addressed in the tax return instructions for 2021 or in prior years. As such, we do not anticipate that the impact is currently reflected in our revenue collections. The Board of Economic Advisors (BEA) incorporated this in its forecast for FY 2022-23 on February 15, 2022. Our analysis is based upon the anticipated impact of this new guidance.

Based upon the latest data provided by the SC Department of Veterans Affairs from the Department of Defense, Office of the Actuary through September 2021, the estimated revenue impact in FY 2022-23 for these deductions totals \$22,914,000.

The first row of Table 2 below reports the estimated revenue impact of the current deductions and proposed full deduction of all military retirement income for taxpayers under age 65 in tax year 2022. We estimate that the individual income tax revenue impact of a fully implemented military retirement income deduction in FY 2022-23 will total \$18,714,000 for taxpayers under age 65. The BEA forecast for individual income tax revenue includes the impact of the current deductions, which is estimated to be \$11,025,000. Therefore, the proposed complete deduction of the remaining military retirement for taxpayers under age 65 will reduce individual income tax revenue by an additional \$7,689,000 in FY 2022-23.

The second row of the table below reports the estimated revenue impact of the current and proposed deduction for taxpayers age 65 and older in tax year 2022. We estimate that the individual income tax revenue impact of the fully implemented military retirement income deduction in FY 2022-23 will total \$12,172,000 for taxpayers age 65 and over. For these taxpayers, the BEA forecast includes the reduction in the individual income tax revenue for the current deduction estimated to be \$10,036,000. Therefore, the proposed complete deduction of the remaining military retirement for taxpayers age 65 and older will reduce individual income tax revenue by an additional \$2,136,000 in FY 2022-23.

Our estimate of the earned income deduction for taxpayers age 65 and over with military retirement is based upon data from the Census Bureau and the Bureau of Labor Statistics. Using 2021 figures, approximately 18.5 percent of the estimated U.S. population age 65 and over is employed. The code section allows a taxpayer to deduct up to \$17,500 of earned income equal to military income. Based upon an average tax rate of 2.88 percent for a deduction of \$17,500, this deduction will reduce income tax by approximately \$504 per qualifying taxpayer. The average tax rate for this deduction amount accounts for the fact that many returns are already reduced to zero before the additional deduction. Multiplying 18.5 percent by the 19,869 individuals with military retirement, we estimate that approximately 3,676 will be eligible for the \$504 deduction totaling \$1,853,000.

The net change for taxpayers age 65 and over will be an additional reduction of \$283,000. This change is shown in the fourth row of the table below.

Combining the revenue impacts of the deduction for all military retirees results in an estimated total reduction in General Fund individual income tax revenue of \$30,886,000. Of this total, the \$22,914,000 is already exempted under the current provisions. Therefore, the proposed complete deduction of all remaining military retirement income beginning in tax year 2022 will reduce General Fund individual income tax revenue by an additional \$7,972,000 in FY 2022-23.

Table 2. Estimated Number and Tax Revenue Reduction for Military Retirees FY 2022-23

Age of Military Retirees	Total Estimated Number of Active Duty Military Retirees	Total Tax Revenue Reduction from Full Military Retirement Deduction	Total Revenue Reduction from Act 272 of 2016	Additional Revenue Reduction from Full Military Retirement Deduction
Under Age 65	17,603	(\$18,714,000)	(\$11,025,000)	(\$7,689,000)
Age 65 and Older (Retirement)	19,869	(\$12,172,000)	(\$10,036,000)	(\$2,136,000)
Age 65 and Older (Earned Income) ¹	3,676	\$0	(\$1,853,000)	\$1,853,000
Age 65 and Older (Total)	19,869	(\$12,172,000)	(\$11,889,000)	(\$283,000)
Total	37,471	(\$30,886,000)	(\$22,914,000)	(\$7,972,000)

¹ Reflects guidance issued by the S.C. Department of Revenue in SC Revenue Ruling 21-13

Section 4. This section increases the manufacturing property tax value exemption to 42.8571 percent. This bill also eliminates the reimbursement cap for this property tax exemption and the phase-in of the current 14.2857 percent exemption. This section takes effect beginning in tax year 2022.

In tax year 2022, the current manufacturing property tax value exemption will be in the fifth year of a six-year phase-in, resulting in an exemption of 11.9048 percent of the manufacturing property value from all property taxes. This bill increases this exemption by 30.9523 percent, resulting in a manufacturing property tax exemption of 42.8751 percent. This exemption equates to lowering the 10.5 percent manufacturing assessment ratio to 6 percent. The total local property tax revenue loss will be fully reimbursed through the Trust Fund for Tax Relief.

Currently, the estimated manufacturing tax exemption reimbursement for tax year 2022 is \$40,820,000. The estimated local property tax revenue loss, and thereby the Trust Fund for Tax Relief reimbursement total under this bill, is approximately \$146,930,000. This is an increase of \$106,120,000 beginning in FY 2022-23.

The Trust Fund for Tax Relief is deducted from the state individual and corporate income tax revenue, the remaining of which is allocated to the General Fund. Therefore, this section will result in an additional transfer of \$106,120,000 from the General Fund to the Trust Fund for Tax Relief beginning in FY 2022-23.

Section 5. This section appropriates one billion dollars from the Contingency Reserve Fund to the Taxpayer Rebate Fund, which is created in the State Treasury. The fund may be used to provide a rebate to taxpayers in a manner prescribed by the General Assembly. Any allocation of the funds will require additional legislative action.

Section 6. This section repeals Section 12-6-515, which lowers the 2.5 percent marginal tax rate in Section 12-6-510(A) to 0 percent. This reduction has been in effect since 2007 and is no longer necessary with the updates to the marginal tax rates in the bill. Therefore, this section has no impact.

Local Expenditure

N/A

Local Revenue

Section 4 of this bill increases the manufacturing property tax exemption to 42.8571. This bill also eliminates the reimbursement cap for this property tax exemption and the phase-in of the current manufacturing property tax exemption. Due to the elimination of the \$85,000,000 cap, the local revenue property tax loss will be reimbursed on a dollar-for-dollar basis through the Trust Fund for Tax Relief. Local governments will receive an additional \$106,120,000 in reimbursements beginning in FY 2022-23 to offset the property tax reduction.



Frank A. Rainwater, Executive Director

ESTIMATED TAX YEAR 2022 INDIVIDUAL INCOME TAX IMPACT

Proposal: Reduce top marginal tax rate to 5.7% with brackets unchanged.

With these brackets and rates, 100.0% of returns have a lower or unchanged liability and the General Fund impact is (\$ 886,902,000).

2019 Base Estimated Taxable Income Range	Current Tax Structure					Estimate of Tax Year Impact		
	Projected # of Returns 2022	Cumulative # of Returns	Cumulative % of Returns	Projected Average Taxable Income 2022	Average Tax Liability 2022	Proposed Average Tax Liability 2022	Average Tax Increase/ (Decrease) 2022	Total Dollar Increase/ (Decrease) 2022
0	946,016	946,016	35.47%	\$0	\$0	\$0	\$0	\$0
1-5,000	245,154	1,191,170	44.66%	\$2,425	\$11	\$11	\$0	\$0
5,000-10,000	184,262	1,375,432	51.57%	\$7,891	\$158	\$158	\$0	\$0
10,000-20,000	296,134	1,671,566	62.67%	\$15,674	\$570	\$549	(\$21)	(\$6,180,654)
20,000-30,000	222,927	1,894,493	71.03%	\$26,324	\$1,298	\$1,154	(\$144)	(\$31,956,506)
30,000-40,000	163,564	2,058,057	77.16%	\$36,958	\$2,042	\$1,761	(\$282)	(\$46,059,677)
40,000-50,000	121,833	2,179,890	81.73%	\$47,576	\$2,785	\$2,366	(\$420)	(\$51,124,293)
50,000-60,000	92,336	2,272,226	85.19%	\$58,224	\$3,531	\$2,973	(\$559)	(\$51,528,693)
60,000-70,000	71,506	2,343,732	87.87%	\$68,886	\$4,277	\$3,580	(\$697)	(\$49,815,250)
70,000-80,000	57,024	2,400,757	90.01%	\$79,528	\$5,022	\$4,187	(\$835)	(\$47,615,284)
80,000-90,000	45,267	2,446,024	91.71%	\$90,154	\$5,766	\$4,793	(\$974)	(\$44,051,571)
90,000-100,000	35,751	2,481,774	93.05%	\$100,817	\$6,512	\$5,401	(\$1,112)	(\$39,746,157)
100,000-125,000	61,263	2,543,037	95.35%	\$118,393	\$7,743	\$6,402	(\$1,341)	(\$82,107,361)
125,000-150,000	36,519	2,579,556	96.72%	\$145,170	\$9,617	\$7,929	(\$1,689)	(\$61,657,167)
150,000-175,000	22,826	2,602,382	97.57%	\$171,841	\$11,484	\$9,449	(\$2,036)	(\$46,453,183)
175,000-200,000	14,736	2,617,118	98.12%	\$198,353	\$13,340	\$10,960	(\$2,380)	(\$35,066,952)
200,000-250,000	17,429	2,634,548	98.78%	\$236,204	\$15,989	\$13,118	(\$2,872)	(\$50,053,428)
250,000-300,000	9,613	2,644,160	99.14%	\$289,838	\$19,744	\$16,175	(\$3,570)	(\$34,308,853)
300,000-400,000	9,689	2,653,849	99.50%	\$364,226	\$24,951	\$20,415	(\$4,537)	(\$43,949,737)
400,000-500,000	4,666	2,658,515	99.68%	\$473,044	\$32,568	\$26,617	(\$5,951)	(\$27,764,055)
500,000- \$1M	6,302	2,664,817	99.91%	\$709,492	\$49,120	\$40,095	(\$9,025)	(\$56,868,546)
\$1 M +	2,337	2,667,154	100.00%	\$2,667,974	\$186,213	\$151,728	(\$34,485)	(\$80,595,050)
Total	2,667,154			\$33,619	\$1,808	\$1,570	(\$238)	(\$886,902,000)

2022 Current Tax Brackets	0.00% \$0 to 3,200	Proposed Tax Brackets	0.00% \$0 to 3,200
	3.00% \$3,200 to 6,410		3.00% \$3,200 to 6,410
	4.00% \$6,410 to 9,620		4.00% \$6,410 to 9,620
	5.00% \$9,620 to 12,820		5.00% \$9,620 to 12,820
	6.00% \$12,820 to 16,040		5.70% Over \$12,820
	7.00% Over \$16,040		

Columns may not add to totals due to rounding

/a 2019 Base Year Grown by 2.3% per year.

/b 2019 Base Year Taxable Income Grown by 6.9%, 7.2%, and -0.6%.