



# SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE

## STATEMENT OF ESTIMATED FISCAL IMPACT

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*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.*

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**Bill Number:** H. 3125 Introduced on January 14, 2025  
**Subject:** Elimination of Individual Income Tax  
**Requestor:** House Ways and Means  
**RFA Analyst(s):** Jolliff  
**Impact Date:** February 26, 2025

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### Fiscal Impact Summary

This bill eliminates the income tax on individuals, estates, and trusts beginning in tax year 2025. The bill deletes existing statutes regarding tax rates, tax brackets, and the special tax rate for active trade or business income of pass-through businesses.

The Department of Revenue (DOR) anticipates that the bill will reduce the workload for administration of individual income tax over time as no income taxes will be collected for tax years after 2024. The agency will continue to administer individual income taxes for prior tax years until any extension and audit periods expire. To the extent possible, DOR intends to reallocate staff to other areas and may be able to reduce expenses over time.

The bill will eliminate individual income tax liability for tax year 2025. Based on the most recent estimates, the total tax on individuals, estates, and trusts is estimated to be approximately \$6,466,400,000 for tax year 2025. The impact by fiscal year will depend on how quickly taxpayers adjust to the change and how quickly new withholdings tables are implemented. Based on historical proportions of estimated payments to tax liability, we anticipate this bill will reduce General Fund income tax revenue by at least \$339,500,000 in the last quarter of FY 2024-25 for reduced payments. Also, the bill will reduce revenue by up to \$6,126,900,000 in FY 2025-26 for the remaining reduction in the 2025 tax liability not reflected in FY 2024-25. Additionally, since the withholdings tax tables will be adjusted to account for the change in tax liability, there will be a one-time additional revenue reduction of up to \$3,712,375,000 in FY 2025-26 for withholdings that will not be collected from January 2026 to June 2026 for tax year 2026. In total, the bill will reduce General Fund revenue by up to \$339,500,000 in FY 2024-25 and \$9,839,275,000 in FY 2025-26 for the reduction in taxes in 2025 and the change to withholdings collections for 2026. In subsequent years, the impact will be reduced to approximately \$6,466,400,000, plus any growth in income, after the withholdings table change is implemented.

This change in tax liability for individuals will result in a significant reallocation of money from appropriations for state and local government services and employment to private spending. The shift may increase spending by consumers and private industry but will also reduce income and spending from government appropriations. Consumer and private spending may also result in a transfer of funds to out-of-state purchases. Therefore, the bill is expected to largely shift the type of economic activity but not increase activity on a net basis.

Please note, this reduction in withholdings and tax collections will also impact current programs that are based on withholdings taxes and tax refunds. For example, job development credits for businesses that create new jobs and can claim a credit against withholdings will no longer be available as employee withholdings will be eliminated. These credits totaled \$62,033,939 in FY 2022-23 based on DOR's Annual Report. Also, debt setoff collections for state and local governments that are imposed against income tax refunds will also be eliminated. For reference, debt setoff collections for state and local government entities totaled \$171,398,786 in FY 2022-23 based on DOR's Annual Report, of which approximately \$64,100,000 was collected for state government and \$107,300,000 was collected for local governments. State and local government revenue from these programs may be impacted as it may be more difficult to collect these debts without the ability to withhold from income tax refunds.

## **Explanation of Fiscal Impact**

### **Introduced on January 14, 2025**

#### **State Expenditure**

This bill eliminates the income tax on individuals, estates, and trusts beginning in tax year 2025. DOR anticipates that the bill will reduce the workload for administration of individual income tax over time as no income taxes will be collected for tax years after 2024. The agency will continue to administer individual income taxes for prior tax years until any extension and audit periods expire. To the extent possible, the agency intends to reallocate staff to other areas of the agency and may be able to reduce expenses over time.

#### **State Revenue**

The bill will eliminate individual income tax liability for tax year 2025. The bill deletes existing statutes regarding tax rates, tax brackets, and the special tax rate for active trade or business income of pass-through businesses. Based on the most recent estimates, the total tax on individuals, estates, and trusts including pass-through businesses is estimated to be approximately \$6,466,400,000 for tax year 2025. The impact by fiscal year will depend on how quickly taxpayers adjust to the change and how quickly new withholdings tables are implemented. Based on historical proportions of estimated payments to tax liability, we anticipate this bill will reduce General Fund income tax revenue by at least \$339,500,000 in the last quarter of FY 2024-25 for reduced payments. Also, the bill will reduce revenue by up to \$6,126,900,000 in FY 2025-26 for the remaining reduction in the 2025 tax liability not reflected in FY 2024-25. Additionally, since the withholdings tax tables will be adjusted to account for the change in tax liability, there will be a one-time additional revenue reduction of up to \$3,712,375,000 in FY 2025-26 for withholdings that will not be collected from January 2026 to June 2026 for tax year 2026. In total, the bill will reduce General Fund revenue by up to \$339,500,000 in FY 2024-25 and \$9,839,275,000 in FY 2025-26 for the reduction in taxes in 2025 and the change to withholdings collections for 2026. In subsequent years, the impact will be reduced to approximately \$6,466,400,000, plus any growth in income, after the withholdings table change is implemented.

This change in tax liability for individuals will result in a significant reallocation of money from appropriations for state and local government services and employment to private spending. The

shift may increase spending by consumers and private industry but will also reduce income and spending from government appropriations. Consumer and private spending may also result in a transfer of funds to out-of-state purchases. Therefore, the bill is expected to largely shift the type of economic activity but not increase activity on a net basis.

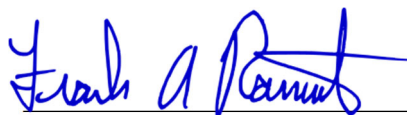
Please note, this reduction in withholdings and tax collections will also impact current programs that are based on withholdings taxes and tax refunds. For example, job development credits for businesses that create new jobs and can claim a credit against withholdings will no longer be available as employee withholdings will largely be eliminated. These credits totaled \$62,033,939 in FY 2022-23 based on DOR's Annual Report. Also, debt setoff collections for state and local governments that are imposed against income tax refunds will also be significantly reduced or eliminated. For reference, debt setoff collections for state and local government entities totaled \$171,398,786 in FY 2022-23 based on DOR's Annual Report, of which approximately \$64,100,000 was collected for state government. This revenue may be impacted by the bill as it may be more difficult to collect these debts if they cannot be withheld from income tax refunds.

### **Local Expenditure**

N/A

### **Local Revenue**

This bill eliminates the income tax on individuals, estates, and trusts beginning in tax year 2025. Debt setoff collections for state and local governments that are imposed against income tax refunds will be eliminated. For reference, debt setoff collections for state and local government entities totaled \$171,398,786 in FY 2022-23 based on DOR's Annual Report of which approximately \$107,300,000 was collected for local governments. This local government revenue may be impacted by the bill as it may be more difficult to collect these debts if they cannot be withheld from income tax refunds.



Frank A. Rainwater, Executive Director