



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.

Bill Number:	H. 4216	Amended by House Ways and Means on April 30, 2025
Subject:	Income Tax	
Requestor:	House Ways and Means	
RFA Analyst(s):	Jolliff	
Impact Date:	April 30, 2025	

Fiscal Impact Summary

This bill as amended changes South Carolina's individual income tax structure beginning in tax year 2026. The bill imposes a tax rate of 1.99 percent on taxable income up to \$30,000 and 5.39 percent on \$30,000 and over, eliminates the federal standard and itemized deductions, and allows taxpayers to claim a South Carolina Income Adjusted Deduction (SCIAD), which varies by filing status, for taxpayers with lower federal adjusted gross income (AGI). The bill also provides that the tax rates will be reduced annually beginning in tax year 2027 if individual income tax revenue, less amounts credited to the Trust Fund for Tax Relief, is projected to grow by at least 5 percent in the following fiscal year until the 5.39 percent tax rate is reduced to 1.99 percent, at which time the 1.99 percent tax rate will be reduced until it is eliminated. The rate will be reduced annually such that the adjustment to the tax rate is projected to reduce individual income tax revenue by approximately \$200,000,000. If the projected growth in individual income tax revenue is projected to be less than \$200,000,000, then the tax rate adjustment must be limited to the projected increase in individual income tax revenue. The determination of the tax rate will be made annually based on the revenue forecast for the current and upcoming fiscal years as of February fifteenth. Finally, the Department of Revenue (DOR), in consultation with Revenue and Fiscal Affairs (RFA), is directed to adjust the withholdings tables to reflect the tax changes in the act in accordance with fiscal responsibility.

Currently, South Carolina has a marginal tax rate structure of 0 percent, 3 percent, and 6.2 percent for tax year 2025 that applies to state taxable income. The state starts with federal taxable income, which is essentially federal AGI less the federal standard and itemized deductions. The state then allows other deductions and adjustments to determine state taxable income. The bill eliminates the federal standard or itemized deductions. Instead, taxpayers with lower incomes will be allowed to deduct the new SCIAD. All other current state deductions, exemptions, adjustments, and tax credits are retained, and the earned income tax credit is limited to \$200 per tax return.

DOR indicates that the changes to the tax structure will require significant revisions to the current tax return processing system as well as many forms and guidance. Further, the agency will need to maintain separate systems for processing returns under the current tax structure and the new tax structure until the full period for any amendments to prior year returns expires. The total cost is expected to be approximately \$3,000,000, of which approximately \$1,500,000 is for vendor programming costs for changes to tax processing systems, and the remaining \$1,500,000

is for development and implementation of training and communications to inform the public regarding the changes. The timing of the expenditure impact is under review but is expected to occur over FY 2025-26 and FY 2026-27 as the agency implements the changes necessary to prepare for tax year 2026. The agency will request additional General Fund appropriations for these expenses.

Individual Income Tax Liability

The bill will reduce individual income tax liability by approximately \$400,300,000 in tax year 2026. The attached Table 1 outlines the impact by federal AGI ranges. The impact on individual taxpayers varies widely within each range depending on the specific tax situation of each tax filer. As shown, approximately 33.2 percent of returns will not experience a change in their tax liability, 42.3 percent of returns will experience lower tax liabilities of \$583,600,000, and 24.4 percent will see an increase in tax liability of \$183,300,000.

On a fiscal year basis, we assume taxpayers will adjust their estimated tax payments for the tax change. As such, 5.25 percent of the total tax year impact is recognized in the prior fiscal year, FY 2025-26, for the reduced payments. Total revenue in FY 2026-27 will experience the full decrease in tax liability including the remaining reduction in tax liability for tax year 2026 and the decreased taxes for tax year 2027. The impact by fiscal year is shown in the table below.

Estimated Fiscal Year Impact of Individual Income Tax Change

Fiscal Year	General Fund Impact
FY 2025-26	(\$21,016,000)
FY 2026-27	(\$400,300,000)

Please note, our estimates of the impact are based on the current income growth assumptions applied to the sample of tax returns with federal tax data from tax year 2022. We have based our analysis on the impact that the proposed change would have on tax revenue compared to the current tax rates of 0 percent, 3 percent, and 6.3 percent, which coincide with the assumptions included in the revenue forecast by the Board of Economic Advisors (BEA) on February 13, 2025. While the top marginal tax rate will be reduced to 6.2 percent for tax year 2025, and the impact of the rate change will be included in the budget, it is not included in the BEA revenue forecast.

The impact of the tax rate changes in future years will depend on projected revenue growth and the changes in the tax rate that result from the projected growth. The 5.39 percent rate will be reduced until it reaches 1.99 percent, at which time the 1.99 percent rate will be reduced until it is eliminated. The rate will be reduced annually such that the adjustment to the tax rate is projected to reduce individual income tax revenue by approximately \$200,000,000. If the projected growth in individual income tax revenue of at least 5 percent is projected to be less than \$200,000,000, then the tax rate adjustment must be limited to the projected increase in individual income tax revenue. The actual revenue reduction will depend on income growth in future years and how quickly the rate is reduced.

Withholdings

The bill also directs DOR, in consultation with RFA, to adjust the withholdings tax tables to reflect the tax changes in the bill. In the calendar year in which the adjustment to the withholdings tables begins, withholdings would be lowered in January through June (the final half of the fiscal year), but the offsetting adjustment to refunds or tax payments will not occur until the following fiscal year when taxes are filed in April. At this time, DOR intends to work with RFA to determine timing for this adjustment such that the state's financial position is not negatively affected, and the adjustment can be accommodated with available revenue. The impact on taxpayers will depend on how and when the withholdings tables are adjusted. The change represents an additional impact on the General Fund.

Other Considerations

This bill represents a significant shift from our current tax structure. While the estimated impact is based upon the information reported on tax returns, there may be unforeseen issues due to taxpayer decisions resulting from this new tax structure. Further, this analysis is based on tax year 2022 tax returns, which are the latest currently available, and current expectations for income growth and tax return changes over the next 4 years. These issues and assumptions influence the analysis of the impact the tax rate change will have, and any differences could impact the potential revenue and budget.

Explanation of Fiscal Impact

Amended by House Ways and Means on April 30, 2025

State Expenditure

This bill as amended changes South Carolina's individual income tax structure beginning in tax year 2026. The bill imposes a tax rate of 1.99 percent on taxable income up to \$30,000 and 5.39 percent on \$30,000 and over, eliminates the federal standard and itemized deductions, and allows taxpayers with lower federal AGI to claim a new SCIAD. The bill also provides that the tax rate will be reduced annually beginning in tax year 2027 until the tax is eliminated if projected individual income tax revenue, less amounts credited to the Trust Fund for Tax Relief, is projected to grow by at least 5 percent in the following fiscal year. The rate will be reduced annually such that the adjustment to the tax rate is projected to reduce individual income tax revenue by approximately \$200,000,000. If the projected growth in individual income tax revenue is projected to be less than \$200,000,000, then the tax rate adjustment must be limited to the projected increase in individual income tax revenue. The determination of the tax rate will be made annually based on the revenue forecast for the current and upcoming fiscal years as of February fifteenth. Finally, DOR, in consultation with RFA, is directed to adjust the withholdings tables to reflect the tax changes in the act in accordance with fiscal responsibility.

DOR indicates that the changes to the tax structure will require significant revisions to the current tax return processing system as well as many forms and guidance. Further, the agency will need to maintain separate systems for processing returns under the current tax structure and the new tax structure until the full period for any amendments to prior year returns expires. The total cost is expected to be approximately \$3,000,000, of which approximately \$1,500,000 is for vendor programming costs for changes to tax processing systems, and the remaining \$1,500,000

is for development and implementation of training and communications to inform the public regarding the changes. The timing of the expenditure impact is under review but is expected to occur over FY 2025-26 and FY 2026-27 as the agency implements the changes necessary to prepare for tax year 2026. The agency will request additional General Fund appropriations for these expenses

State Revenue

This bill as amended changes South Carolina's individual income tax structure beginning in tax year 2026. The bill imposes a tax rate of 1.99 percent on taxable income up to \$30,000 and 5.39 percent on \$30,000 and over, eliminates the federal standard and itemized deductions, and allows taxpayers with lower federal AGI to claim the new SCIAD, which varies by filing status. Additionally, the bill provides that the 5.39 percent tax rate will be reduced annually beginning in tax year 2027 until it reaches 1.99 percent, at which time the 1.99 percent rate will be reduced until it is eliminated. The rate will be reduced in any year in which individual income tax revenue, less amounts credited to the Trust Fund for Tax Relief, is projected to grow by at least 5 percent in the following fiscal year. The rate will be reduced annually such that the adjustment to the tax rate is projected to reduce individual income tax revenue by approximately \$200,000,000. If the projected growth in individual income tax revenue of at least 5 percent is projected to be less than \$200,000,000, then the tax rate adjustment must be limited to the projected increase in individual income tax revenue. The determination of the tax rate will be made annually based on the revenue forecast for the current and upcoming fiscal years as of February fifteenth. Lastly, the bill specifies that DOR, in consultation with RFA, is directed to adjust the withholdings tables to reflect the tax changes in the act in accordance with fiscal responsibility.

Currently, South Carolina has a marginal tax rate structure of 0 percent, 3 percent, and 6.2 percent for tax year 2025 that applies to state taxable income. The state starts with federal taxable income, which is essentially federal AGI less the federal standard and itemized deductions. The state then allows other deductions and adjustments to determine state taxable income. Under the bill as amended, the tax rates imposed for tax year 2026 will be 1.99 percent up to \$30,000 of taxable income and 5.39 percent on \$30,000 and over. The bill eliminates the federal standard or itemized deductions. Instead, taxpayers with lower federal AGI will be allowed to deduct the new SCIAD, which varies by filing status and is subject to the phase-out provisions in the bill. All other current state deductions, exemptions, adjustments, and tax credits are retained, and the earned income tax credit is limited to \$200 per tax return.

Under the bill as amended, taxpayers are allowed to deduct the new SCIAD, which is phased out for taxpayers with federal AGI above the provided income levels. The following table outlines the deduction amounts and income limits by filing status. The SCIAD is phased out proportionally for taxpayers with incomes within the federal AGI ranges shown below by filing status. The deduction is completely phased out for taxpayers with federal AGI above the ranges shown below. For non-residents, the SCIAD is reduced to an amount that is the same proportion as South Carolina AGI is to federal AGI.

South Carolina Income Adjusted Deduction – Tax Year 2026

Filing Status	Deduction Amount	Federal AGI Range for Deduction Phase-out		
Single	\$15,000	\$40,000	to	\$95,000
Head of Household	\$22,500	\$60,000	to	\$142,500
Married Filing Jointly	\$30,000	\$80,000	to	\$190,000

Individual Income Tax Liability

The bill as amended will reduce individual income tax liability by approximately \$400,300,000 in tax year 2026. The attached Table 1 outlines the impact by federal AGI ranges. The impact on individual taxpayers varies widely within each range depending on the specific tax situation of each tax filer. As shown, approximately 33.2 percent of returns will not experience a change in their tax liability, 42.3 percent of returns will experience lower tax liabilities of \$583,600,000, and 24.4 percent will see an increase in tax liability of \$183,300,000.

On a fiscal year basis, we assume taxpayers will adjust their estimated tax payments for the tax change. As such, 5.25 percent of the total tax year impact is recognized in the prior fiscal year, FY 2025-26, for the reduced payments. Total revenue in FY 2026-27 will experience the full decrease in tax liability including the remaining reduction in tax liability for tax year 2026 and the decreased taxes for tax year 2027. The impact by fiscal year is shown in the table below.

Estimated Fiscal Year Impact of Individual Income Tax Change

Fiscal Year	General Fund Impact
FY 2025-26	(\$21,016,000)
FY 2026-27	(\$400,300,000)

For this analysis, our estimates of the impact are based on the current income growth assumptions applied to the sample of tax returns with federal tax data from tax year 2022. We have based our analysis on the impact that the proposed change would have on tax revenue compared to the current tax rates of 0 percent, 3 percent, and 6.3 percent, which coincide with the assumptions included in the revenue forecast by the BEA on February 13, 2025. While the top marginal tax rate will be reduced to 6.2 percent for tax year 2025, and the impact of the rate change will be included in the budget, it is not included in the BEA revenue forecast.

The impact of the tax rate changes in future years will depend on projected revenue growth and the changes in the tax rate that result from the projected growth. The 5.39 percent rate will be reduced until it reaches 1.99 percent, at which time the 1.99 percent rate will be reduced until it is eliminated. The rate will be reduced annually such that the adjustment to the tax rate is projected to reduce individual income tax revenue by approximately \$200,000,000. If the projected growth in individual income tax revenue of at least 5 percent is projected to be less than \$200,000,000, then the tax rate adjustment must be limited to the projected increase in individual income tax revenue. The actual revenue reduction will depend on income growth in future years and how quickly the rate is reduced.

Withholdings

The bill directs DOR, in consultation with RFA, to adjust the withholdings tax tables to reflect the tax changes in the bill. In the calendar year in which the adjustment to the withholdings tables begins, withholdings would be lowered in January through June (the final half of the fiscal year), but the offsetting adjustment to refunds or tax payments will not occur until the following fiscal year when taxes are filed in April. At this time, DOR intends to work with RFA to determine timing for this adjustment such that the state's financial position is not negatively affected, and the adjustment can be accommodated with available revenue. The impact on taxpayers is currently undetermined and will depend on how and when the withholdings tables are adjusted. The change represents an additional impact on the General Fund.

Other Considerations

Please note, this bill represents a significant shift from our current tax structure. While the estimated impact is based upon the information reported on tax returns, there may be unforeseen issues due to taxpayer decisions resulting from this new tax structure. Further, this analysis is based on tax year 2022 tax returns, which are the latest currently available, and current expectations for income growth and tax return changes over the next 4 years. These issues and assumptions influence the analysis of the impact the tax rate change will have, and any differences could impact the potential revenue and budget.

Local Expenditure

N/A

Local Revenue

N/A



Frank A. Rainwater, Executive Director

H. 4216 AS AMENDED BY HOUSE WAYS & MEANS ON 4.30.2025 - ESTIMATED SOUTH CAROLINA INDIVIDUAL INCOME TAX IMPACT
Tax Year 2026

Proposal: Apply a tax rate of 1.99% on taxable income up to \$30,000 and 5.39% over, eliminate the standard or itemized deduction, allow the new SC income adjusted deduction, and maintain all state adjustments, exemptions, and credits. (See notes below)
Impact: With this tax structure, 42.3% of taxpayers have a lower tax liability, 24.4% have a higher tax liability, and 33.2% are unchanged. The General Fund impact is (\$ 400,300,000).

Estimated Federal Adjusted Gross Income Range	Estimated Tax Return Distribution				Estimated Tax Change (Returns with a Change)						Returns with a Change								Tax Returns with No Change		Tax Returns with Zero Tax Liability	
	Estimated # of Returns	Estimated % of Returns	Old Avg. Tax Liability	New Avg. Tax Liability	Returns with Tax Change	% of Returns in Range	Old Avg. Tax Liability	New Avg. Tax Liability	Average Tax Change	Total Dollar Increase/ (Decrease)	Tax Returns with a Decrease in Liability				Tax Returns with an Increase in Liability				No Tax Change # of Returns	No Change % of Returns	Zero Tax # of Returns	Zero Tax % of Returns
											Tax Decrease # of Returns	Tax Decrease % of Returns in Range	Total Decrease Amount	Average Decrease Amount	Tax Increase # of Returns	Tax Increase % of Returns in Range	Total Increase Amount	Average Increase Amount				
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23
\$0*	90,171	3.2%	\$65	\$55	1,583	1.8%	\$3,710	\$3,157	(\$552)	(\$874,000)	710	0.8%	(\$918,000)	(\$1,293)	873	1.0%	\$45,000	\$52	88,588	98.2%	88,472	98.1%
\$1 to \$10,000	316,550	11.2%	\$4	\$10	51,754	16.3%	\$22	\$61	\$39	\$1,996,000	838	0.3%	(\$82,000)	(\$98)	50,916	16.1%	\$2,079,000	\$41	264,796	83.7%	265,314	83.8%
\$10,001 to \$20,000	322,475	11.4%	\$16	\$26	79,779	24.7%	\$65	\$105	\$41	\$3,257,000	3,733	1.2%	(\$275,000)	(\$74)	76,046	23.6%	\$3,533,000	\$46	242,696	75.3%	243,213	75.4%
\$20,001 to \$30,000	277,959	9.8%	\$104	\$110	142,726	51.3%	\$203	\$214	\$11	\$1,581,000	50,424	18.1%	(\$2,064,000)	(\$41)	92,302	33.2%	\$3,644,000	\$39	135,233	48.7%	134,740	48.5%
\$30,001 to \$40,000	270,592	9.6%	\$285	\$215	175,413	64.8%	\$439	\$331	(\$108)	(\$18,896,000)	143,637	53.1%	(\$20,806,000)	(\$145)	31,775	11.7%	\$1,910,000	\$60	95,180	35.2%	107,014	39.5%
\$40,001 to \$50,000	238,162	8.4%	\$590	\$396	195,867	82.2%	\$718	\$481	(\$237)	(\$46,381,000)	142,311	59.8%	(\$50,882,000)	(\$358)	53,556	22.5%	\$4,501,000	\$84	42,295	17.8%	53,996	22.7%
\$50,001 to \$75,000	407,589	14.4%	\$1,248	\$1,007	365,435	89.7%	\$1,393	\$1,123	(\$269)	(\$98,459,000)	297,476	73.0%	(\$108,757,000)	(\$366)	67,959	16.7%	\$10,297,000	\$152	42,154	10.3%	52,603	12.9%
\$75,001 to \$100,000	253,297	9.0%	\$2,175	\$1,961	236,965	93.6%	\$2,325	\$2,097	(\$228)	(\$54,002,000)	187,606	74.1%	(\$65,345,000)	(\$348)	49,360	19.5%	\$11,343,000	\$230	16,331	6.4%	19,067	7.5%
\$100,001 to \$150,000	300,002	10.6%	\$3,538	\$3,462	295,266	98.4%	\$3,594	\$3,517	(\$77)	(\$22,826,000)	191,911	64.0%	(\$54,297,000)	(\$283)	103,355	34.5%	\$31,471,000	\$304	4,737	1.6%	4,698	1.6%
\$150,001 to \$200,000	145,000	5.1%	\$5,947	\$6,118	143,468	98.9%	\$6,011	\$6,183	\$173	\$24,807,000	43,334	29.9%	(\$17,842,000)	(\$412)	100,133	69.1%	\$42,649,000	\$426	1,532	1.1%	1,070	0.7%
\$200,001 to \$300,000	109,079	3.9%	\$9,317	\$9,264	107,506	98.6%	\$9,454	\$9,399	(\$55)	(\$5,872,000)	59,073	54.2%	(\$32,015,000)	(\$542)	48,434	44.4%	\$26,143,000	\$540	1,572	1.4%	1,097	1.0%
\$300,001 to \$500,000	55,593	2.0%	\$15,594	\$14,740	54,200	97.5%	\$15,994	\$15,119	(\$876)	(\$47,462,000)	44,681	80.4%	(\$58,508,000)	(\$1,309)	9,519	17.1%	\$11,046,000	\$1,160	1,392	2.5%	1,046	1.9%
\$500,001 to \$1,000,000	25,468	0.9%	\$26,791	\$24,753	24,298	95.4%	\$28,080	\$25,944	(\$2,136)	(\$51,897,000)	20,165	79.2%	(\$62,095,000)	(\$3,079)	4,133	16.2%	\$10,198,000	\$2,468	1,169	4.6%	933	3.7%
Over \$1,000,000	12,102	0.4%	\$78,357	\$71,313	10,910	90.2%	\$86,916	\$79,102	(\$7,814)	(\$85,252,000)	8,884	73.4%	(\$109,718,000)	(\$12,351)	2,027	16.7%	\$24,466,000	\$12,071	1,192	9.8%	1,057	8.7%
Total	2,824,038	100.0%	\$2,392	\$2,251	1,885,171	66.8%	\$3,584	\$3,371	(\$212)	(\$400,300,000)	1,194,783	42.3%	(\$583,600,000)	(\$488)	690,388	24.4%	\$183,300,000	\$266	938,867	33.2%	974,320	34.5%

Figures may not add to totals due to rounding. For non-residents, federal AGI is only the amount applicable to South Carolina.

*Returns may have \$0 federal AGI but positive state taxable income due to provisions not adopted by South Carolina or out-of-state income adjustments.

Current 2026 Marginal Tax Rates:		Taxable Income Range:	Proposed Tax Rates :		SC Income Adj. Deduction	Other Notes:
0%		up to \$3,640	1.99% up to \$30,000		Single \$15,000	No standard or itemized deductions.
3%		\$3,640-\$18,220	5.39% \$30,000 and over		Start Phase out \$40,000	All other current state adjustments to income (federal conformity provisions), deductions, exemptions, and credits are maintained.
6.3%		over \$18,220			End Phase out \$95,000	Active trade or business rate at 3% is maintained.
(Rates are based on BEA forecast assumptions. Actual rate is 6.2% for tax year 2025 and after as accounted for in the budget.)			Married Filing Joint - amounts x 2, Head of Household amounts x 1.5			Earned income tax credit limited to \$200.
			Non-resident phase-out based on total federal AGI and amount is pro-rated			

Disclaimer: Estimates are based on current assumptions at the time of the analysis. Changes in growth rates, base year tax data, or other assumptions may have a positive or negative impact on these estimates and the budget.