



# 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.*

<b>Bill Number:</b>	H. 4216	Amended by the House of Representatives on May 6, 2025
<b>Subject:</b>	Income Tax	
<b>Requestor:</b>	House of Representatives	
<b>RFA Analyst(s):</b>	Jolliff	
<b>Impact Date:</b>	January 13, 2026 - Updated for Revised Analysis and Fiscal Impact	

### 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 or 25 percent of the recurring income tax revenue surplus, whichever is greater. 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.

*This fiscal impact is updated to reflect the individual income tax rate change adopted in the FY 2025-26 Appropriations Act, which lowered the top marginal tax rate to 6 percent. The previous analysis was based on a top marginal tax rate of 6.3 percent, which was the rate included in the forecast by the Board of Economic Advisors prior to the adoption of the FY 2025-26 Appropriations Act. The analysis is also updated to reflect the latest tax return data and growth assumptions.*

Currently, South Carolina has a marginal tax rate structure of 0 percent, 3 percent, and 6 percent that applies to state taxable income. The top marginal tax rate was lowered to 6 percent for tax year 2025 in the FY 2025-26 Appropriations Act. 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. Of these expenses, approximately \$375,000 is expected to occur in FY 2025-26, and the remaining \$2,625,000 will occur in FY 2026-27. 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 \$119,100,000 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 34.6 percent of returns will not experience a change in their tax liability, 38.7 percent of returns will experience a decrease in tax liability of \$388,700,000, and 26.7 percent will see an increase in tax liability of \$269,600,000.

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	(\$6,253,000)
FY 2026-27	(\$119,100,000)

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 2024. We have based our updated 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 percent.

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 or 25 percent of the recurring income tax revenue surplus, whichever is greater. 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 2024 tax returns, which are the latest currently available, and current expectations for income growth and tax return changes over the next 2 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 the House of Representatives on May 6, 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 or 25 percent of the recurring income tax revenue surplus, whichever is greater. 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. Of these expenses, approximately \$375,000 is expected to occur in FY 2025-26, and the remaining \$2,625,000 will occur in FY 2026-27. 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 or 25 percent of the recurring income tax revenue surplus, whichever is greater. 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 percent that applies to state taxable income. The top marginal tax rate was lowered to 6 percent for tax year 2025 in the FY 2025-26 Appropriations Act. 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**

<b>Filing Status</b>	<b>Deduction Amount</b>	<b>Federal AGI Range for Deduction Phase-out</b>		
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 \$119,100,000 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 34.6 percent of returns will not experience a change in their tax liability, 38.7 percent of returns will experience a decrease in tax liability of \$388,700,000, and 26.7 percent will see an increase in tax liability of \$269,600,000.

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**

<b>Fiscal Year</b>	<b>General Fund Impact</b>
FY 2025-26	(\$6,253,000)
FY 2026-27	(\$119,100,000)

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 2024. We have based our updated 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 percent

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 or 25 percent of the recurring income tax revenue surplus, whichever is greater. 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

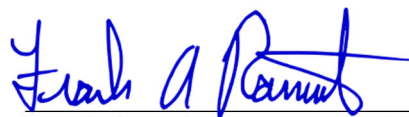
Please note, this bill represents a significant shift from our current tax structure. While the estimated impact is based upon the information reported on tax returns, there may be unforeseen issues due to taxpayer decisions resulting from this new tax structure. Further, this analysis is based on tax year 2024 tax returns, which are the latest currently available, and current expectations for income growth and tax return changes over the next 2 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 THE HOUSE ON 5.06.2025 - ESTIMATED SOUTH CAROLINA INDIVIDUAL INCOME TAX IMPACT

Tax Year 2026 - Updated 1.13.2026

Proposal: Apply a tax rate of 1.99% on taxable income up to \$30,000 and 5.39% over, eliminate the federal standard or itemized deduction, allow a new SC deduction at certain income levels, and maintain all other state adjustments, exemptions, and credits. (See notes below)

Impact: With this tax structure, 38.7% of taxpayers have a lower tax liability, 26.7% have a higher tax liability, and 34.6% are unchanged. The General Fund impact is (\$119,100,000).

	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	
											Tax Returns with a Decrease in Liability				Tax Returns with an Increase in Liability							
Estimated Federal Adjusted Gross Income Range	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 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	No Tax Change # of Returns	No Change % of Returns	Zero Tax # of Returns	Zero Tax % of Returns
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23
\$0*	78,854	2.9%	\$50	\$43	1,080	1.4%	\$3,683	\$3,154	(\$529)	(\$571,000)	575	0.7%	(\$606,000)	(\$1,054)	505	0.6%	\$35,000	\$69	77,774	98.6%	77,824	98.7%
\$1 to \$10,000	286,253	10.4%	\$3	\$9	43,699	15.3%	\$20	\$58	\$38	\$1,655,000	834	0.3%	(\$76,000)	(\$91)	42,865	15.0%	\$1,731,000	\$40	242,554	84.7%	243,249	85.0%
\$10,001 to \$20,000	310,122	11.2%	\$16	\$26	75,652	24.4%	\$67	\$105	\$38	\$2,872,000	5,591	1.8%	(\$360,000)	(\$64)	70,060	22.6%	\$3,232,000	\$46	234,471	75.6%	235,107	75.8%
\$20,001 to \$30,000	275,560	10.0%	\$107	\$110	140,713	51.1%	\$210	\$216	\$5	\$769,000	51,548	18.7%	(\$2,676,000)	(\$52)	89,165	32.4%	\$3,445,000	\$39	134,847	48.9%	134,332	48.7%
\$30,001 to \$40,000	269,566	9.8%	\$288	\$216	160,474	59.5%	\$483	\$362	(\$121)	(\$19,360,000)	131,750	48.9%	(\$21,067,000)	(\$160)	28,724	10.7%	\$1,707,000	\$59	109,091	40.5%	110,638	41.0%
\$40,001 to \$50,000	234,386	8.5%	\$569	\$390	174,112	74.3%	\$767	\$526	(\$241)	(\$41,986,000)	127,503	54.4%	(\$46,301,000)	(\$363)	46,609	19.9%	\$4,315,000	\$93	60,274	25.7%	61,884	26.4%
\$50,001 to \$75,000	407,593	14.8%	\$1,192	\$990	351,715	86.3%	\$1,381	\$1,148	(\$234)	(\$82,146,000)	286,705	70.3%	(\$93,552,000)	(\$326)	65,010	15.9%	\$11,406,000	\$175	55,877	13.7%	61,644	15.1%
\$75,001 to \$100,000	250,437	9.1%	\$2,020	\$1,874	225,176	89.9%	\$2,247	\$2,085	(\$162)	(\$36,461,000)	173,939	69.5%	(\$51,076,000)	(\$294)	51,237	20.5%	\$14,615,000	\$285	25,261	10.1%	27,341	10.9%
\$100,001 to \$150,000	298,343	10.8%	\$3,258	\$3,269	289,966	97.2%	\$3,352	\$3,363	\$11	\$3,115,000	175,398	58.8%	(\$35,022,000)	(\$200)	114,568	38.4%	\$38,137,000	\$333	8,377	2.8%	8,450	2.8%
\$150,001 to \$200,000	143,398	5.2%	\$5,518	\$5,873	141,749	98.9%	\$5,582	\$5,942	\$359	\$50,933,000	19,752	13.8%	(\$6,653,000)	(\$337)	121,997	85.1%	\$57,586,000	\$472	1,649	1.1%	1,210	0.8%
\$200,001 to \$300,000	109,340	4.0%	\$8,741	\$9,077	108,086	98.9%	\$8,842	\$9,182	\$340	\$36,718,000	29,527	27.0%	(\$10,562,000)	(\$358)	78,560	71.8%	\$47,280,000	\$602	1,253	1.1%	791	0.7%
\$300,001 to \$500,000	56,123	2.0%	\$14,926	\$14,844	55,098	98.2%	\$15,204	\$15,120	(\$84)	(\$4,627,000)	36,199	64.5%	(\$25,411,000)	(\$702)	18,898	33.7%	\$20,784,000	\$1,100	1,025	1.8%	688	1.2%
\$500,001 to \$1,000,000	25,664	0.9%	\$25,969	\$25,338	24,764	96.5%	\$26,912	\$26,258	(\$654)	(\$16,195,000)	18,325	71.4%	(\$32,991,000)	(\$1,800)	6,439	25.1%	\$16,796,000	\$2,608	900	3.5%	649	2.5%
Over \$1,000,000	11,936	0.4%	\$78,228	\$77,074	11,163	93.5%	\$83,646	\$82,413	(\$1,233)	(\$13,767,000)	8,187	68.6%	(\$62,365,000)	(\$7,617)	2,975	24.9%	\$48,598,000	\$16,334	773	6.5%	666	5.6%
Total	2,757,573	100.0%	\$2,321	\$2,277	1,803,447	65.4%	\$3,548	\$3,482	(\$66)	(\$119,100,000)	1,065,834	38.7%	(\$388,700,000)	(\$365)	737,613	26.7%	\$269,600,000	\$366	954,126	34.6%	964,473	35.0%

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 Deduction		Phase-out Start	Phase-out End	Other Notes:
	0%	up to \$3,640	1.99%	up to \$30,000	Single	\$15,000	\$40,000	\$95,000	
	3%	\$3,640-\$18,230	5.39%	over \$30,000	Married Joint	\$30,000	\$80,000	\$190,000	
	6.0%	over \$18,230			Head of Household	\$22,500	\$60,000	\$142,500	
SC deduction is phased-out based on federal AGI levels shown.									Earned Income Tax credit is capped at \$200.

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.