

## **Proposed amendment to S.261 to make it revenue-neutral (or slightly negative)**

February 4, 2013

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Amend S.261 by inserting the following as a new “Section 3” and renumbering the subsequent section accordingly:

SECTION 3. Article 5, Chapter 6, Title 12 of the 1976 Code is amended by adding:

“Section 12-6-516. (A) Notwithstanding the provisions of Section 12-6-510, for taxable years beginning after 2012, a tax is imposed on the South Carolina taxable income of individuals, estates, and trusts and any other entity except those taxed or exempted from taxation under Sections 12-6-530 through 12-6-550 computed at the following rates with the income brackets indexed in accordance with Section 12-6-520:

OVER	BUT NOT OVER		
\$ 0	\$ 2,850	0%	Times the amount
2,800	5,700	3%	Times the amount less \$85
5,700	8,550	4%	Times the amount less \$142
8,550	11,400	5%	Times the amount less \$228
11,400	14,250	6%	Times the amount less \$342
14,250		6.99%	Times the amount less \$485

(B) The department may prescribe tax tables consistent with the rates set pursuant to subsection (A).”

### **Notes:**

- BEA estimates that the unamended S.261 would raise revenues by \$3,144,803.
- BEA also estimates that cutting the 7% bracket to 6.99209% would cut taxes by \$3,145,000, which is essentially the revenue-neutral rate (net reduction in state revenues of \$197).
- A more reasonable option would be to reduce the 7% rate to 6.99% at a cost of \$3,976,000, according to the BEA. The net reduction in state revenues would then be \$831,197 under the amended bill.
- There is a significant but imperfect overlap between those who would be harmed by the original bill and those who benefit from the amendment. Also, for any affected individual, this amendment would not be a dollar-for-dollar offset for the higher taxes they would have faced for the unamended bill.
- The point of the amendment is to ensure that the state doesn’t receive more revenue through S.261 – we can’t use the bill to make everyone precisely whole, because at that point, we wouldn’t be coupled to the federal tax code anymore. This would be a major compliance problem for businesses, etc.
- Someone on the legislative side should confirm the amendment language works. It’s based loosely on our individual income tax bill from last year.