



**SOUTH CAROLINA
REVENUE AND FISCAL AFFAIRS OFFICE**

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FRANK A. RAINWATER
Executive Director

December 18, 2014

Mr. Joshua D. Baker
Budget Director
Office of the Governor
1205 Pendleton Street
Columbia, South Carolina 29201

Dear Mr. Baker:

This letter is to provide an estimate of the revenue impact of lowering the income tax rate on active trade or business income from three percent in tax year 2014 by one-half percent per year to zero in tax year 2020.

Beginning in tax year 2006, active trade or business income has been taxed at a reduced rate. The rate was lowered over four years to five percent in tax year 2009 and remained at that level until tax year 2012 when it was reduced further over a three year period to three percent for tax year 2014.

This proposal would reduce the income tax rate on active trade or business income to two and one-half percent in tax year 2015, or FY 2015-16. We estimate that taxing the expected \$5,464,574,748 in active trade or business income at two and one-half percent would result in \$136,614,369 in tax revenue rather than the expected \$163,937,242 at the current three percent tax rate. Based on this analysis summarized in the attached table, we estimate that General Fund individual income tax would be reduced by \$27,322,874 in FY 2015-16. By tax year 2020, or FY 2020-21, we anticipate that eliminating the tax on the expected \$8,817,846,195 in active trade or business income would result in an annual reduction in General Fund individual income tax revenue of \$64,207,550 for a total revenue reduction of \$264,535,386 from the current three percent rate in tax year 2014.

The projected total General Fund individual income tax revenue reductions for each fiscal year and the annual additional General Fund revenue reduction based on the proposed tax rate changes are outlined below.

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	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Proposed Tax Rate	2.50%	2.00%	1.50%	1.00%	0.50%	0.00%
Total General Fund Revenue Reduction	\$ 27,322,874	\$ 60,133,655	\$ 99,259,044	\$ 145,636,440	\$ 200,327,835	\$ 264,535,386
Annual Additional General Fund Revenue Reduction	\$ 27,322,874	\$ 32,810,781	\$ 39,125,389	\$ 46,377,396	\$ 54,691,395	\$ 64,207,550

If we may be of additional assistance, please advise.

Sincerely,



Frank A. Rainwater
Executive Director

FAR/gos

Enclosures: 1

Revenue Impact of Reducing the Active Trade or Business Income Tax Rate From the Current 3% Rate in 2014 by 0.5% by Year to 0%

Tax Year	Line #	Tax Rate	Estimated Tax on Returns Based on Reduced Tax Rate	Tax at Current Rate of 3%	Eligible Business Income	Annual Growth	Total Tax Reduction from 3% Rate in TY 2014 or FY 2014-15	Annual Tax Reduction
2006	8	6.50%	\$ 150,113,123		\$ 2,309,432,662			
2007	8	6.00%	\$ 168,979,019		\$ 2,816,316,983	21.95%		
2008	8	5.50%	\$ 152,163,529		\$ 2,766,609,618	-1.76%		
2009	8	5.00%	\$ 131,272,858		\$ 2,625,457,160	-5.10%		
2010	8	5.00%	\$ 146,886,552		\$ 2,937,731,040	11.89%		
2011	8	5.00%	\$ 167,473,433		\$ 3,349,468,660	14.02%		
2012	8	4.33%	\$ 179,399,227		\$ 4,143,169,215	23.70%		
2013	8	3.67%	\$ 165,615,117		\$ 4,512,673,488	8.92%		
2014 e		3.00%	\$ 148,976,030	\$ 148,976,030	\$ 4,965,867,657	10.04%	\$ 0	\$ 0
2015 e		2.50%	\$ 136,614,369	\$ 163,937,242	\$ 5,464,574,748	10.04%	\$ 27,322,874	\$ 27,322,874
2016 e		2.00%	\$ 120,267,310	\$ 180,400,965	\$ 6,013,365,486	10.04%	\$ 60,133,655	\$ 32,810,781
2017 e		1.50%	\$ 99,259,044	\$ 198,518,089	\$ 6,617,269,620	10.04%	\$ 99,259,044	\$ 39,125,389
2018 e		1.00%	\$ 72,818,220	\$ 218,454,661	\$ 7,281,822,022	10.04%	\$ 145,636,440	\$ 46,377,396
2019 e		0.50%	\$ 40,065,567	\$ 240,393,402	\$ 8,013,113,416	10.04%	\$ 200,327,835	\$ 54,691,395
2020 e		0.00%	\$ 0	\$ 264,535,386	\$ 8,817,846,195	10.04%	\$ 264,535,386	\$ 64,207,550

Source: Data for 2006 through 2013 are from SC individual income tax returns provided by the DOR.

Notes:

Growth rate estimate for 2014 through 2020 active trade or business income is the compound average growth rate from 2006 to 2013.