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REMBERT DENNIS BUILDING  
1000 ASSEMBLY STREET, SUITE 459  
COLUMBIA, SOUTH CAROLINA 29201  
(803) 734-3805

March 3, 2014

The Honorable Lawrence K. Grooms  
South Carolina Senate  
203 Gressette Building  
Columbia, SC 29202

Dear Senator Grooms,

This is in response to a request by staff on your behalf for an analysis of decreasing individual income tax revenue to offset the revenue generated by increasing motor fuel fees by two cents per year for 10 years from 2015 to 2024. The individual income tax reduction is based upon phasing out the individual income tax rates for 5 years starting from the lowest bracket and then lowering the adjusted rates per bracket equally for the remaining 5 years.

Raising the motor fuel fee by \$0.02 in 2015 is expected to generate an additional \$65,269,000 in revenue. In order to reduce individual income tax by this amount, the 3% rate would be reduced to 1.18% with all remaining rates unchanged. This reduces the individual income tax \$53 for all taxpayers. For 2019, the expected additional revenue from raising the motor fuel fee \$0.10 is \$311,775,000. To offset this amount, the 3% and 4% individual income tax rates are reduced to 0% with the 5% rate lowered to 3.59%, resulting in a reduction of \$261 per taxpayer. Over the last 5 years, the 2019 tax rates would be then lowered by a total of 0.34% each to 0%, 0%, 0%, 3.25%, 5.66%, and 6.66% in 2024. The average taxpayer's reduction would be \$354 with the overall General Fund individual income tax reduction being \$566,596,000. The projected tax rates for each year are outlined below. Also, the attached tables outline the individual income tax scenarios by taxable income range for years 1, 5, and 10 of the motor fuel fee increase phase-in.

**Projected Individual Income Tax Rates**

2015 Taxable Income Brackets	Current Individual Income Tax Rates	Projected 2015 Rates (Year 1)	Projected 2019 Rates (Year 5)	Projected 2024 Rates (Year 10)
\$0-\$2,910	0.00%	0.00%	0.00%	0.00%
\$2,910-\$5,820	3.00%	1.18%	0.00%	0.00%
\$5,820-\$8,730	4.00%	4.00%	0.00%	0.00%
\$8,730-\$11,640	5.00%	5.00%	3.59%	3.25%
\$11,640-\$14,550	6.00%	6.00%	6.00%	5.66%
Over \$14,550	7.00%	7.00%	7.00%	6.66%

Sen Grooms  
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If we may be of additional assistance, please advise.

Sincerely,

A handwritten signature in black ink, appearing to read "Frank A. Rainwater". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Frank A. Rainwater  
Chief Economist

FAR/lhj

cc: Ken Moffitt, Senate Research

**FY 2015-16: ESTIMATE OF 2015 INCOME TAX ADJUSTEMENT BY PHASING OUT LOWEST TAX RATES TO OFFSET \$0.02 MOTOR FUEL TAX INCREASE**

**Objective: Reduce 3% tax rate by 1.82% to off set \$0.02 gasoline tax increase with brackets unchanged.**

**With these brackets and rates, 100% of filers have a lower or unchanged liability and the General Fund is impact is (\$ 65,269,000).**

Baseline Taxable Income Range 2011	Current Tax Structure					Estimate of Adjusted Tax Structure		
	Projected # of Filers 2015	Cumulative # of Filers	Cumulative % of Filers	Projected Average		Adjusted Average Tax Liability 2015	Average Tax Increase/ (Decrease) 2015	Total Dollar Increase/ (Decrease) 2015
				Taxable Income 2015	Average Tax Liability 2015			
col 1	col 2 (a)	col 3	col 4	col 5 (b)	col 6	col 7	col 8	col 9
0	760,227	760,227	34.25%	0	0	0	0	0
1-5,000	270,153	1,030,379	46.42%	2,438	0	0	0	(2,375,129)
5,000-10,000	186,821	1,217,200	54.83%	8,081	178	125	(53)	(9,847,745)
10,000-20,000	268,959	1,486,159	66.95%	15,984	624	571	(53)	(14,228,932)
20,000-30,000	186,688	1,672,847	75.36%	26,964	1,393	1,340	(53)	(9,876,517)
30,000-40,000	133,512	1,806,359	81.37%	37,879	2,157	2,104	(53)	(7,063,310)
40,000-50,000	96,017	1,902,376	85.70%	48,808	2,922	2,869	(53)	(5,079,652)
50,000-60,000	72,280	1,974,656	88.95%	59,740	3,687	3,634	(53)	(3,823,903)
60,000-70,000	55,059	2,029,715	91.43%	70,674	4,453	4,400	(53)	(2,912,822)
70,000-80,000	41,366	2,071,081	93.30%	81,554	5,214	5,161	(53)	(2,188,393)
80,000-90,000	30,622	2,101,703	94.68%	92,491	5,980	5,927	(53)	(1,620,012)
90,000-100,000	23,110	2,124,813	95.72%	103,403	6,743	6,691	(53)	(1,222,618)
100,000-110,000	17,253	2,142,066	96.49%	114,356	7,510	7,457	(53)	(912,766)
110,000-120,000	13,187	2,155,253	97.09%	125,266	8,274	8,221	(53)	(697,644)
120,000-130,000	10,057	2,165,310	97.54%	136,196	9,039	8,986	(53)	(532,049)
130,000-140,000	7,904	2,173,214	97.90%	147,015	9,796	9,743	(53)	(418,171)
140,000-150,000	6,277	2,179,492	98.18%	157,969	10,563	10,510	(53)	(332,089)
150,000-160,000	5,156	2,184,648	98.41%	168,885	11,327	11,274	(53)	(272,791)
160,000-170,000	4,206	2,188,854	98.60%	179,859	12,095	12,043	(53)	(222,534)
170,000-180,000	3,414	2,192,268	98.76%	190,693	12,854	12,801	(53)	(180,588)
180,000-190,000	2,863	2,195,131	98.88%	201,690	13,624	13,571	(53)	(151,444)
190,000-200,000	2,380	2,197,510	98.99%	212,574	14,385	14,333	(53)	(125,895)
200,000-225,000	4,578	2,202,088	99.20%	231,218	15,691	15,638	(53)	(242,188)
225,000-250,000	3,221	2,205,310	99.34%	258,536	17,603	17,550	(53)	(170,424)
250,000-300,000	4,170	2,209,480	99.53%	297,539	20,333	20,280	(53)	(220,625)
300,000-400,000	4,411	2,213,891	99.73%	375,023	25,757	25,704	(53)	(233,372)
400,000-500,000	2,107	2,215,998	99.82%	485,955	33,522	33,469	(53)	(111,464)
500,000- \$1M	2,794	2,218,792	99.95%	723,431	50,145	50,093	(53)	(147,795)
\$1 M - \$2 M	789	2,219,580	99.99%	1,461,794	101,831	101,778	(53)	(41,722)
\$2 M +	319	2,219,900	100.00%	5,027,409	351,424	351,371	(53)	(16,902)
<b>Total</b>	<b>2,219,900</b>			<b>\$26,645</b>	<b>\$1,370</b>	<b>\$1,318</b>	<b>(\$53)</b>	<b>(\$65,269,000)</b>

2015 Current Tax Brackets	Adjusted Brackets
0.00% \$0 to 2,910	0.00% \$0 to 2,910
3.00% \$2,910 to 5,820	1.18% \$2,910 to 5,820
4.00% \$5,820 to 8,730	4.00% \$5,820 to 8,730
5.00% \$8,730 to 11,640	5.00% \$8,730 to 11,640
6.00% \$11,640 to 14,550	6.00% \$11,640 to 14,550
7.00% Over \$14,550	7.00% Over \$14,550

Source: BEA, SC Dept. of Revenue Income Tax Data 98% sample, 2011

/a 2011 Base Year Grown by 1% per year

/b 2011 Base Year Taxable Income Grown by 3.7%, 2.7%, 3.25% and 3.25% for '12, '13, '14, and '15 respectively

**FY 2019-20: ESTIMATE OF 2019 INCOME TAX ADJUSTEMENT BY PHASING OUT LOWEST TAX RATES TO OFFSET \$0.10 MOTOR FUEL TAX INCREASE**

**Objective: Reduce 3% and 4% rates to 0% and 5% rate to 3.59% to off set \$0.10 gasoline tax increase with brackets unchanged.**

**With these brackets and rates, 100% of filers have a lower or unchanged liability and the General Fund is impact is (\$ 311,775,000).**

Baseline Taxable Income Range 2011	Current Tax Structure					Estimate of Adjusted Tax Structure		
	Projected # of Filers 2019	Cumulative # of Filers	Cumulative % of Filers	Projected Average Taxable Income 2019	Average Tax Liability 2019	Adjusted Average Tax Liability 2019	Average Tax Increase/ (Decrease) 2019	Total Dollar Increase/ (Decrease) 2019
col 1	col 2 (a)	col 3	col 4	col 5 (b)	col 6	col 7	col 8	col 9
0	791,095	791,095	34.25%	0	0	0	0	0
1-5,000	281,122	1,072,217	46.42%	2,626	0	0	0	(4,520,699)
5,000-10,000	194,407	1,266,623	54.83%	8,707	193	0	(194)	(35,205,713)
10,000-20,000	279,879	1,546,503	66.95%	17,222	679	418	(261)	(72,950,045)
20,000-30,000	194,269	1,740,771	75.36%	29,051	1,507	1,246	(261)	(50,657,382)
30,000-40,000	138,933	1,879,705	81.37%	40,811	2,330	2,069	(261)	(36,228,239)
40,000-50,000	99,915	1,979,620	85.70%	52,586	3,154	2,893	(261)	(26,053,907)
50,000-60,000	75,215	2,054,835	88.95%	64,364	3,978	3,718	(261)	(19,613,081)
60,000-70,000	57,294	2,112,130	91.43%	76,145	4,803	4,542	(261)	(14,940,077)
70,000-80,000	43,045	2,155,175	93.30%	87,866	5,624	5,363	(261)	(11,224,427)
80,000-90,000	31,865	2,187,040	94.68%	99,650	6,448	6,188	(261)	(8,309,163)
90,000-100,000	24,049	2,211,089	95.72%	111,406	7,271	7,011	(261)	(6,270,898)
100,000-110,000	17,954	2,229,043	96.49%	123,207	8,097	7,837	(261)	(4,681,645)
110,000-120,000	13,722	2,242,765	97.09%	134,961	8,920	8,660	(261)	(3,578,268)
120,000-130,000	10,465	2,253,230	97.54%	146,737	9,745	9,484	(261)	(2,728,919)
130,000-140,000	8,225	2,261,456	97.90%	158,394	10,561	10,300	(261)	(2,144,830)
140,000-150,000	6,532	2,267,988	98.18%	170,195	11,387	11,126	(261)	(1,703,306)
150,000-160,000	5,366	2,273,353	98.41%	181,956	12,210	11,949	(261)	(1,399,165)
160,000-170,000	4,377	2,277,731	98.60%	193,780	13,038	12,777	(261)	(1,141,394)
170,000-180,000	3,552	2,281,283	98.76%	205,452	13,855	13,594	(261)	(926,248)
180,000-190,000	2,979	2,284,262	98.88%	217,300	14,684	14,423	(261)	(776,770)
190,000-200,000	2,476	2,286,738	98.99%	229,027	15,505	15,244	(261)	(645,724)
200,000-225,000	4,764	2,291,502	99.20%	249,114	16,911	16,650	(261)	(1,242,198)
225,000-250,000	3,352	2,294,854	99.34%	278,546	18,971	18,710	(261)	(874,118)
250,000-300,000	4,340	2,299,194	99.53%	320,568	21,913	21,652	(261)	(1,131,601)
300,000-400,000	4,590	2,303,784	99.73%	404,049	27,756	27,496	(261)	(1,196,980)
400,000-500,000	2,192	2,305,976	99.82%	523,567	36,123	35,862	(261)	(571,705)
500,000- \$1M	2,907	2,308,883	99.95%	779,423	54,033	53,772	(261)	(758,049)
\$1 M - \$2 M	821	2,309,704	99.99%	1,574,933	109,718	109,458	(261)	(213,993)
\$2 M +	332	2,310,037	100.00%	5,416,519	378,629	378,369	(261)	(86,692)
<b>Total</b>	<b>2,310,037</b>			<b>\$28,708</b>	<b>\$1,483</b>	<b>\$1,222</b>	<b>(\$261)</b>	<b>(\$311,775,000)</b>

2019 Current Tax Brackets

0.00% \$0 to 3,100  
 3.00% \$3,100 to 6,200  
 4.00% \$6,200 to 9,300  
 5.00% \$9,300 to 12,400  
 6.00% \$12,400 to 15,500  
 7.00% Over \$15,500

Adjusted Brackets

0.00% \$0 to 3,100  
 0.00% \$3,100 to 6,200  
 0.00% \$6,200 to 9,300  
 3.59% \$9,300 to 12,400  
 6.00% \$12,400 to 15,500  
 7.00% Over \$15,500

Source: BEA, SC Dept. of Revenue Income Tax Data 98% sample, 2011

/a 2011 Base Year Grown by 1% per year

/b 2011 Base Year Taxable Income Grown by 3.7%, 2.7%, 3.25% and 3.25% for '12, '13, '14, and '15 respectively

**FY 2024-25: ESTIMATE OF 2024 INCOME TAX ADJUSTEMENT BY REDUCING TAX RATES TO 0%, 0%, 0%, 3.25%, 5.66%, AND 6.66% TO OFFSET \$0.20 MOTOR FUEL TAX INCREASE**

**Objective: Reduce all tax rates with brackets unchanged to offset \$0.20 motor fuel increase.**

**With these brackets and rates, 100% of filers have a lower or unchanged liability and the General Fund is impact is (\$ 566,596,000).**

Baseline Taxable Income Range 2011	Current Tax Structure					Estimate of Adjusted Tax Structure		
	Projected # of Filers 2024	Cumulative # of Filers	Cumulative % of Filers	Projected Average		Adjusted Average Tax Liability 2024	Average Tax Increase/ (Decrease) 2024	Total Dollar Increase/ (Decrease) 2024
				Taxable Income 2024	Average Tax Liability 2024			
col 1	col 2 (a)	col 3	col 4	col 5 (b)	col 6	col 7	col 8	col 9
0	831,449	831,449	34.25%	0	0	0	0	0
1-5,000	295,462	1,126,911	46.42%	2,883	0	0	0	(5,414,532)
5,000-10,000	204,323	1,331,234	54.83%	9,557	215	0	(215)	(41,228,653)
10,000-20,000	294,156	1,625,390	66.95%	18,904	754	442	(312)	(91,640,615)
20,000-30,000	204,178	1,829,568	75.36%	31,888	1,663	1,307	(356)	(72,533,696)
30,000-40,000	146,020	1,975,589	81.37%	44,797	2,566	2,168	(399)	(58,218,290)
40,000-50,000	105,012	2,080,601	85.70%	57,722	3,471	3,029	(443)	(46,436,946)
50,000-60,000	79,052	2,159,653	88.95%	70,650	4,376	3,890	(486)	(38,397,490)
60,000-70,000	60,217	2,219,870	91.43%	83,581	5,281	4,752	(530)	(31,870,096)
70,000-80,000	45,241	2,265,110	93.30%	96,448	6,182	5,609	(573)	(25,903,295)
80,000-90,000	33,491	2,298,601	94.68%	109,382	7,087	6,471	(617)	(20,633,745)
90,000-100,000	25,275	2,323,876	95.72%	122,286	7,991	7,331	(660)	(16,670,115)
100,000-110,000	18,870	2,342,746	96.49%	135,240	8,897	8,194	(704)	(13,268,139)
110,000-120,000	14,422	2,357,169	97.09%	148,142	9,800	9,054	(747)	(10,767,469)
120,000-130,000	10,999	2,368,168	97.54%	161,068	10,705	9,915	(791)	(8,690,263)
130,000-140,000	8,645	2,376,813	97.90%	173,863	11,601	10,768	(834)	(7,202,569)
140,000-150,000	6,865	2,383,678	98.18%	186,817	12,508	11,631	(877)	(6,019,248)
150,000-160,000	5,639	2,389,317	98.41%	199,727	13,411	12,491	(921)	(5,189,527)
160,000-170,000	4,600	2,393,918	98.60%	212,705	14,320	13,356	(964)	(4,434,430)
170,000-180,000	3,733	2,397,651	98.76%	225,517	15,217	14,210	(1,008)	(3,759,577)
180,000-190,000	3,131	2,400,782	98.88%	238,523	16,127	15,076	(1,051)	(3,289,917)
190,000-200,000	2,603	2,403,385	98.99%	251,395	17,028	15,934	(1,095)	(2,847,655)
200,000-225,000	5,007	2,408,391	99.20%	273,444	18,572	17,403	(1,169)	(5,849,732)
225,000-250,000	3,523	2,411,915	99.34%	305,750	20,833	19,556	(1,278)	(4,499,517)
250,000-300,000	4,561	2,416,476	99.53%	351,876	24,062	22,629	(1,433)	(6,533,092)
300,000-400,000	4,825	2,421,300	99.73%	443,510	30,476	28,735	(1,741)	(8,398,690)
400,000-500,000	2,304	2,423,604	99.82%	574,701	39,660	37,477	(2,183)	(5,029,008)
500,000- \$1M	3,055	2,426,660	99.95%	855,545	59,319	56,191	(3,128)	(9,556,643)
\$1 M - \$2 M	863	2,427,522	99.99%	1,728,750	120,443	114,376	(6,068)	(5,233,031)
\$2 M +	349	2,427,872	100.00%	5,945,526	415,617	395,356	(20,262)	(7,079,745)
<b>Total</b>	<b>2,427,872</b>			<b>\$31,511</b>	<b>\$1,636</b>	<b>\$1,282</b>	<b>(\$354)</b>	<b>(\$566,596,000)</b>

2024 Current Tax Brackets	Adjusted Brackets
0.00% \$0 to 3,350	0.00% \$0 to 3,350
3.00% \$3,350 to 6,700	0.00% \$3,350 to 6,700
4.00% \$6,700 to 10,050	0.00% \$6,700 to 10,050
5.00% \$10,050 to 13,400	3.25% \$10,050 to 13,400
6.00% \$13,400 to 16,750	5.66% \$13,400 to 16,750
7.00% Over \$16,750	6.66% Over \$16,750

Source: BEA, SC Dept. of Revenue Income Tax Data 98% sample, 2011

/a 2011 Base Year Grown by 1% per year

/b 2011 Base Year Taxable Income Grown by 3.7%, 2.7%, 3.25% and 3.25% for '12, '13, '14, and '15 respectively