



CHAD WALLDORF, Chairman  
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EMERSON F. GOWER, JR.

## SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE

FRANK A. RAINWATER  
Executive Director

January 6, 2015

The Honorable Nikki R. Haley, Governor  
Office of the Governor  
1205 Pendleton Street  
Columbia, South Carolina 29201

Dear Governor Haley:

This is to provide you with an update to our letter dated December 19, 2014 in response to a request by staff for a revenue impact of reducing the individual income tax marginal rates by two-tenths percent per year for ten years from tax year 2016 to 2025 and increasing the motor fuel user fee annually for ten years in an amount equivalent to a one percent reduction in all individual income tax marginal rates by 2025. We are updating our previous analysis to correct the motor fuel fee previously provided.

In tax year 2016, lowering the individual income tax rates by 0.2% will reduce individual income tax revenue by \$119,332,000 for FY 2016-17. By year 5, the tax rates for 2020 will be lowered by 1% to 0%, 2%, 3%, 4%, 5%, and 6%. This reduces the expected General Fund individual income tax revenue by a total of \$709,059,000 in FY 2020-21 compared to our current rates. By 2025, the last year of the phase-out, the tax rates will be lowered by 2% to 0%, 1%, 2%, 3%, 4%, and 5%. This will reduce individual income tax revenue by approximately \$1,758,718,000 in FY 2025-26 compared to our current tax structure.

In determining the amount for the motor fuel user fee increase, we estimate that reducing the individual income tax rates by 0.1% per year for ten years to one percent less than the current rates would reduce General Fund revenue by \$879,359,000 in FY 2025-26, or half the reduction estimated above.

Based upon projections of motor fuel consumption from the Energy Information Administration, we have estimated the total motor fuel fee revenue over the next ten years. We have updated our previous projection to correct a formula error in the special fuel price calculation. Our revised projection is that raising the current 16 cent motor fuel user fee by 2.52 cents per year to 41.24 cents in tax year 2025 will increase

The Honorable Nikki R. Haley, Governor  
January 6, 2015  
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revenue by \$879,358,162 for FY 2025-26. The attached table outlines the annual motor fuel user fee increase at this rate. For the purposes of this analysis, we have provided the fee revenue retained by SCDOT net of refunds to IFTA out-of-state carriers.

Please note, due to differences in the expected growth in motor fuel consumption compared to individual income tax, the annual revenue generated by the motor fuel fee may not be equivalent to the individual income tax reduction during interim years of the ten-year adjustment or in subsequent years.

If we may be of any further assistance, please advise.

Sincerely,

A handwritten signature in dark ink, appearing to read "Frank A. Rainwater". The signature is fluid and cursive, with a large, stylized "F" and "R".

Frank A. Rainwater  
Executive Director

FAR/lhj

Enclosures: 4

cc: Mr. Rick Reames, Director, Department of Revenue

# ESTIMATED TOTAL MOTOR FUEL USER FEE REVENUE

## Estimated Revenue with a Ten Year Phased User Fee Increase

Motor Fuel Fee Increase	Projected Total				Current Motor		Estimated	
	Total Motor Fuel Fee	Projected Gasoline Revenue	Projected Special Fuel Revenue	Motor Fuel Fee Revenue	Fuel Revenue Projection (\$0.16 per gallon)	Additional Motor Fuel Fee Revenue	Estimated Annual Additional Motor Fuel Fee Revenue	
	2	3	4	5	6	7	8	
2016	\$ 0.0252	\$502,687,466	\$137,635,166	\$640,322,632	\$ 553,851,622	\$ 86,471,010		
2017	\$ 0.0505	\$570,370,852	\$156,186,357	\$726,557,209	\$ 555,553,803	\$ 171,003,406	\$ 84,532,396	
2018	\$ 0.0757	\$637,867,517	\$174,690,764	\$812,558,280	\$ 555,856,620	\$ 256,701,661	\$ 85,698,254	
2019	\$ 0.1010	\$705,179,794	\$193,148,921	\$898,328,715	\$ 553,845,481	\$ 344,483,234	\$ 87,781,573	
2020	\$ 0.1262	\$772,309,971	\$211,561,353	\$983,871,324	\$ 550,433,678	\$ 433,437,645	\$ 88,954,411	
2021	\$ 0.1514	\$839,260,289	\$229,928,574	\$1,069,188,863	\$ 546,718,601	\$ 522,470,262	\$ 89,032,617	
2022	\$ 0.1767	\$906,032,944	\$248,251,090	\$1,154,284,035	\$ 542,799,685	\$ 611,484,350	\$ 89,014,088	
2023	\$ 0.2019	\$972,630,089	\$266,529,398	\$1,239,159,487	\$ 538,491,752	\$ 700,667,735	\$ 89,183,386	
2024	\$ 0.2272	\$1,039,053,834	\$284,763,983	\$1,323,817,818	\$ 533,908,235	\$ 789,909,582	\$ 89,241,847	
2025	\$ 0.2524	\$1,105,306,247	\$302,955,326	\$1,408,261,573	\$ 528,903,411	\$ 879,358,162	\$ 89,448,579	

Note: The estimated motor fuel revenue reflects the elasticity of demand due to the change in price.

**FY 2016-17: ESTIMATE OF 2016 INCOME TAX ADJUSTEMENT BY REDUCING ALL RATES BY 0.2%**

**Objective:** Reduce all rates by 0.2% to 0%, 2.8%, 3.8%, 4.8%, 5.8% and 6.8% with brackets unchanged.

With these brackets and rates, 100% of filers have a lower or unchanged liability and the General Fund is impact is (\$ 119,332,000).

Baseline Taxable Income Range 2013	Current Tax Structure					Estimate of Adjusted Tax Structure		
	Projected # of Filers 2016	Cumulative # of Filers	Cumulative % of Filers	Projected Average Taxable Income 2016	Average Tax Liability 2016	Adjusted Average Tax Liability 2016	Average Tax Increase/ (Decrease) 2016	Total Dollar Increase/ (Decrease) 2016
col 1	col 2 (/a)	col 3	col 4	col 5 (/b)	col 6	col 7	col 8	col 9
0	763,872	763,872	33.93%	0	0	0	0	0
1-5,000	269,839	1,033,711	45.92%	2,448	0	0	0	(259,291)
5,000-10,000	185,378	1,219,089	54.15%	8,107	177	167	(11)	(1,915,599)
10,000-20,000	268,170	1,487,259	66.07%	16,060	624	598	(27)	(7,036,885)
20,000-30,000	187,592	1,674,851	74.40%	27,086	1,396	1,348	(49)	(9,059,257)
30,000-40,000	135,422	1,810,272	80.41%	38,063	2,165	2,094	(71)	(9,512,756)
40,000-50,000	98,703	1,908,975	84.80%	49,010	2,931	2,839	(93)	(9,094,455)
50,000-60,000	74,177	1,983,153	88.09%	60,028	3,702	3,588	(115)	(8,469,282)
60,000-70,000	57,177	2,040,330	90.63%	70,972	4,468	4,332	(137)	(7,779,657)
70,000-80,000	43,346	2,083,675	92.56%	81,900	5,233	5,075	(158)	(6,845,132)
80,000-90,000	33,165	2,116,841	94.03%	92,856	6,000	5,820	(180)	(5,964,226)
90,000-100,000	24,985	2,141,826	95.14%	103,782	6,765	6,563	(202)	(5,039,097)
100,000-110,000	19,054	2,160,880	95.99%	114,820	7,538	7,314	(224)	(4,263,456)
110,000-120,000	14,882	2,175,762	96.65%	125,722	8,301	8,055	(246)	(3,654,491)
120,000-130,000	11,640	2,187,402	97.17%	136,708	9,070	8,802	(268)	(3,114,199)
130,000-140,000	9,150	2,196,552	97.57%	147,638	9,835	9,545	(290)	(2,648,003)
140,000-150,000	7,237	2,203,789	97.90%	158,702	10,609	10,298	(312)	(2,254,492)
150,000-160,000	5,861	2,209,650	98.16%	169,648	11,376	11,042	(334)	(1,954,284)
160,000-170,000	4,877	2,214,528	98.37%	180,526	12,137	11,782	(356)	(1,732,237)
170,000-180,000	3,937	2,218,464	98.55%	191,509	12,906	12,529	(378)	(1,484,724)
180,000-190,000	3,351	2,221,816	98.70%	202,506	13,676	13,277	(400)	(1,337,616)
190,000-200,000	2,957	2,224,772	98.83%	213,518	14,446	14,025	(422)	(1,245,267)
200,000-225,000	5,469	2,230,241	99.07%	231,800	15,726	15,268	(458)	(2,503,248)
225,000-250,000	3,784	2,234,026	99.24%	259,375	17,656	17,144	(513)	(1,940,924)
250,000-300,000	5,046	2,239,072	99.46%	298,513	20,396	19,805	(592)	(2,983,080)
300,000-400,000	5,247	2,244,319	99.70%	376,077	25,826	25,079	(747)	(3,915,446)
400,000-500,000	2,405	2,246,723	99.80%	487,770	33,644	32,674	(970)	(2,331,717)
500,000- \$1M	3,271	2,249,994	99.95%	729,139	50,540	49,088	(1,453)	(4,750,710)
\$1 M - \$2 M	835	2,250,829	99.98%	1,476,601	102,862	99,915	(2,948)	(2,460,884)
\$2 M +	347	2,251,176	100.00%	5,460,272	381,719	370,805	(10,915)	(3,782,004)
<b>Total</b>	<b>2,251,176</b>			<b>\$28,330</b>	<b>\$1,483</b>	<b>\$1,433</b>	<b>(\$51)</b>	<b>(\$119,332,000)</b>

2016 Current Tax Brackets	0.00%	\$0 to 2,940	Adjusted Brackets	0.00%	\$0 to 2,940
	3.00%	\$2,940 to 5,880		2.80%	\$2,940 to 5,880
	4.00%	\$5,880 to 8,820		3.80%	\$5,880 to 8,820
	5.00%	\$8,820 to 11,760		4.80%	\$8,820 to 11,760
	6.00%	\$11,760 to 14,700		5.80%	\$11,760 to 14,700
	7.00%	Over \$14,700		6.80%	Over \$14,700

**FY 2020-21: ESTIMATE OF 2020 INCOME TAX ADJUSTEMENT BY REDUCING ALL RATES BY 1%**

Objective: Reduce all rates by 1% to 0%, 2%, 3%, 4%, 5%, and 6% with brackets unchanged.

With these brackets and rates, 100% of filers have a lower or unchanged liability and the General Fund is impact is (\$ 709,059,000).

Baseline Taxable Income Range 2013	Current Tax Structure					Estimate of Adjusted Tax Structure		
	Projected # of Filers 2020	Cumulative # of Filers	Cumulative % of Filers	Projected Average Taxable Income 2020	Average Tax Liability 2020	Adjusted Average Tax Liability 2020	Average Tax Increase/ (Decrease) 2020	Total Dollar Increase/ (Decrease) 2020
col 1	col 2 (a)	col 3	col 4	col 5 (b)	col 6	col 7	col 8	col 9
0	794,888	794,888	33.93%	0	0	0	0	0
1-5,000	280,796	1,075,684	45.92%	2,785	0	0	0	(1,789,559)
5,000-10,000	192,905	1,268,589	54.15%	9,219	212	151	(61)	(11,746,565)
10,000-20,000	279,059	1,547,648	66.07%	18,264	746	595	(152)	(42,233,536)
20,000-30,000	195,209	1,742,856	74.40%	30,804	1,624	1,347	(277)	(54,021,062)
30,000-40,000	140,920	1,883,776	80.41%	43,286	2,498	2,096	(402)	(56,588,551)
40,000-50,000	102,711	1,986,487	84.80%	55,736	3,369	2,843	(527)	(54,031,860)
50,000-60,000	77,189	2,063,677	88.09%	68,266	4,247	3,595	(652)	(50,278,180)
60,000-70,000	59,498	2,123,175	90.63%	80,712	5,118	4,342	(776)	(46,159,848)
70,000-80,000	45,106	2,168,281	92.56%	93,140	5,988	5,088	(901)	(40,599,470)
80,000-90,000	34,512	2,202,793	94.03%	105,600	6,860	5,835	(1,025)	(35,364,464)
90,000-100,000	26,000	2,228,793	95.14%	118,025	7,730	6,581	(1,149)	(29,872,231)
100,000-110,000	19,827	2,248,620	95.99%	130,578	8,608	7,334	(1,275)	(25,269,528)
110,000-120,000	15,486	2,264,106	96.65%	142,976	9,476	8,078	(1,399)	(21,656,967)
120,000-130,000	12,113	2,276,219	97.17%	155,469	10,351	8,827	(1,524)	(18,452,814)
130,000-140,000	9,522	2,285,741	97.57%	167,900	11,221	9,573	(1,648)	(15,688,764)
140,000-150,000	7,531	2,293,272	97.90%	180,482	12,102	10,328	(1,774)	(13,356,081)
150,000-160,000	6,099	2,299,371	98.16%	192,931	12,973	11,075	(1,899)	(11,576,672)
160,000-170,000	5,075	2,304,446	98.37%	205,301	13,839	11,817	(2,022)	(10,260,615)
170,000-180,000	4,097	2,308,543	98.55%	217,792	14,713	12,567	(2,147)	(8,793,972)
180,000-190,000	3,487	2,312,030	98.70%	230,298	15,589	13,317	(2,272)	(7,922,221)
190,000-200,000	3,077	2,315,107	98.83%	242,821	16,465	14,068	(2,397)	(7,374,908)
200,000-225,000	5,691	2,320,798	99.07%	263,611	17,921	15,316	(2,605)	(14,824,060)
225,000-250,000	3,938	2,324,736	99.24%	294,971	20,116	17,197	(2,919)	(11,493,006)
250,000-300,000	5,251	2,329,987	99.46%	339,481	23,232	19,868	(3,364)	(17,662,326)
300,000-400,000	5,460	2,335,447	99.70%	427,690	29,406	25,161	(4,246)	(23,179,650)
400,000-500,000	2,502	2,337,949	99.80%	554,711	38,298	32,782	(5,516)	(13,802,289)
500,000- \$1M	3,404	2,341,353	99.95%	829,206	57,512	49,252	(8,261)	(28,117,583)
\$1 M - \$2 M	869	2,342,222	99.98%	1,679,248	117,015	100,254	(16,762)	(14,563,093)
\$2 M +	361	2,342,583	100.00%	6,209,634	434,142	372,077	(62,066)	(22,379,180)
<b>Total</b>	<b>2,342,583</b>			<b>\$32,218</b>	<b>\$1,723</b>	<b>\$1,432</b>	<b>(\$291)</b>	<b>(\$709,059,000)</b>

2020 Current Tax Brackets

0.00% \$0 to 3,130  
 3.00% \$3,130 to 6,260  
 4.00% \$6,260 to 9,390  
 5.00% \$9,390 to 12,520  
 6.00% \$12,520 to 15,650  
 7.00% Over \$15,650

Adjusted Brackets

0.00% \$0 to 3,130  
 2.00% \$3,130 to 6,260  
 3.00% \$6,260 to 9,390  
 4.00% \$9,390 to 12,520  
 5.00% \$12,520 to 15,650  
 6.00% Over \$15,650

**FY 2025-26: ESTIMATE OF 2025 INCOME TAX ADJUSTEMENT BY REDUCING ALL RATES BY 2%**

**Objective:** Reduce all rates by 2% to 0%, 1%, 2%, 3%, 4%, and 5% with brackets unchanged.

With these brackets and rates, 100% of filers have a lower or unchanged liability and the General Fund is impact is (\$ 1,758,718,000).

Baseline Taxable Income Range 2013	Current Tax Structure					Estimate of Adjusted Tax Structure		
	Projected # of Filers 2025	Cumulative # of Filers	Cumulative % of Filers	Projected Average Taxable Income 2025	Average Tax Liability 2025	Adjusted Average Tax Liability 2025	Average Tax Increase/ (Decrease) 2025	Total Dollar Increase/ (Decrease) 2025
col 1	col 2 (a)	col 3	col 4	col 5 (b)	col 6	col 7	col 8	col 9
0	835,436	835,436	33.93%	0	0	0	0	0
1-5,000	295,119	1,130,554	45.92%	3,270	0	0	0	(5,136,343)
5,000-10,000	202,745	1,333,300	54.15%	10,827	270	121	(149)	(30,156,761)
10,000-20,000	293,294	1,626,593	66.07%	21,449	925	564	(362)	(105,934,724)
20,000-30,000	205,166	1,831,759	74.40%	36,176	1,956	1,300	(656)	(134,529,621)
30,000-40,000	148,109	1,979,868	80.41%	50,835	2,982	2,033	(949)	(140,541,526)
40,000-50,000	107,950	2,087,818	84.80%	65,456	4,006	2,764	(1,242)	(134,000,475)
50,000-60,000	81,127	2,168,945	88.09%	80,171	5,036	3,500	(1,536)	(124,580,766)
60,000-70,000	62,533	2,231,478	90.63%	94,788	6,059	4,231	(1,828)	(114,307,929)
70,000-80,000	47,407	2,278,885	92.56%	109,383	7,080	4,961	(2,120)	(100,495,073)
80,000-90,000	36,273	2,315,158	94.03%	124,016	8,105	5,692	(2,413)	(87,508,258)
90,000-100,000	27,326	2,342,483	95.14%	138,609	9,126	6,422	(2,705)	(73,898,955)
100,000-110,000	20,839	2,363,322	95.99%	153,350	10,158	7,159	(3,000)	(62,499,614)
110,000-120,000	16,276	2,379,598	96.65%	167,910	11,177	7,887	(3,291)	(53,555,544)
120,000-130,000	12,731	2,392,329	97.17%	182,583	12,204	8,621	(3,584)	(45,625,487)
130,000-140,000	10,007	2,402,337	97.57%	197,181	13,226	9,351	(3,876)	(38,786,570)
140,000-150,000	7,915	2,410,252	97.90%	211,957	14,261	10,089	(4,172)	(33,016,135)
150,000-160,000	6,411	2,416,662	98.16%	226,577	15,284	10,820	(4,464)	(28,614,877)
160,000-170,000	5,334	2,421,996	98.37%	241,105	16,301	11,547	(4,755)	(25,359,897)
170,000-180,000	4,306	2,426,302	98.55%	255,774	17,328	12,280	(5,048)	(21,733,456)
180,000-190,000	3,665	2,429,967	98.70%	270,461	18,356	13,015	(5,342)	(19,577,786)
190,000-200,000	3,234	2,433,201	98.83%	285,168	19,385	13,750	(5,636)	(18,224,220)
200,000-225,000	5,981	2,439,182	99.07%	309,584	21,095	14,971	(6,124)	(36,628,939)
225,000-250,000	4,139	2,443,321	99.24%	346,413	23,673	16,812	(6,861)	(28,395,352)
250,000-300,000	5,519	2,448,840	99.46%	398,685	27,332	19,426	(7,906)	(43,632,854)
300,000-400,000	5,738	2,454,578	99.70%	502,277	34,583	24,605	(9,978)	(57,254,198)
400,000-500,000	2,630	2,457,208	99.80%	651,451	45,025	32,064	(12,962)	(34,087,431)
500,000- \$1M	3,577	2,460,786	99.95%	973,816	67,591	48,182	(19,409)	(69,431,648)
\$1 M - \$2 M	913	2,461,699	99.98%	1,972,103	137,471	98,097	(39,375)	(35,955,740)
\$2 M +	379	2,462,078	100.00%	7,292,571	509,904	364,120	(145,784)	(55,247,515)
<b>Total</b>	<b>2,462,078</b>			<b>\$37,837</b>	<b>\$2,072</b>	<b>\$1,383</b>	<b>(\$689)</b>	<b>(\$1,758,718,000)</b>

2025 Current Tax Brackets

0.00% \$0 to 3,390  
3.00% \$3,390 to 6,780  
4.00% \$6,780 to 10,170  
5.00% \$10,170 to 13,560  
6.00% \$13,560 to 16,950  
7.00% Over \$16,950

Adjusted Brackets

0.00% \$0 to 3,390  
1.00% \$3,390 to 6,780  
2.00% \$6,780 to 10,170  
3.00% \$10,170 to 13,560  
4.00% \$13,560 to 16,950  
5.00% Over \$16,950