

Statement of Estimated State Revenue Impact

Date: March 28, 2012

Bill Number: H.4996 (as amended by W&M on 3/27/2012)

Author: Reps. Stringer, Bingham, Harrell, White, *et al.*

Committee Requesting Impact: Ways and Means

Bill Summary

TO AMEND SECTION 12-6-545, AS AMENDED, CODE OF LAWS OF SOUTH CAROLINA, 1976, RELATING TO INCOME TAX RATES FOR PASS-THROUGH TRADE AND BUSINESS INCOME, SO AS TO REDUCE THE TAX RATE FROM FIVE PERCENT TO THREE PERCENT.

REVENUE IMPACT ^{1/}

This bill, as amended, will reduce General Fund individual income tax revenue by \$15,063,544 in FY 2012-13, by \$15,829,621 in FY 2013-14, by \$16,624,918 in FY 2014-15, and \$17,450,425 in FY 2015-16 from reduced income tax payments or increased refunds. The cumulative General Fund revenue individual income tax revenue reduction will total \$64,968,508 by FY 2015-16.

Explanation of Bill as Amended by Ways and Means Committee on 3/27/2012

This bill would reduce the optional tax rate on active trade or business income received by a pass-through business from 5% to 3% over four tax years beginning in tax year 2012. The proposal lowers the current tax rate of 5% by 0.5% per year through tax year 2015. By tax year 2015, or FY 2015-16, the tax rate on active trade or business income will be 3%. At the proposed 3% tax rate, we estimate that taxpayers will report 0.5% more pass-through active trade or business income by tax year 2015. We further anticipate that active trade or business income will increase 2.4% annually based on historic Internal Revenue Service data. Based on tax year 2010 data from the Department of Revenue inflated to tax year 2015, we estimate that taxpayers will report \$3,248,425,376 in pass-through active trade or business income on their income tax returns. At the current 5% tax rate, these taxpayers would remit \$162,421,269 in individual income tax in FY 2015-16. At the proposed 3% tax rate, we estimate that taxpayers will remit \$97,452,761 in tax on their pass-through active trade or business income, a reduction of \$64,968,508 from the expected revenue at the current 5% tax rate. On an annual basis during the phase-in period, this bill, as amended, will reduce General Fund individual income tax revenue by \$15,063,544 in FY 2012-13, by \$15,829,621 in FY 2013-14, by \$16,624,918 in FY 2014-15, and \$17,450,425 in FY 2015-16 from reduced income tax payments or increased refunds. The cumulative General Fund individual income tax revenue reduction will total \$64,968,508 by FY 2015-16.

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Active Trade or Business Income Revenue Impact for H.4996

FY 2012-13 Number of returns filed 58,884
FY 2012-13 Total Business Income 5,275,387,584
FY 2012-13 Eligible Business Income at
5% optional rate 3,008,947,529

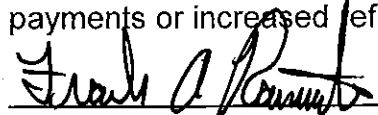
		FY 2012-13 Eligible Business Income	Tax Rate	Tax Paid	Tax Paid at 5%	Annual Tax Reduction	Cumulative Tax Reduction
FY 13	TY 12	3,008,947,529	5.0%	150,447,376	150,447,376	base year expectation	
FY 13	TY 12	3,012,708,714	4.5%	135,571,892	150,635,436	15,063,544	15,063,544
FY 14	TY 13	3,089,316,428	4.0%	123,572,657	154,465,821	15,829,621	30,893,164
FY 15	TY 14	3,167,872,138	3.5%	110,875,525	158,393,607	16,624,918	47,518,082
FY 16	TY 15	3,248,425,376	3.0%	97,452,761	162,421,269	17,450,425	64,968,508

Based on SC tax data for taxpayers currently paying the optional 5% rate on active trade or business income, we expect 0.5% more business income during the 4 year phase-in will be claimed by taxpayers at the proposed lower optional rates as the rate declines from 5% down to 3%.

We anticipate that active trade or business will grow at a rate of 2.4% annually, the historical growth rate calculated from Internal Revenue data.

Explanation of Bill as Introduced

This bill reduces the optional tax rate on active trade or business income received by a pass-through business from 5% to 3% beginning in tax year 2012. Based on tax year 2010 data from the Department of Revenue inflated to tax year 2012, we estimate that 58,884 taxpayers will report \$3,008,947,529 in pass-through active trade or business income on their 2012 income tax returns. At the current 5% tax rate, these taxpayers would remit \$150,447,376 in individual income tax in FY 2012-13. At the proposed 3% tax rate we estimate that 0.5% more pass-through active trade or business income, or \$3,023,992,267, would be reported on taxpayer returns. This would generate \$90,719,768 in income tax liability at the proposed 3% tax rate compared to the estimated \$150,447,376 in tax at the current 5% tax rate in FY 2012-13. We expect that this bill will reduce General Fund individual income tax revenue by \$59,727,608 in FY 2012-13 from reduced income tax payments or increased refunds.



Frank A. Rainwater
Chief Economist

Analyst: Shuford

¹⁹ This statement meets the requirement of Section 2-7-71 for a state revenue impact by the BEA, or Section 2-7-76 for a local revenue impact or Section 6-1-85(B) for an estimate of the shift in local property tax incidence by the Office of Economic Research.