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November 28, 2011

The Honorable Nikki R. Haley, Governor
State of South Carolina
State House, 1st Floor
P.O. Box 12267
Columbia, SC 29211

Dear Governor Haley,

This letter is in response to a request by your staff for a revenue estimate of reducing the corporation income tax rate from five percent to 3.75 percent beginning January 1, 2013.

Currently, pursuant to §12-6-530, the rate of taxation on corporate income is five percent. Based upon the November 10, 2011 estimates of General Fund corporation income tax by the Board of Economic Advisors, lowering the corporation income tax rate to 3.75 percent would reduce General Fund corporation income tax revenue by an estimated \$54,725,000. Although it is difficult to predict when legislation would pass during the legislative session, we expect some taxpayers to begin adjusting their payment schedule before the end of the fiscal year end. The estimated reduction in revenue by fiscal year is as follows:

| | |
|------------|--------------|
| FY 2011-12 | \$5,809,125 |
| FY 2012-13 | \$48,915,875 |
| Total | \$54,725,000 |

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

Sincerely,

A handwritten signature in black ink, appearing to read "Frank A. Rainwater".

Frank A. Rainwater

FAR/rwm

cc: Christian Soura

SCENARIO 4A - ESTIMATE OF 2012 INCOME TAX ADJUSTEMENT BY COLLAPSING 3%, 4%, 5% & 6% BRACKETS TO 3.95%

Objective: Collapse 3%, 4%, 5% and 6% brackets to 3.95%.

With these brackets and rates, 86% of filers have a lower or unchanged liability and the General Fund is impact is (\$ 51,000,000).

| Baseline Taxable Income Range 2010 | Current Tax Structure | | | | | Estimate of Adjusted Tax Structure | | |
|--|----------------------------------|---------------------------|---------------------------|--|-------------------------------|---|--|---|
| | Projected # of Filers 2012 | Cumulative # of Filers | Cumulative % of Filers | Projected Average Taxable Income 2012 | Average Tax Liability 2012 | Adjusted Average Tax Liability 2012 | Average Tax Increase/ (Decrease) 2012 | Total Dollar Increase/ (Decrease) 2012 |
| | | | | col 5 (/b) | col 6 | | col 8 | |
| col 1 | col 2 (/a) | col 3 | col 4 | col 5 (/b) | col 6 | col 7 | col 8 | col 9 |
| 0 | 737,287 | 737,287 | 34.10% | 0 | 0 | 0 | 0 | 0 |
| 1-5,000 | 267,109 | 1,004,397 | 46.45% | 2,384 | 0 | 0 | 0 | 1,249,548 |
| 5,000-10,000 | 185,691 | 1,190,087 | 55.04% | 7,896 | 176 | 201 | 26 | 3,934,496 |
| 10,000-20,000 | 265,592 | 1,455,680 | 67.32% | 15,603 | 616 | 555 | (61) | (12,896,213) |
| 20,000-30,000 | 183,439 | 1,639,119 | 75.81% | 26,311 | 1,366 | 1,305 | (61) | (11,239,441) |
| 30,000-40,000 | 130,326 | 1,769,445 | 81.84% | 36,999 | 2,114 | 2,053 | (61) | (7,985,144) |
| 40,000-50,000 | 94,198 | 1,863,643 | 86.19% | 47,678 | 2,861 | 2,800 | (61) | (5,771,569) |
| 50,000-60,000 | 70,498 | 1,934,141 | 89.45% | 58,336 | 3,608 | 3,546 | (61) | (4,319,458) |
| 60,000-70,000 | 52,547 | 1,986,689 | 91.88% | 68,970 | 4,352 | 4,291 | (61) | (3,219,608) |
| 70,000-80,000 | 39,541 | 2,026,230 | 93.71% | 79,641 | 5,099 | 5,038 | (61) | (2,422,706) |
| 80,000-90,000 | 28,731 | 2,054,961 | 95.04% | 90,274 | 5,843 | 5,782 | (61) | (1,760,372) |
| 90,000-100,000 | 21,460 | 2,076,421 | 96.03% | 100,918 | 6,588 | 6,527 | (61) | (1,314,857) |
| 100,000-110,000 | 15,784 | 2,092,205 | 96.76% | 111,621 | 7,337 | 7,276 | (61) | (967,095) |
| 110,000-120,000 | 11,841 | 2,104,046 | 97.31% | 122,328 | 8,087 | 8,026 | (61) | (725,524) |
| 120,000-130,000 | 9,335 | 2,113,381 | 97.74% | 132,938 | 8,830 | 8,768 | (61) | (571,957) |
| 130,000-140,000 | 7,184 | 2,120,564 | 98.08% | 143,556 | 9,573 | 9,512 | (61) | (440,140) |
| 140,000-150,000 | 5,695 | 2,126,260 | 98.34% | 154,267 | 10,323 | 10,261 | (61) | (348,949) |
| 150,000-160,000 | 4,603 | 2,130,862 | 98.55% | 164,937 | 11,070 | 11,008 | (61) | (282,009) |
| 160,000-170,000 | 3,686 | 2,134,548 | 98.72% | 175,535 | 11,811 | 11,750 | (61) | (225,820) |
| 170,000-180,000 | 3,096 | 2,137,644 | 98.87% | 186,256 | 12,562 | 12,501 | (61) | (189,694) |
| 180,000-190,000 | 2,547 | 2,140,191 | 98.98% | 196,804 | 13,300 | 13,239 | (61) | (156,068) |
| 190,000-200,000 | 2,127 | 2,142,318 | 99.08% | 207,580 | 14,055 | 13,993 | (61) | (130,317) |
| 200,000-225,000 | 4,002 | 2,146,320 | 99.27% | 225,248 | 15,291 | 15,230 | (61) | (245,196) |
| 225,000-250,000 | 2,761 | 2,149,081 | 99.39% | 252,434 | 17,194 | 17,133 | (61) | (169,193) |
| 250,000-300,000 | 3,830 | 2,152,912 | 99.57% | 290,464 | 19,856 | 19,795 | (61) | (234,695) |
| 300,000-400,000 | 3,835 | 2,156,746 | 99.75% | 365,153 | 25,085 | 25,023 | (61) | (234,945) |
| 400,000-500,000 | 1,928 | 2,158,674 | 99.84% | 473,008 | 32,635 | 32,573 | (61) | (118,129) |
| 500,000- \$1M | 2,565 | 2,161,239 | 99.96% | 712,816 | 49,421 | 49,360 | (61) | (157,130) |
| \$1 M - \$2 M | 661 | 2,161,900 | 99.99% | 1,429,786 | 99,609 | 99,548 | (61) | (40,501) |
| \$2 M + | 283 | 2,162,183 | 100.00% | 4,830,808 | 337,681 | 337,619 | (61) | (17,313) |
| Total | 2,162,183 | | | \$25,197 | \$1,288 | \$1,227 | (\$61) | (\$51,000,000) |

2012 Current Tax Brackets

0.00% \$0 to 2,800
 3.00% \$2,800 to 5,600
 4.00% \$5,600 to 8,400
 5.00% \$8,400 to 11,200
 6.00% \$11,200 to 14,000
 7.00% Over \$14,000

Adjusted Brackets

0.00% \$0 to 2,800
 3.95% \$2,800 to 5,600
 3.95% \$5,600 to 8,400
 3.95% \$8,400 to 11,200
 3.95% \$11,200 to 14,000
 7.00% Over \$14,000

Source: BEA, SC Dept. of Revenue Income Tax Data, 2010

/a 2010 Base Year Grown by 1% per year

/b 2010 Base Year Taxable Income Grown by 4.5% and 4% for '11 and '12 respectively