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March 24, 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 increasing motor fuel fees by two cents per year for 5 years from 2015 to 2019 and three cents per year from 2020 to 2024 and also lowering the individual income tax rates by 0.2% per year for ten years from tax year 2015 to 2024.

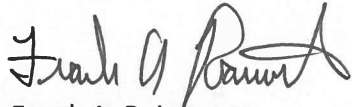
Raising the motor fuel fee by \$0.02 in 2015 is expected to generate an additional \$65,269,941 in revenue. Due to lower demand for motor fuels, the annual increase in revenue for each two cents increase declines over the next five years. By 2019, the expected annual additional revenue from raising the motor fuel fee to twenty-six cents is 56,639,499 for a total of \$311,775,979 in additional revenue compared to the current fee. Over the last 5 years, the 2019 fee would be increased three cents per year to forty-one cents by 2024 for an annual increase in revenue of \$75,245,910 or a total of \$714,766,607 in additional revenue compared to the current sixteen-cent fee. For the purposes of this analysis, we have provided the fee revenue retained by SCDOT net of refunds to IFTA out-of-state carriers. The attached table outlines the annual increases in the revenue expected from increasing the motor fuel user fee.

The second set of tables provides our analysis of the General Fund revenue impact of lowering the individual income tax rates by 0.2% per year for ten years. The analysis is based upon the 2012 tax year returns recently received from the Department of Revenue. We have adjusted our projections of the number of tax filers and total income to reflect this updated base year. In the first year, lowering the rates to 0%, 2.8%, 3.8%, 4.8%, 5.8% and 6.8% will reduce individual income tax revenue by \$112,886,000 in FY 2015-16. By year 5 of the analysis, the tax rates will be lowered by 1% to 0%, 2%, 3%, 4%, 5% and 6%. This reduces the expected tax revenue by a total of \$633,283,000 in FY 2019-20 compared to our current rates. By 2024, the last year of the phase-out, the tax rates will be lowered 2% each to 0%, 1%, 2%, 3%, 4%, and 5%. This will reduce individual income tax by approximately \$1,462,675,000 in FY 2024-25 compared to our current tax structure.

Sen Grooms  
March 24, 2014  
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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 the first name "Frank" and last name "Rainwater" clearly distinguishable.

Frank A. Rainwater  
Chief Economist

FAR/lhj

cc: Ken Moffitt, Senate Research

## Motor Fuel User Fee & Gasoline Tax Increases

Calendar Year	Excluding Refunds Made to IFTA									
	Gasoline					Special Fuels				
	EIA Demand % CHG	Estimated Gallons 1/	EIA Demand % CHG	Estimated Gallons 2/	User Fee	Estimated Revenue	Estimated Additional Revenue since CY 14'	Estimated Additional Year-Year		
2014		2,598,197,634		691,081,858	.16	\$526,284,719				
2015	-0.6%	2,579,965,666	2.3%	706,449,110	.18	\$591,554,660	\$65,269,941	\$65,269,941		\$65,269,941
2016	-0.4%	2,567,913,541	2.1%	720,639,398	.20	\$657,710,588	\$131,425,869	\$131,425,869		\$66,155,928
2017	-0.6%	2,548,981,851	1.4%	729,649,393	.22	\$721,298,874	\$195,014,155	\$195,014,155		\$63,588,286
2018	-0.9%	2,522,427,314	0.6%	733,494,348	.24	\$781,421,199	\$255,136,480	\$255,136,480		\$60,122,325
2019	-1.3%	2,485,979,464	0.6%	737,330,912	.26	\$838,060,698	\$311,775,979	\$311,775,979		\$56,639,499
2020	-1.4%	2,448,117,660	0.6%	740,790,432	.29	\$924,783,347	\$398,498,628	\$398,498,628		\$86,722,649
2021	-1.6%	2,405,799,413	0.7%	744,807,796	.32	\$1,008,194,307	\$481,909,588	\$481,909,588		\$83,410,960
2022	-1.8%	2,357,524,511	0.8%	749,380,483	.35	\$1,087,416,748	\$561,132,029	\$561,132,029		\$79,222,441
2023	-1.7%	2,313,971,147	0.8%	753,937,842	.38	\$1,165,805,416	\$639,520,697	\$639,520,697		\$78,388,668
2024	-1.8%	2,269,041,844	0.7%	757,912,609	.41	\$1,241,051,326	\$714,766,607	\$714,766,607		\$75,245,910
Including Refunds Made to IFTA										
2014		2,632,285,767		749,807,494	.16	\$541,134,922				\$67,318,214
2015	-0.6%	2,613,814,597	2.3%	766,480,599	.18	\$608,453,135	\$67,318,214	\$67,318,214		\$67,318,214
2016	-0.4%	2,601,604,349	2.1%	781,876,727	.20	\$676,696,215	\$135,561,293	\$135,561,293		\$68,243,080
2017	-0.6%	2,582,424,277	1.4%	791,652,359	.22	\$742,296,860	\$201,161,938	\$201,161,938		\$65,600,645
2018	-0.9%	2,555,521,347	0.6%	795,824,045	.24	\$804,322,894	\$263,187,972	\$263,187,972		\$62,026,034
2019	-1.3%	2,518,595,304	0.6%	799,986,626	.26	\$862,831,302	\$321,696,380	\$321,696,380		\$58,508,408
2020	-1.4%	2,480,236,756	0.6%	803,740,123	.29	\$952,353,295	\$411,218,373	\$411,218,373		\$89,521,993
2021	-1.6%	2,437,363,297	0.7%	808,098,868	.32	\$1,038,547,893	\$497,412,971	\$497,412,971		\$86,194,598
2022	-1.8%	2,388,455,033	0.8%	813,060,126	.35	\$1,120,530,305	\$579,395,384	\$579,395,384		\$81,982,413
2023	-1.7%	2,344,330,252	0.8%	818,004,752	.38	\$1,201,687,301	\$660,552,380	\$660,552,380		\$81,156,996
2024	-1.8%	2,298,811,481	0.7%	822,317,280	.41	\$1,279,662,792	\$738,527,870	\$738,527,870		\$77,975,491

Note: 1/ Demand for gasoline is assumed to decrease by roughly .11% or .17% for each 2 or 3 cent increase respectively in the gasoline user fee  
2/ Demand for special fuels is assumed to decrease by roughly .1% or .15% for each 2 or 3 cent increase respectively in the special fuels user fee  
3/ According to the U.S. Energy Information Administration (EIA), efficiency standards are shifting consumption from motor gasoline to diesel fuel. The combination of stringent efficiency standards coupled with requiring an increased use of ethanol, leads to a decline in consumption of motor gasoline and an increase in consumption of diesel fuel and ethanol.

**FY 2015-16: ESTIMATE OF 2015 INCOME TAX ADJUSTEMENT BY REDUCING 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 (\$ 112,886,000).

Baseline Taxable Income Range 2012	Current Tax Structure					Estimate of Adjusted Tax Structure		
	Projected # of Filers 2015	Cumulative # of Filers	Cumulative % of Filers	Projected Average Taxable Income 2015	Average Tax Liability 2015	Adjusted Average Tax Liability 2015	Average Tax Increase/ (Decrease) 2015	Total Dollar Increase/ (Decrease) 2015
col 1	col 2 (/a)	col 3	col 4	col 5 (/b)	col 6	col 7	col 8	col 9
0	737,606	737,606	33.83%	0	0	0	0	0
1-5,000	264,152	1,001,758	45.94%	2,381	0	0	0	(232,485)
5,000-10,000	181,592	1,183,349	54.27%	7,861	169	159	(10)	(1,798,227)
10,000-20,000	262,261	1,445,610	66.30%	15,577	596	570	(26)	(6,644,230)
20,000-30,000	183,383	1,628,993	74.71%	26,254	1,343	1,296	(47)	(8,561,981)
30,000-40,000	131,132	1,760,125	80.72%	36,917	2,089	2,021	(69)	(8,918,796)
40,000-50,000	95,833	1,855,958	85.12%	47,554	2,834	2,745	(90)	(8,556,865)
50,000-60,000	71,839	1,927,797	88.41%	58,194	3,579	3,468	(111)	(7,943,054)
60,000-70,000	54,902	1,982,699	90.93%	68,829	4,323	4,192	(132)	(7,238,169)
70,000-80,000	41,560	2,024,259	92.84%	79,428	5,065	4,912	(154)	(6,360,244)
80,000-90,000	31,297	2,055,557	94.27%	90,067	5,810	5,636	(175)	(5,455,579)
90,000-100,000	23,414	2,078,970	95.35%	100,692	6,554	6,358	(196)	(4,578,847)
100,000-110,000	17,759	2,096,730	96.16%	111,342	7,299	7,082	(217)	(3,851,364)
110,000-120,000	13,836	2,110,565	96.79%	121,976	8,044	7,805	(239)	(3,294,775)
120,000-130,000	10,601	2,121,166	97.28%	132,583	8,786	8,527	(260)	(2,749,260)
130,000-140,000	8,397	2,129,563	97.67%	143,299	9,536	9,255	(281)	(2,357,688)
140,000-150,000	6,638	2,136,201	97.97%	153,942	10,281	9,979	(303)	(2,005,175)
150,000-160,000	5,307	2,141,508	98.21%	164,571	11,025	10,702	(324)	(1,715,892)
160,000-170,000	4,382	2,145,890	98.41%	175,234	11,772	11,427	(345)	(1,510,207)
170,000-180,000	3,691	2,149,581	98.58%	185,768	12,509	12,143	(366)	(1,349,693)
180,000-190,000	3,089	2,152,670	98.73%	196,364	13,251	12,864	(387)	(1,195,097)
190,000-200,000	2,622	2,155,292	98.85%	207,069	14,000	13,592	(409)	(1,070,656)
200,000-225,000	4,987	2,160,278	99.07%	225,026	15,257	14,813	(445)	(2,215,229)
225,000-250,000	3,555	2,163,833	99.24%	251,334	17,099	16,602	(497)	(1,766,064)
250,000-300,000	4,520	2,168,353	99.44%	290,290	19,826	19,251	(575)	(2,597,877)
300,000-400,000	4,874	2,173,227	99.67%	364,893	25,048	24,324	(724)	(3,528,868)
400,000-500,000	2,311	2,175,538	99.77%	472,560	32,585	31,645	(940)	(2,170,690)
500,000- \$1M	3,397	2,178,935	99.93%	710,538	49,243	47,828	(1,416)	(4,807,486)
\$1 M - \$2 M	1,010	2,179,945	99.98%	1,424,475	99,219	96,375	(2,844)	(2,870,695)
\$2 M +	521	2,180,466	100.00%	5,317,382	371,722	361,093	(10,629)	(5,541,212)
<b>Total</b>	<b>2,180,466</b>			<b>\$27,694</b>	<b>\$1,444</b>	<b>\$1,394</b>	<b>(\$50)</b>	<b>(\$112,886,000)</b>

2015 Current Tax Brackets

0.00% \$0 to 2,910  
 3.00% \$2,910 to 5,820  
 4.00% \$5,820 to 8,730  
 5.00% \$8,730 to 11,640  
 6.00% \$11,640 to 14,550  
 7.00% Over \$14,550

Adjusted Brackets

0.00% \$0 to 2,910  
 2.80% \$2,910 to 5,820  
 3.80% \$5,820 to 8,730  
 4.80% \$8,730 to 11,640  
 5.80% \$11,640 to 14,550  
 6.80% Over \$14,550

Source: BEA, SC Dept. of Revenue Income Tax Data 2012

/a 2012 Base Year Grown by 1% per year

/b 2012 Base Year Taxable Income Grown by 2.7% for '13 and 3.25% for '14, and '15 respectively.

BEA/lhj/GAS-03/24/14

FY 2019-20: ESTIMATE OF 2019 INCOME TAX ADJUSTEMENT BY REDUCING 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 (\$ 633,283,000).

Baseline Taxable Income Range 2012	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	767,556	767,556	33.83%	0	0	0	0	0
1-5,000	274,877	1,042,433	45.94%	2,565	0	0	0	(1,344,714)
5,000-10,000	188,965	1,231,398	54.27%	8,470	184	130	(54)	(10,146,927)
10,000-20,000	272,910	1,504,308	66.30%	16,783	648	511	(137)	(37,341,839)
20,000-30,000	190,829	1,695,137	74.71%	28,287	1,453	1,201	(252)	(48,063,304)
30,000-40,000	136,456	1,831,593	80.72%	39,774	2,257	1,890	(367)	(50,044,355)
40,000-50,000	99,725	1,931,318	85.12%	51,235	3,059	2,578	(482)	(48,002,533)
50,000-60,000	74,756	2,006,074	88.41%	62,698	3,862	3,266	(596)	(44,552,880)
60,000-70,000	57,131	2,063,204	90.93%	74,157	4,664	3,953	(711)	(40,595,284)
70,000-80,000	43,248	2,106,452	92.84%	85,576	5,463	4,639	(825)	(35,668,988)
80,000-90,000	32,568	2,139,020	94.27%	97,038	6,266	5,326	(940)	(30,593,927)
90,000-100,000	24,364	2,163,385	95.35%	108,485	7,067	6,013	(1,054)	(25,676,321)
100,000-110,000	18,480	2,181,865	96.16%	119,960	7,870	6,702	(1,169)	(21,596,186)
110,000-120,000	14,398	2,196,263	96.79%	131,417	8,672	7,389	(1,284)	(18,474,661)
120,000-130,000	11,031	2,207,294	97.28%	142,844	9,472	8,075	(1,398)	(15,415,473)
130,000-140,000	8,738	2,216,032	97.67%	154,390	10,280	8,767	(1,513)	(13,219,617)
140,000-150,000	6,908	2,222,940	97.97%	165,857	11,083	9,455	(1,628)	(11,242,888)
150,000-160,000	5,523	2,228,462	98.21%	177,308	11,885	10,142	(1,743)	(9,620,755)
160,000-170,000	4,560	2,233,022	98.41%	188,797	12,689	10,832	(1,857)	(8,467,405)
170,000-180,000	3,840	2,236,862	98.58%	200,147	13,483	11,513	(1,971)	(7,567,353)
180,000-190,000	3,214	2,240,077	98.73%	211,562	14,282	12,198	(2,085)	(6,700,514)
190,000-200,000	2,729	2,242,805	98.85%	223,095	15,090	12,890	(2,200)	(6,002,759)
200,000-225,000	5,189	2,247,994	99.07%	242,442	16,444	14,051	(2,394)	(12,419,784)
225,000-250,000	3,699	2,251,693	99.24%	270,786	18,428	15,751	(2,677)	(9,901,367)
250,000-300,000	4,703	2,256,397	99.44%	312,758	21,366	18,269	(3,097)	(14,564,630)
300,000-400,000	5,072	2,261,469	99.67%	393,135	26,992	23,092	(3,901)	(19,783,639)
400,000-500,000	2,405	2,263,874	99.77%	509,135	35,112	30,052	(5,061)	(12,169,128)
500,000- \$1M	3,535	2,267,409	99.93%	765,532	53,060	45,436	(7,625)	(26,950,672)
\$1 M - \$2 M	1,051	2,268,459	99.98%	1,534,726	106,904	91,588	(15,317)	(16,092,685)
\$2 M +	543	2,269,002	100.00%	5,728,935	400,498	343,240	(57,259)	(31,062,683)
<b>Total</b>	<b>2,269,002</b>			<b>\$29,837</b>	<b>\$1,562</b>	<b>\$1,294</b>	<b>(\$267)</b>	<b>(\$633,283,000)</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
2.00%	\$3,100 to 6,200
3.00%	\$6,200 to 9,300
4.00%	\$9,300 to 12,400
5.00%	\$12,400 to 15,500
6.00%	Over \$15,500

Source: BEA, SC Dept. of Revenue Income Tax Data 2012

/a 2012 Base Year Grown by 1% per year

/b 2012 Base Year Taxable Income Grown by 2.7% for '13 and 3.25% for '14, and '15, and 2.9% thereafter.

**FY 2024-25: ESTIMATE OF 2024 INCOME TAX ADJUSTEMENT BY REDUCING 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 (\$ 1,462,675,000).

Baseline Taxable Income Range 2012	Current Tax Structure					Estimate of Adjusted Tax Structure		
	Projected # of Filers 2024	Cumulative # of Filers	Cumulative % of Filers	Projected Average Taxable Income 2024	Average Tax Liability 2024	Adjusted Average Tax Liability 2024	Average Tax Increase/ (Decrease) 2024	Total Dollar Increase/ (Decrease) 2024
col 1	col 2 (a)	col 3	col 4	col 5 (b)	col 6	col 7	col 8	col 9
0	806,709	806,709	33.83%	0	0	0	0	0
1-5,000	288,899	1,095,607	45.94%	2,816	0	0	0	(3,233,231)
5,000-10,000	198,604	1,294,212	54.27%	9,297	204	85	(119)	(23,621,734)
10,000-20,000	286,831	1,581,043	66.30%	18,422	720	419	(302)	(86,462,062)
20,000-30,000	200,564	1,781,606	74.71%	31,049	1,604	1,050	(554)	(111,108,824)
30,000-40,000	143,417	1,925,023	80.72%	43,659	2,487	1,680	(807)	(115,619,426)
40,000-50,000	104,812	2,029,834	85.12%	56,239	3,367	2,309	(1,058)	(110,867,562)
50,000-60,000	78,569	2,108,403	88.41%	68,821	4,248	2,939	(1,310)	(102,880,435)
60,000-70,000	60,045	2,168,449	90.93%	81,399	5,128	3,567	(1,561)	(93,729,466)
70,000-80,000	45,454	2,213,902	92.84%	93,934	6,006	4,194	(1,812)	(82,347,552)
80,000-90,000	34,230	2,248,132	94.27%	106,515	6,887	4,823	(2,064)	(70,625,943)
90,000-100,000	25,607	2,273,739	95.35%	119,080	7,766	5,452	(2,315)	(59,270,380)
100,000-110,000	19,423	2,293,162	96.16%	131,676	8,648	6,081	(2,567)	(49,849,697)
110,000-120,000	15,132	2,308,294	96.79%	144,252	9,528	6,710	(2,819)	(42,642,829)
120,000-130,000	11,594	2,319,888	97.28%	156,795	10,406	7,337	(3,069)	(35,580,585)
130,000-140,000	9,184	2,329,072	97.67%	169,469	11,293	7,971	(3,323)	(30,511,511)
140,000-150,000	7,260	2,336,332	97.97%	182,056	12,174	8,600	(3,575)	(25,948,544)
150,000-160,000	5,804	2,342,136	98.21%	194,625	13,054	9,229	(3,826)	(22,204,237)
160,000-170,000	4,792	2,346,929	98.41%	207,236	13,937	9,859	(4,078)	(19,542,026)
170,000-180,000	4,036	2,350,965	98.58%	219,694	14,809	10,482	(4,327)	(17,464,526)
180,000-190,000	3,378	2,354,343	98.73%	232,224	15,686	11,109	(4,578)	(15,463,761)
190,000-200,000	2,868	2,357,211	98.85%	244,884	16,572	11,742	(4,831)	(13,853,282)
200,000-225,000	5,454	2,362,665	99.07%	266,120	18,059	12,804	(5,256)	(28,662,108)
225,000-250,000	3,888	2,366,552	99.24%	297,233	20,237	14,359	(5,878)	(22,849,675)
250,000-300,000	4,943	2,371,496	99.44%	343,304	23,462	16,663	(6,800)	(33,610,404)
300,000-400,000	5,331	2,376,827	99.67%	431,531	29,638	21,074	(8,564)	(45,652,711)
400,000-500,000	2,527	2,379,354	99.77%	558,860	38,551	27,440	(11,111)	(28,080,678)
500,000- \$1M	3,715	2,383,069	99.93%	840,298	58,251	41,512	(16,739)	(62,187,607)
\$1 M - \$2 M	1,104	2,384,174	99.98%	1,684,616	117,354	83,728	(33,626)	(37,132,058)
\$2 M +	570	2,384,744	100.00%	6,288,454	439,622	313,920	(125,703)	(71,671,993)
<b>Total</b>	<b>2,384,744</b>			<b>\$32,752</b>	<b>\$1,723</b>	<b>\$1,135</b>	<b>(\$588)</b>	<b>(\$1,462,675,000)</b>

**2024 Current Tax Brackets**

0.00%	\$0 to 3,350
3.00%	\$3,350 to 6,700
4.00%	\$6,700 to 10,050
5.00%	\$10,050 to 13,400
6.00%	\$13,400 to 16,750
7.00%	Over \$16,750

**Adjusted Brackets**

0.00%	\$0 to 3,350
1.00%	\$3,350 to 6,700
2.00%	\$6,700 to 10,050
3.00%	\$10,050 to 13,400
4.00%	\$13,400 to 16,750
5.00%	Over \$16,750

Source: BEA, SC Dept. of Revenue Income Tax Data 2012

/a 2012 Base Year Grown by 1% per year

/b 2012 Base Year Taxable Income Grown by 2.7% for '13 and 3.25% for '14, and '15, and 2.9% thereafter.