

South Carolina Board of Economic Advisors

Statement of Estimated Revenue Impact

Date: March 25, 2009

Bill Number: H.3721

Author: Kirsh

Committee Requesting Impact: Ways and Means

Bill Summary

A bill to amend Section 12-6-40, as amended, Code of Laws of South Carolina, 1976, relating to the application of the Internal Revenue Code to state tax laws, so as to update the reference to the Internal Revenue Code to the year 2008; to amend Section 12-6-50, as amended, relating to Internal Revenue Code sections not adopted by state law, so as to make additions; and to provide that a taxpayer who follows Section 3094 of the Federal Housing Economic Recovery Act of 2008, for South Carolina purposes must not be penalized.

REVENUE IMPACT ^{1/}

Based on an analysis of federal law changes impacting South Carolina taxpayers by the Department of Revenue for the six tax bills enacted in 2008, we expect that the net effect of the various tax law changes will decrease General Fund income tax revenue by \$5,474,229 in FY 2009-10. The Board of Economic Advisors in its forecast of FY 2009-10 General Fund revenues accounted for this income tax reduction in its revised estimate.

Explanation

This bill updates the South Carolina tax code to federal tax law changes in six bills enacted in 2008. Our analysis reports that one of the larger tax changes that will impact South Carolina income tax revenue is included in the Housing and Economic Recovery Act of 2008. This Act allows an additional standard deduction for State and local property taxes of up to \$500 for individuals and \$1,000 for married couples for 2008 and 2009. The additional deduction is the lesser of the amount of real property taxes paid during the year or \$500 or \$1,000 for single and married taxpayers respectively. Non-itemizing homeowners that have paid off their mortgage and lower-income homeowners whose itemized deductions do not exceed the standard deduction are the taxpayers more likely to benefit from this additional deduction. We anticipate that this additional deduction will reduce income tax revenue by \$3,652,488 in FY 2009-10. Another significant revenue impact is the temporary waiver of required minimum distribution rules for retirement accounts contained in the Worker, Retiree, and Employer Recovery Act of 2008. This waiver for 2009 suspends the required minimum distributions from tax deferred retirement savings accounts (401(k), 403(b), Individual Retirement Accounts, etc.) for taxpayers that have reached age 70^{1/2}. This will allow many retirees to avoid further depleting their retirement accounts subsequent to the massive reductions in the value of these savings that began in September 2008. We expect that this waiver will reduce South Carolina income tax revenue by \$2,229,634 in FY 2009-10,

/s/WILLIAM C. GILLESPIE

William C. Gillespie, Ph.D.
Chief Economist

Analyst: Shuford

^{1/} 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.