

South Carolina Board of Economic Advisors

Statement of Estimated Revenue Impact

Date: February 24, 2010

Bill Number: S.1174 (as amended by Sales and Income Tax Subcommittee on 2/23/2010)

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Committee Requesting Impact: Finance

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 income tax laws, so as to update the reference to the Internal Revenue Code to the year 2009; to adopt the provisions of Public Law 111-126 relating to the timing of deductions for charitable contributions for Haiti relief; to amend Section 12-6-50, as amended, relating to provisions of the Internal Revenue Code not adopted by state law, so as to add provisions to those not adopted; to amend Section 12-6-3910, as amended, relating to estimated state income payments, so as to allow the Department of Revenue to waive penalties on corporate taxpayers who calculate South Carolina estimated tax payments based on federal estimated tax periods that do not conform to state law; and to amend Act 110 of 2007 and Act 16 of 2009, relating to miscellaneous revenue provisions and conformity of state income tax law to the Internal Revenue Code, so as to delete obsolete provisions.

REVENUE IMPACT ^{1/}

Based on an analysis of federal law changes impacting South Carolina taxpayers by the Department of Revenue for the two tax bills enacted in 2009, we expect that the net effect of the various tax law changes will decrease General Fund income tax revenue by \$674,584 in FY 2009-10 and by \$2,373,779 in FY 2010-11.

Explanation

Section 1 of this bill updates the South Carolina tax code to federal tax law changes enacted in 2009. Some of the larger tax changes included in the American Recovery and Reinvestment Tax Act of 2009 impacting South Carolina income tax revenue include: 1) a deduction of sales tax paid for new cars and trucks which we estimate reduces General Fund income tax revenue by \$100,758 in FY 2009-10 and by \$301,562 in FY 2010-11; 2) increasing the exclusion from income of qualified transportation benefits paid to employees from an employer sponsored plan, revenue reduction of \$135,453 in FY 2009-10 and \$2,390,633 in FY 2010-11; extension of increased Section 179 expensing to \$250,000 for small businesses which reduces revenue by \$1,525,633 in FY 2009-10 and \$1,009,959 in FY 2010-11; and, repeal special exemptions in Treasury Notice 2008-83 relating to limitations on built-in losses following ownership change to limit the losses in future years which we estimate will increase revenues by \$1,483,786 in FY 2009-10 and by \$1,832,790 in FY 2010-11. The second bill, the Worker, Homeownership, and Business Assistance Act of 2009 excludes from income the payments made to military homeowners who are relocated due to military orders or base closures to offset the decline in real estate prices. We estimate that this provision will reduce General Fund individual income tax revenue by \$282,789 in FY

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2009-10 and by \$97,431 in FY 2010-11. We expect that the net effect of the various tax law changes will decrease General Fund income tax revenue by \$674,584 in FY 2009-10 and by \$2,373,779 in FY 2010-11.

Section 2 of the bill adopts Public Law 111-126 relating to charitable deductions for Haiti relief made in January and February 2010. These donations made in early 2010 can be claimed as a deduction on taxpayers 2009 returns. We anticipate no revenue impact from this provision.

Section 3 of the bill decouples from the South Carolina income tax code the federal deduction from gross income of up to \$2,400 of unemployment compensation, the five year deferral of tax liability on cancellation of debt income until 2015, and the waiver of the applicable high yield debt obligation rules for debt created between September 2008 and the end of 2009. We estimate the General Fund revenue reduction from these provisions would total \$14,760,176 in FY 2009-10 and \$32,556,629 in FY 2010-11 if South Carolina adopted these provisions.

Section 4 of this bill allows the department to waive estimated tax penalties for corporations that remit South Carolina estimated tax payments based on federal law timing modifications. This codifies existing policy and would have no impact on revenue.

Sections 5 and 6 delete provisions in the South Carolina code from previous years that are repealed in the IRS code.

/s/William C. Gillespie
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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.