South Carolina Board of Economic Advisors
Statement of Estimated State Revenue Impact

Date: February 8, 2011

Bill Number: S.B. 140

Authors: Campsen and Ryberg

Committee Requesting Impact: Senate Finance Committee

Bill Summary
A bill to amend the Code of Laws of South Carolina, 1976, so as to enact the "South Carolina Capital Gains Tax Elimination Act" by amending Section 12-6-1150, as amended, relating to the deduction allowed for a portion of net capital gains included in the otherwise taxable income of individuals, estates, and trusts, so as to increase the deduction allowed from forty-four percent to one hundred percent of the net capital gain and to phase in this increase over ten years.

REVENUE IMPACT [1/]
This bill would reduce General Fund income tax revenue by an estimated $25,504,123 in FY2011-12. This bill would also reduce General Fund income tax revenue by an estimated $29,431,758 in FY2012-13, of $33,813,034 in FY2013-14, of $38,694,527 in FY2014-15, of $44,127,292 in FY2015-16, of $50,167,282 in FY2016-17, of $56,875,801 in FY2017-18, of $64,319,990 in FY2018-19, of $72,573,367 in FY2019-20, and an estimated $81,716,411 in FY2020-21.

Explanation
This act may be cited as the "South Carolina Capital Gains Tax Elimination Act". Currently, individuals, estates, and trusts are allowed a deduction from South Carolina taxable income equal to 44% of net capital gain during a taxable year. This bill would amend Section 12-6-1150 to increase the percentage that may be deducted from South Carolina taxable income for recognition of net capital gains by an additional 5.6 percentage points each tax year beginning in tax year 2011 and for the next ten succeeding tax years. Net capital gains would be wholly tax exempt in tax year 2020 and each tax year thereafter.

According to the latest tax data available from the U.S. Department of the Treasury, Internal Revenue Service, net capital gain income reached $7,854,800,000 in tax year 2007 before the effects of the recession reduced net capital gain income to $3,395,400,000 in tax year 2008. Over the latest three tax years, net capital gain income averaged $6,041,000,000 per tax year resulting in net capital gain income tax revenue of an estimated $236,807,000 per year. Over the past five tax years, which has included a boom-to-bust economic cycle, net capital gains have averaged 7.7% growth per year. We expect this trend to continue. The deduction from state taxable income increases to 49.6% of net capital gains beginning in tax year 2011. Multiplying $6,041,000,000 of net capital gain income by an average growth rate of 7.7% and applying an exclusion of 49.6% and a marginal tax rate of seven percent yields an estimated $229,537,105 of General Fund income tax revenue in FY2011-12. This figure is an estimated $25,504,123 lower than under the current deduction of 44% from taxable income.

Continuing the same analysis for the next nine tax years yields an incremental reduction in General Fund income tax revenue of an estimated $29,431,758 in FY2012-13, of $33,813,034 in FY2013-14, of $38,694,527 in FY2014-15, of $44,127,292 in FY2015-16, of $50,167,282 in FY2016-17, of $56,875,801 in FY2017-18, of $64,319,990 in FY2018-19, of $72,573,367 in FY2019-20, and an estimated $81,716,411 in FY2020-21. At the end of the ten tax year phase-in of the elimination of the deduction from taxable income on net capital gain income, General Fund income tax revenue would be reduced by an estimated $497,223,584 by FY2020-21.

William Gillespie

William C. Gillespie, Ph.D.
Chief Economist

Analyst: Martin

[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 of Section 6-1-85(B) for an estimate of the shift in local property tax incidence by the Office of Economic Research.