FEDERAL TAX CONFORMITY

TAX YEAR 2017 AND 2018

PRESENTED TO

HOUSE WAYS AND MEANS
INCOME TAX SUBCOMMITTEE

April 17, 2018

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CONFORMITY
Tax Year 2017 and 2018

• Conformity is more complicated due to major federal tax reform

• Winners and losers
  • Detailed RFA report on federal tax changes:
    Estimated South Carolina Impact of Federal “Tax Cuts and Jobs Act” of 2017 (http://rfa.sc.gov/econ/reports/econanalysis)

• Taxpayers, tax professionals, and DOR need time for implementation of tax changes
CONFORMITY - RETROACTIVE
Tax Year 2017 (April 2018 filings)

• Conforming to federal tax changes for tax year 2017 will allow taxpayers under 65 to claim higher medical deductions: $3.5 million revenue reduction

• Twelve tax provisions extended in the Bipartisan Budget Act affect taxpayers for 2017
  • Total of $11.8 million including:
    • Medical deductions for taxpayers over 65 ($4.8 M)
    • Qualified tuition and related expenses ($2.8 M)

• Current filers will have to file amended returns if these provisions are adopted
CONFORMITY
Tax Year 2018 (April 2019 Filings)

Adopt Federal Income Tax Changes

• Simplest for taxpayers and least likely to result in non-compliance
• No changes to tax processing or revenue flow

BUDGET/REVENUE ISSUES

$205 Million Revenue Increase*
($180 Indiv.; $25 Corp.)

For Individual Tax Filers:
• Decreased Tax Liability: 31%
• Increased Tax Liability: 27%
• Unchanged Tax Liability: 42%

*Before any state tax reform
SOUTH CAROLINA STATE INDIVIDUAL INCOME TAX LIABILITY IMPACT
Tax Year 2018 - Projected Impact of Federal Tax Changes
Percentage of Returns

- Decreased Tax Liability: 31%
- Increased Tax Liability: 27%
- Unchanged: 42%
- Zero Tax Liability: 43%

Tax Year 2018

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NONCONFORMITY
No Action (Maintain 2016 Tax Code)

Decouple from Federal Tax Code
• Significant change for taxpayers, tax professionals, and DOR
• Potential for unintended tax liability impacts
• Taxpayers must follow two sets of tax laws

BUDGET/REVENUE ISSUES
Unknown Impacts on Compliance
• Voluntary Compliance
  • Taxpayer confusion may have unintended revenue effects
• Involuntary Compliance
  • Tens of millions in audit revenue affected
• Short Time for Implementation
  • Processing Delays - revenue timing and budget cash flow would be affected, especially if electronic filings are affected
NONCONFORMITY – SPECIFIC CONCERNS
Tax Year 2018 Issues for Taxpayers

- Federal and state tax law differences
  - Significant differences between federal and state standard deductions and personal exemptions may affect compliance
  - Different thresholds for medical deductions
- Taxpayers will need to follow two sets of tax rules and complete another set of forms to duplicate federal returns under old law
  - Individuals and business may have much higher tax preparation expenses. For example, Indiana estimates their businesses’ expenses will increase by $100 million. ¹
- Delays in processing would mean taxpayers would have to wait to receive refunds

EFFECTS OF TAX CONFORMITY OR NONCONFORMITY

CONFORMITY

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ISSUES FOR TAXPAYERS

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