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 and “Bipartisan Budget Act” of 2018
    (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
$204 Million Revenue Increase* ($172 Individual; $32 Corporate)
For Individual Tax Filers:
• Decreased Tax Liability: 32%
• Increased Tax Liability: 27%
• Unchanged Tax Liability: 42%

*Before any state tax reform

$204 Million Revenue Increase* ($172 Individual; $32 Corporate)
SOUTH CAROLINA STATE INDIVIDUAL INCOME TAX LIABILITY IMPACT
Tax Year 2018 - Projected Impact of Federal Tax Changes
Percentage of Returns

Percentages may not add to totals due to rounding.
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
  o Significant differences between federal and state standard
deductions and personal exemptions may affect compliance
  o 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
  o 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

House Bill 5341

Conform to federal law, with exceptions, and enact a state personal exemption
• Adopts changes to federal standard deduction amounts, itemized deductions, and some business tax rules
• Creates a state personal exemption of $1,525 per person adjusted annually for inflation
• Does not conform to:
  • Pass through deduction for qualified business income
  • Federal limits on interest expense deductions
  • Treatment of deferred foreign income
  • FDIC deduction limit
  • Rule changes for contributions to capital
House Bill 5341
May 8, 2018 Impact Statement Summary

Individual Income Tax:
• Potential revenue increase of $253M offset by new personal exemption for FY 2018-19
• No revenue change for FY 2018-19

Corporate Income Tax:
• No revenue change for FY 2018-19 based upon the provisions that are adopted

Net impact: $0*

*Possible additional impact for Tax Year 2017 amended returns/refunds
## PROJECTED IMPACT ON STATE INDIVIDUAL INCOME TAX FOR TAX YEAR 2018
Conform to Federal Tax Changes with Exceptions and Provide a State Personal Exemption of $1,525

### Exceptions:
- Conform to federal tax changes except for passthrough deduction ($199), interest expense limitation ($163), foreign income changes ($250, 267, etc.), contributions to capital ($118) and FDIC premium deduction ($162).

<table>
<thead>
<tr>
<th>Projected Federal Adjusted Gross Income Range</th>
<th>Projected # of Returns</th>
<th>Projected % of Returns</th>
<th>Change in Net Tax Liability in Range</th>
<th>Avg. Change in Net Tax Liability in Range</th>
<th>Tax Decrease # of Returns</th>
<th>Tax Decrease % of Returns</th>
<th>Average Decrease Amount</th>
<th>Tax Increase # of Returns</th>
<th>Tax Increase % of Returns</th>
<th>Average Increase Amount</th>
<th>No Tax Change # of Returns</th>
<th>No Change % of Returns</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0</td>
<td>24,957</td>
<td>1.0%</td>
<td>196,000</td>
<td>$8</td>
<td>158</td>
<td>0.6%</td>
<td>($189)</td>
<td>370</td>
<td>1.5%</td>
<td>$610</td>
<td>24,429</td>
<td>97.9%</td>
</tr>
<tr>
<td>$1-$10,000</td>
<td>301,760</td>
<td>12.6%</td>
<td>(12,000)</td>
<td>($0)</td>
<td>195</td>
<td>0.1%</td>
<td>($105)</td>
<td>100</td>
<td>0.0%</td>
<td>$83</td>
<td>301,464</td>
<td>99.9%</td>
</tr>
<tr>
<td>$10,001-$20,000</td>
<td>378,838</td>
<td>15.9%</td>
<td>(6,167,000)</td>
<td>($16)</td>
<td>85,267</td>
<td>22.5%</td>
<td>($73)</td>
<td>1,050</td>
<td>0.3%</td>
<td>$42</td>
<td>292,521</td>
<td>77.2%</td>
</tr>
<tr>
<td>$20,001-$30,000</td>
<td>324,595</td>
<td>13.6%</td>
<td>(19,261,000)</td>
<td>($59)</td>
<td>139,246</td>
<td>42.9%</td>
<td>($144)</td>
<td>7,634</td>
<td>2.4%</td>
<td>$107</td>
<td>177,714</td>
<td>54.7%</td>
</tr>
<tr>
<td>$30,001-$40,000</td>
<td>253,886</td>
<td>10.6%</td>
<td>(20,805,000)</td>
<td>($82)</td>
<td>142,191</td>
<td>56.0%</td>
<td>($173)</td>
<td>22,742</td>
<td>9.0%</td>
<td>$170</td>
<td>88,954</td>
<td>35.0%</td>
</tr>
<tr>
<td>$40,001-$50,000</td>
<td>186,457</td>
<td>7.8%</td>
<td>(11,584,000)</td>
<td>($62)</td>
<td>114,828</td>
<td>61.6%</td>
<td>($178)</td>
<td>36,680</td>
<td>19.7%</td>
<td>$240</td>
<td>34,949</td>
<td>18.7%</td>
</tr>
<tr>
<td>$50,001-$75,000</td>
<td>311,678</td>
<td>13.1%</td>
<td>(7,204,000)</td>
<td>($23)</td>
<td>183,752</td>
<td>59.0%</td>
<td>($196)</td>
<td>86,627</td>
<td>27.8%</td>
<td>$332</td>
<td>41,299</td>
<td>13.3%</td>
</tr>
<tr>
<td>$75,001-$100,000</td>
<td>199,641</td>
<td>8.4%</td>
<td>(637,000)</td>
<td>($3)</td>
<td>111,890</td>
<td>56.0%</td>
<td>($223)</td>
<td>65,874</td>
<td>33.0%</td>
<td>$369</td>
<td>21,878</td>
<td>11.0%</td>
</tr>
<tr>
<td>$100,001-$125,000</td>
<td>130,161</td>
<td>5.5%</td>
<td>2,181,000</td>
<td>$17</td>
<td>73,140</td>
<td>56.2%</td>
<td>($239)</td>
<td>48,915</td>
<td>37.6%</td>
<td>$402</td>
<td>8,106</td>
<td>6.2%</td>
</tr>
<tr>
<td>$125,001-$150,000</td>
<td>77,608</td>
<td>3.3%</td>
<td>5,420,000</td>
<td>$70</td>
<td>39,589</td>
<td>51.0%</td>
<td>($239)</td>
<td>33,279</td>
<td>42.9%</td>
<td>$448</td>
<td>4,740</td>
<td>6.1%</td>
</tr>
<tr>
<td>$150,001-$175,000</td>
<td>47,077</td>
<td>2.0%</td>
<td>6,175,000</td>
<td>$131</td>
<td>20,730</td>
<td>44.0%</td>
<td>($238)</td>
<td>22,971</td>
<td>48.8%</td>
<td>$483</td>
<td>3,377</td>
<td>7.2%</td>
</tr>
<tr>
<td>$175,001-$200,000</td>
<td>30,587</td>
<td>1.3%</td>
<td>5,542,000</td>
<td>$181</td>
<td>11,812</td>
<td>38.6%</td>
<td>($231)</td>
<td>16,029</td>
<td>52.4%</td>
<td>$516</td>
<td>2,746</td>
<td>9.0%</td>
</tr>
<tr>
<td>$200,001-$250,000</td>
<td>35,115</td>
<td>1.5%</td>
<td>8,806,000</td>
<td>$251</td>
<td>11,310</td>
<td>32.2%</td>
<td>($227)</td>
<td>20,226</td>
<td>57.6%</td>
<td>$562</td>
<td>3,579</td>
<td>10.2%</td>
</tr>
<tr>
<td>$250,001-$300,000</td>
<td>19,239</td>
<td>0.8%</td>
<td>6,046,000</td>
<td>$314</td>
<td>4,871</td>
<td>25.3%</td>
<td>($219)</td>
<td>11,762</td>
<td>61.1%</td>
<td>$605</td>
<td>2,606</td>
<td>13.5%</td>
</tr>
<tr>
<td>$300,001-$500,000</td>
<td>30,243</td>
<td>1.3%</td>
<td>12,175,000</td>
<td>$403</td>
<td>4,941</td>
<td>16.3%</td>
<td>($215)</td>
<td>19,728</td>
<td>65.2%</td>
<td>$671</td>
<td>5,573</td>
<td>18.4%</td>
</tr>
<tr>
<td>$500,001-$750,000</td>
<td>12,238</td>
<td>0.5%</td>
<td>6,091,000</td>
<td>$498</td>
<td>977</td>
<td>8.0%</td>
<td>($217)</td>
<td>8,092</td>
<td>66.1%</td>
<td>$779</td>
<td>3,169</td>
<td>25.9%</td>
</tr>
<tr>
<td>$750,001-$1,000,000</td>
<td>5,678</td>
<td>0.2%</td>
<td>3,014,000</td>
<td>$531</td>
<td>297</td>
<td>5.2%</td>
<td>($222)</td>
<td>3,630</td>
<td>63.9%</td>
<td>$848</td>
<td>1,751</td>
<td>30.8%</td>
</tr>
<tr>
<td>$1,000,000+</td>
<td>15,736</td>
<td>0.7%</td>
<td>9,719,000</td>
<td>$618</td>
<td>402</td>
<td>2.6%</td>
<td>($196)</td>
<td>9,441</td>
<td>60.0%</td>
<td>$1,038</td>
<td>5,893</td>
<td>37.5%</td>
</tr>
<tr>
<td>Total</td>
<td>2,385,493</td>
<td>0.7%</td>
<td>945,595</td>
<td>$0</td>
<td>39.6%</td>
<td>($182)</td>
<td>415,151</td>
<td>17.4%</td>
<td>$413</td>
<td>1,024,748</td>
<td>43.0%</td>
<td></td>
</tr>
</tbody>
</table>

Columns may not add to totals due to rounding.

- 39.6% of returns will have a decreased tax liability
- 17.4% of returns will have an increased tax liability
- 43.0% of returns will have an unchanged tax liability
- 46.5% of returns will have zero tax liability
Senate Bill 1258

Conform to federal law with exceptions and adjustments
- Adopts some business tax rule changes
- Creates a state standard deduction of $7,570 for single filers, $15,140 for married filers, and $11,355 for head of household filers
- Creates a state personal exemption and additional state exemption for dependents under 6 of $4,050 each
- Does not conform to:
  - Pass through deduction for qualified business income
- Additional adjustments:
  - Increases state tax bracket inflation from half of inflation to full amount
  - Fully implements the earned income tax credit and two-wage earner credit increases in 2018 instead of the six-year phase-in
Senate Bill 1258
Preliminary Revenue Impact

Individual Income Tax:
• Potential increase of $265M offset by changes to deductions, exemptions, etc.
• $32M decrease in individual income tax revenue for FY 2018-19
• Additional $4M decrease for FY 2019-20 (bracket inflation change)

Corporate Income Tax:
• Potential increase of $32M* for FY 2018-19

Net Impact: $0*
*Pending any technical issues
<table>
<thead>
<tr>
<th>Projected Federal Adjusted Gross Income Range</th>
<th>Projected # of Returns</th>
<th>Projected % of Returns</th>
<th>Change in Net Tax Liability in Range</th>
<th>Avg. Change in Net Tax Liability in Range</th>
<th>Tax Decrease # of Returns</th>
<th>Tax Decrease % of Returns</th>
<th>Average Decrease Amount</th>
<th>Tax Increase # of Returns</th>
<th>Tax Increase % of Returns</th>
<th>Average Increase Amount</th>
<th>No Tax Change # of Returns</th>
<th>No Change % of Returns</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0</td>
<td>24,957</td>
<td>1.0%</td>
<td>$172,000</td>
<td>$7</td>
<td>169</td>
<td>0.7%</td>
<td>($106)</td>
<td>346</td>
<td>1.4%</td>
<td>$551</td>
<td>24,442</td>
<td>97.9%</td>
</tr>
<tr>
<td>$1-$10,000</td>
<td>301,760</td>
<td>12.6%</td>
<td>($18,000)</td>
<td>(0)</td>
<td>235</td>
<td>0.1%</td>
<td>($100)</td>
<td>63</td>
<td>0.0%</td>
<td>$83</td>
<td>301,462</td>
<td>99.9%</td>
</tr>
<tr>
<td>$10,001-$20,000</td>
<td>378,838</td>
<td>15.9%</td>
<td>($2,574,000)</td>
<td>(7)</td>
<td>84,965</td>
<td>22.4%</td>
<td>($31)</td>
<td>1,289</td>
<td>0.3%</td>
<td>$41</td>
<td>292,584</td>
<td>77.2%</td>
</tr>
<tr>
<td>$20,001-$30,000</td>
<td>324,595</td>
<td>13.6%</td>
<td>($6,957,000)</td>
<td>(21)</td>
<td>139,636</td>
<td>43.0%</td>
<td>($54)</td>
<td>5,740</td>
<td>1.8%</td>
<td>$97</td>
<td>179,218</td>
<td>55.2%</td>
</tr>
<tr>
<td>$30,001-$40,000</td>
<td>253,886</td>
<td>10.6%</td>
<td>($14,405,000)</td>
<td>(57)</td>
<td>149,659</td>
<td>58.9%</td>
<td>($108)</td>
<td>10,352</td>
<td>4.1%</td>
<td>$163</td>
<td>93,875</td>
<td>37.0%</td>
</tr>
<tr>
<td>$40,001-$50,000</td>
<td>186,457</td>
<td>7.8%</td>
<td>($10,436,000)</td>
<td>(56)</td>
<td>129,606</td>
<td>69.5%</td>
<td>($102)</td>
<td>15,715</td>
<td>8.4%</td>
<td>$181</td>
<td>41,137</td>
<td>22.1%</td>
</tr>
<tr>
<td>$50,001-$75,000</td>
<td>311,678</td>
<td>13.1%</td>
<td>($9,631,000)</td>
<td>(31)</td>
<td>219,103</td>
<td>70.3%</td>
<td>($85)</td>
<td>47,663</td>
<td>15.3%</td>
<td>$191</td>
<td>44,912</td>
<td>14.4%</td>
</tr>
<tr>
<td>$75,001-$100,000</td>
<td>199,641</td>
<td>8.4%</td>
<td>($6,541,000)</td>
<td>(33)</td>
<td>137,258</td>
<td>68.8%</td>
<td>($107)</td>
<td>39,341</td>
<td>19.7%</td>
<td>$206</td>
<td>23,043</td>
<td>11.5%</td>
</tr>
<tr>
<td>$100,001-$125,000</td>
<td>130,161</td>
<td>5.5%</td>
<td>($5,709,000)</td>
<td>(44)</td>
<td>91,464</td>
<td>70.3%</td>
<td>($134)</td>
<td>29,832</td>
<td>22.9%</td>
<td>$220</td>
<td>8,865</td>
<td>6.8%</td>
</tr>
<tr>
<td>$125,001-$150,000</td>
<td>77,608</td>
<td>3.3%</td>
<td>($1,690,000)</td>
<td>(22)</td>
<td>50,971</td>
<td>65.7%</td>
<td>($138)</td>
<td>21,578</td>
<td>27.8%</td>
<td>$248</td>
<td>5,059</td>
<td>6.5%</td>
</tr>
<tr>
<td>$150,001-$175,000</td>
<td>47,077</td>
<td>2.0%</td>
<td>($271,000)</td>
<td>(6)</td>
<td>27,688</td>
<td>58.8%</td>
<td>($135)</td>
<td>15,866</td>
<td>33.7%</td>
<td>$253</td>
<td>3,523</td>
<td>7.5%</td>
</tr>
<tr>
<td>$175,001-$200,000</td>
<td>30,587</td>
<td>1.3%</td>
<td>($899,000)</td>
<td>(32)</td>
<td>16,220</td>
<td>53.0%</td>
<td>($130)</td>
<td>11,512</td>
<td>37.6%</td>
<td>$269</td>
<td>2,856</td>
<td>9.3%</td>
</tr>
<tr>
<td>$200,001-$250,000</td>
<td>35,115</td>
<td>1.5%</td>
<td>($2,405,000)</td>
<td>(68)</td>
<td>16,162</td>
<td>46.0%</td>
<td>($124)</td>
<td>15,235</td>
<td>43.4%</td>
<td>$289</td>
<td>3,718</td>
<td>10.6%</td>
</tr>
<tr>
<td>$250,001-$300,000</td>
<td>19,239</td>
<td>0.8%</td>
<td>($2,131,000)</td>
<td>(111)</td>
<td>7,035</td>
<td>36.6%</td>
<td>($114)</td>
<td>9,527</td>
<td>49.5%</td>
<td>$308</td>
<td>2,677</td>
<td>13.9%</td>
</tr>
<tr>
<td>$300,001-$500,000</td>
<td>30,243</td>
<td>1.3%</td>
<td>($5,309,000)</td>
<td>(176)</td>
<td>7,321</td>
<td>24.2%</td>
<td>($108)</td>
<td>17,212</td>
<td>56.9%</td>
<td>$354</td>
<td>5,710</td>
<td>18.9%</td>
</tr>
<tr>
<td>$500,001-$750,000</td>
<td>12,238</td>
<td>0.5%</td>
<td>($3,471,000)</td>
<td>(284)</td>
<td>1,409</td>
<td>11.5%</td>
<td>($106)</td>
<td>7,588</td>
<td>62.0%</td>
<td>$477</td>
<td>3,241</td>
<td>26.5%</td>
</tr>
<tr>
<td>$750,001-$1,000,000</td>
<td>5,678</td>
<td>0.2%</td>
<td>($2,081,000)</td>
<td>(366)</td>
<td>397</td>
<td>7.0%</td>
<td>($117)</td>
<td>3,497</td>
<td>61.6%</td>
<td>$608</td>
<td>1,784</td>
<td>31.4%</td>
</tr>
<tr>
<td>$1,000,000+</td>
<td>15,736</td>
<td>0.7%</td>
<td>($9,072,000)</td>
<td>(577)</td>
<td>435</td>
<td>2.8%</td>
<td>($103)</td>
<td>9,340</td>
<td>59.4%</td>
<td>$976</td>
<td>5,961</td>
<td>37.9%</td>
</tr>
<tr>
<td>Total</td>
<td>2,385,493</td>
<td></td>
<td>($32,000,000)</td>
<td>(13)</td>
<td>1,079,734</td>
<td>45.3%</td>
<td>($94)</td>
<td>261,695</td>
<td>11.0%</td>
<td>$267</td>
<td>1,044,065</td>
<td>43.8%</td>
</tr>
</tbody>
</table>

Columns may not add to totals due to rounding.

- 45.3% of returns will have a decreased tax liability
- 11.0% of returns will have an increased tax liability
- 43.8% of returns will have an unchanged tax liability
- 46.7% of returns will have zero tax liability

Exceptions: Conform to federal tax changes except for passthrough deduction (§199A)