SOUTH CAROLINA UPDATES

PRESENTED TO

SOUTH CAROLINA ASSOCIATION OF AUDITORS, TREASURERS AND TAX COLLECTORS

February 9, 2018

By
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Executive Director

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SOUTH CAROLINA
SC PERSONAL INCOME FY GROWTH RATES
Actuals, Estimates, and Averages

Source: US Department of Commerce, Bureau of Economic Analysis  RFA-173 LJ/10/05/17
ECONOMIC OUTLOOK

- Continued growth
- Lower value of the dollar and consumer spending are key drivers
- Recession would likely require a “shock” such as bad fiscal or monetary policy or world crisis
SOUTH CAROLINA
Note: Population figures are based on 2010 U.S. Census Bureau data and 2016 U.S. Census population estimates.
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GENERAL FUND
*Adjusted appropriations account for allocations and mid-year budget cuts. Source: RFA, JCS, 1/8/2018
GENERAL FUND APPROPRIATIONS BY MAJOR BUDGET CATEGORY
FY 2017-18

Source: RFA, 195, JCS, 10/9/2017
FY 2017-18 GENERAL FUND DISTRIBUTION TO SUBDIVISIONS

39% of General Fund Appropriations

Aid to School Districts

Aid to Counties

Aid to Other Entities

Source: RFA, JCS, 1/26/2018
FUNCTIONAL GROUPS PERCENT OF GENERAL FUND APPROPRIATIONS
FY 1979-80 AND FY 2017-18

Source: RFA, JCS, #206, 2/1/2018
TAX REFORM
<table>
<thead>
<tr>
<th>Summary of Federal Tax Law Changes Impacting South Carolina Income Tax Revenue</th>
<th>Individual Income Tax</th>
<th>Corporate Income Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2018-19 (Millions of Dollars)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual Income Tax Only</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Standard Deduction</td>
<td>$ (241)</td>
<td></td>
</tr>
<tr>
<td>2. Itemized Deductions</td>
<td>$ 77</td>
<td></td>
</tr>
<tr>
<td>3. Personal Exemption</td>
<td>$ 364</td>
<td></td>
</tr>
<tr>
<td>4. SC Dependents Under 6 Exemption [a]</td>
<td>$ 49</td>
<td></td>
</tr>
<tr>
<td>5. 529 Plan Changes [a]</td>
<td>$ (5)</td>
<td></td>
</tr>
<tr>
<td>6. Inflation Change [b]</td>
<td>$ 2</td>
<td></td>
</tr>
<tr>
<td>Other (net) [c]</td>
<td>$ 0</td>
<td></td>
</tr>
<tr>
<td>Individual Excluding Pass-Through Only</td>
<td>$ 246</td>
<td></td>
</tr>
<tr>
<td>7. Pass-Through Deduction [d]</td>
<td>$ (93)</td>
<td></td>
</tr>
<tr>
<td>8. Pass-Through Loss Limitation</td>
<td>$ 16</td>
<td></td>
</tr>
<tr>
<td>Pass-Through Business Only</td>
<td>$ (77)</td>
<td></td>
</tr>
<tr>
<td>Individual Income Only Total</td>
<td>$ 170</td>
<td></td>
</tr>
<tr>
<td>Business (Individual and Corporate Income Tax)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Section 179 Expensing</td>
<td>$ (6)</td>
<td>$ (6)</td>
</tr>
<tr>
<td>10. Simplified Small Business Accounting</td>
<td>$ (7)</td>
<td>$ (7)</td>
</tr>
<tr>
<td>11. Limit on Interest Expense Deduction</td>
<td>$ 12</td>
<td>$ 12</td>
</tr>
<tr>
<td>12. Modified Net Operating Loss Deduction</td>
<td>$ 6</td>
<td>$ 6</td>
</tr>
<tr>
<td>Other (net) [c]</td>
<td>$ 5</td>
<td>$ 5</td>
</tr>
<tr>
<td>Business (Individual and Corporate Income Tax) Total</td>
<td>$ 10</td>
<td>$ 10</td>
</tr>
<tr>
<td>Corporate Income Tax Only</td>
<td></td>
<td></td>
</tr>
<tr>
<td>13. Deduction for Foreign-source Dividends</td>
<td>$ (6)</td>
<td></td>
</tr>
<tr>
<td>14. Treatment of Deferred Foreign Income</td>
<td>$ 17</td>
<td></td>
</tr>
<tr>
<td>Other (net) [c]</td>
<td>$ 4</td>
<td></td>
</tr>
<tr>
<td>Corporate Income Tax Only Total</td>
<td></td>
<td>$ 15</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$ 180</td>
<td>$ 25</td>
</tr>
</tbody>
</table>

Notes:
Details may not add to totals due to rounding.
Estimates are based upon a combination of estimates by the Joint Committee on Taxation and estimates by RFA staff based upon additional information from the S.C. Department of Revenue, analysis of S.C. individual income tax returns, and input from subject matter experts.
Each estimate includes interactions from other changes.
[a]- Impact specific to SC; Estimate by RFA
[b]- Increases above revenue threshold of ± 0.1% of revenue in year 2
[c] - Net impact of items impacting less than ± 0.1% of state income tax revenue
[d] - Estimate assumes the deduction will impact S.C. active trade or business income

S.C. Revenue and Fiscal Affairs Office – January 29, 2018 15
SOUTH CAROLINA STATE INDIVIDUAL INCOME TAX LIABILITY IMPACT
Tax Year 2018 - Projected Impact of Federal Tax Changes
Percentage of Returns

<table>
<thead>
<tr>
<th>Tax Year 2018</th>
<th>Percentage of Returns</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decreased Tax Liability</td>
<td>31%</td>
</tr>
<tr>
<td>Increased Tax Liability</td>
<td>27%</td>
</tr>
<tr>
<td>Unchanged</td>
<td>42%</td>
</tr>
<tr>
<td>Zero Tax Liability</td>
<td>43%</td>
</tr>
</tbody>
</table>

S.C. Revenue and Fiscal Affairs LHJ/01/29/2018
SOUTH CAROLINA STATE INDIVIDUAL INCOME TAX LIABILITY IMPACT

Tax Year 2018 - Projected Impact of Federal Tax Changes

Percent of Returns with Decrease, Increase, or No Change

Federal Adjusted Gross Income, Tax Year 2018

- Tax Decrease # of Returns
- Tax Increase # of Returns
- No Tax Change # of Returns

S.C. Revenue and Fiscal Affairs LHJ/01/29/2018
TOTAL STATE INDIVIDUAL INCOME TAX LIABILITY
Tax Year 2018 - Projected Impact of Federal Tax Changes

Federal Adjusted Gross Income Range

- State Tax Liability (Before TCJA)
- State Tax Liability (After TCJA)
STATE INDIVIDUAL INCOME TAX LIABILITY CHANGE
Tax Year 2018 - Projected Impact of Federal Tax Changes
COMPONENTS OF STATE INDIVIDUAL INCOME TAX LIABILITY CHANGE
Tax Year 2018 - Projected Impact of Federal Tax Changes

Federal Adjusted Gross Income Range

- Net Tax Liability
- Increase in Tax
- Decrease in Tax

S.C. Revenue and Fiscal Affairs LHI/01/29/2018
“Aid-to-Subs”
and
Other Reimbursements
LOCAL GOVERNMENT FUND

Actual vs Formula
AID TO SUBDIVISIONS APPROPRIATIONS - FORMULA FUNDING

Separate Taxes

Local Government Fund (LGF)

Source: RFA, 194A, JCS, 10/3/17
AID TO SUBDIVISIONS APPROPRIATIONS - FORMULA FUNDING
Percent of Previous Fiscal Year's Actual General Fund Revenue

Source: RFA, 194B, JCS, 10/6/17
LOCAL GOVERNMENT FUND
Comparison of Actual Funding to Statutory Formula

FY 00  FY 01  FY 02  FY 03  FY 04  FY 05  FY 06  FY 07  FY 08  FY 09  FY 10  FY 11  FY 12  FY 13  FY 14  FY 15  FY 16  FY 17  FY 18  FY 19 e

Actual LGF History  Statutory 4.5% Formula

FY 19: Estimated difference of $118.6 million

Source: S.C Revenue and Fiscal Affairs Office - 193/lpw/10/4/17
ESTIMATED IMPACT ON LOCAL GOVERNMENT FUND FOR COUNTIES
Change from 2010 Census vs 2016 Estimates

Note: Local Government Fund estimates are based upon recurring funds of $222,619,411 as ratified by the General Assembly on June 6, 2017. The population figures are based on 2010 U.S. Census Bureau data and 2016 U.S. Census population estimates.

Source: S.C. Revenue and Fiscal Affairs Office - 192A-lpw/7/19/17
TAX RELIEF

Tier I  Tier II  Tier III
Property Tax Relief Fund

- Tier I  ($100,000 school operating)
- Tier II (65+ : School and County/City
- Manufacturer’s Depreciation
- Manufacturer’s Exemption
- Merchant’s Inventory

Tier III – Hex Penny/Homeowner Exemption
FY 2017-18 TAX RELIEF TRUST FUND

Source: RFA, JCS, 205-2, 1/26/2018
Trust Fund For Property Tax Relief
Residential Exemption (Tier I), Homestead Exemption (Tier II), Manufacturer's Depreciation,
*Manufacturer's Exemption, and Merchants Inventory Reimbursements


Source: SC Revenue and Fiscal Affairs Office MKG 73-11/09/2017
TRUST FUND FOR PROPERTY TAX RELIEF
Residential Exemption (Tier I), Homestead Exemption (Tier II), Manufacturer's Depreciation,
*Manufacturer's Exemption, and Merchants Inventory Reimbursements


Source: SC Revenue and Fiscal Affairs Office MKG 11/09/2017
TIER I

$100,000 Residential Property Tax Exemption

Note: Tier I capped at $249,069,750

Source: SC Revenue and Fiscal Affairs Office MKG 11/09/2017
Tier II
65 and Over $50,000 Homestead Exemption Reimbursement

Note: School Operations is capped at $80,892,728.71

Source: SC Revenue and Fiscal Affairs Office MKG 11/09/2017
MANUFACTURERS' REIMBURSEMENTS
Manufacturers' Depreciation Reimbursement and Manufacturers' Exemption

Source: SC Revenue and Fiscal Affairs Office MKG 11/09/2017
MERCHANDS INVENTORY TAX EXEMPTION

(Millions of Dollars)

Note: Merchant's Inventory Tax Exemption was capped at $40,557,257

Source: SC Revenue and Fiscal Affairs Office MKG 11/09/2017
Note: Tier III Expenditure includes lease purchase lawsuit revisions.

Source: SC Revenue and Fiscal Affairs Office MKG 11/09/2017
Note: Tier III Expenditure includes $2.5M minimum disbursements and lease purchase lawsuit revisions. Revenue projection based upon 11/09/2017 BEA forecast.