



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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Bill Number: H. 3985 Introduced on February 14, 2019
Author: Lucas
Subject: Income Tax Conformity
Requestor: House Ways and Means
RFA Analyst(s): Jolliff
Impact Date: February 20, 2019

Fiscal Impact Summary

This bill will not impact expenditures for the General Fund, Federal Funds, or Other Funds. In addition, we expect that updating Internal Revenue Code (IRC) conformity through the end of 2018 will have no impact on General Fund income tax revenue in FY 2019-20.

Explanation of Fiscal Impact

Introduced on February 14, 2019

State Expenditure

This bill requires the Department of Revenue to administer any tax form or instruction changes from updating South Carolina's conformity to the IRC through December 31, 2018. These activities are a continuation of existing agency responsibilities and will not have an expenditure impact on the General Fund, Federal Funds, or Other Funds.

State Revenue

This bill updates South Carolina's conformity to the IRC through December 31, 2018. Recently, Act 266 of 2018 conformed to changes through February 8, 2018, including the Bipartisan Budget Act of 2018. No other federal acts affecting income taxes were passed in 2018.

In addition, this bill proactively adopts any expired provisions of the federal code that are extended, but not otherwise amended, by congressional enactment during 2019. This contingency addresses the twenty-six federal provisions that expired at the end of 2017 and two that expired in 2018. Congress may adopt these provisions retroactively, which has occurred annually in recent years. Research by the Department of Revenue (DOR) suggests that six of the provisions that expired at the end of 2017 potentially will impact South Carolina taxable income and these provisions are noted in the table below. These provisions were most recently extended through December 31, 2016, in the Bipartisan Budget Act of 2018. The two provisions that expire in 2018 do not affect South Carolina taxable income.

If Congress does not reinstate these provisions, the resulting increase in South Carolina taxable income would increase General Fund income tax revenue by \$5,501,000 in FY 2019-20. This revenue impact will occur whether or not the General Assembly enacts legislation to update the IRC conformity through December 31, 2018, because the provisions and expirations are already adopted by previous conformity legislation. The table below provides a brief summary of the provisions, including their expected \$5,501,000 revenue impact on General Fund income tax revenue in FY 2019-20 if Congress retroactively enacts them in 2019.

When the Board of Economic Advisors (BEA) set the initial forecast for FY 2019-20 in November 2018, the expectation was that Congress would extend these expiring federal tax provisions. The BEA General Fund forecast included the revenue impact of extending these provisions as part of the income tax base since most of these provisions have been in effect for many years. The BEA will monitor this situation and any adjustment to the FY 2019-20 revenue forecast will be addressed later in the legislative session based on any federal or state legislation.

	Expired 2017 Federal Tax Provisions Under Consideration by Congress	First Enacted	Potential Impact
1	Discharge of indebtedness on principal residence excluded from gross income of individuals	2007	\$ 2,050,000
2	Premiums for mortgage insurance deductible as interest that is qualified residential interest	2006	\$ 1,265,000
3	Deduction for qualified tuition and related expenses	1978	\$ 1,874,000
4	Seven-year recovery period for certain motorsports racing facilities	2004	\$ 58,000
5	Special expensing rules for certain film and television productions	2004	\$ 39,000
6	Change the depreciation classification for race horses that are two years old or younger from seven-year property to three-year property	2008	\$ 215,000
	Total		\$ 5,501,000

Local Expenditure

N/A

Local Revenue

N/A

Frank A. Rainwater, Executive Director