Statement of Estimated State Revenue Impact

Date: February 4, 2013

Bill Number: S.B. 57

Author: Campsen

Committee Requesting Impact: Senate Finance Committee

Bill Summary

A bill to amend the Code of Laws of South Carolina, 1976, 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 $14,000,000 in FY2013-14. This bill would also reduce General Fund income tax revenue by an estimated $16,802,151 in FY2014-15, of $20,053,591 in FY2015-16, of $23,790,423 in FY2016-17, of $28,077,529 in FY2017-18, of $32,987,943 in FY2018-19, of $38,603,843 in FY2019-20, of $45,017,644 in FY2020-21, of $52,333,235 in FY2021-22, and an estimated $60,667,351 in FY2022-23.

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 2013 and for the next ten succeeding tax years. Net capital gains would be wholly tax exempt in tax year 2022 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 $1,880,700,000 in tax year 2009. As the economy recovers, we expect net capital gain income to resemble a pattern similar to levels in the decade before the last recession where annual net capital gain income averaged 10.1% growth per year between tax years 1997 to 2007. The deduction from state taxable income increases to 49.6% of net capital gains beginning in tax year 2013. Multiplying $3,565,900,000 of net capital gain income by an exclusion of 49.6% and a marginal tax rate of seven percent yields an estimated $125,800,000 of General Fund income tax revenue in FY2013-14. This figure is an estimated $14,000,000 lower than under the current deduction of 44% from taxable income.

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Continuing the same analysis for the next nine tax years yields an incremental reduction in General Fund income tax revenue of an estimated $16,802,151 in FY2014-15, of $20,053,591 in FY2015-16, of $23,790,423 in FY2016-17, of $28,077,529 in FY2017-18, of $32,987,943 in FY2018-19, of $38,603,843 in FY2019-20, of $45,017,644 in FY2020-21, of $52,333,235 in FY2021-22, and an estimated $60,667,351 in FY2022-23.

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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.