



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE

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FY 2024-25 and FY 2025-26 General Fund Revenue Forecasts *Continued Growth in SC's Economy Produces Additional Revenue*

COLUMBIA – The South Carolina Board of Economic Advisors (BEA) issued an updated forecast for the current fiscal year, FY 2024-25 (FY 25), and an initial forecast for the following year, FY 2025-26 (FY 26), at its meeting Tuesday, November 19, 2024.

In the meeting, the BEA noted that General Fund revenues are growing slightly faster than anticipated in May. According to economic data released since the May forecast, personal income, the primary driver of revenue collections, has continued to grow faster than expected, leading to higher income tax withholdings, consumer buying power, and revenue collections. Based on analysis by staff and perspectives shared by the BEA's panel of economists, South Carolina's personal income and employment are expected to grow through the current fiscal year and into the next, although growth is expected to slow from the above-average rates experienced in recent fiscal years.

For FY 25, the BEA increased its estimate by \$297.2 million to \$13.65 billion. The revised forecast represents an increase of 2.2 percent over the May forecast but is a slight decline of 0.4 percent from last fiscal year due to income tax cuts and a cautious estimate for corporate income tax that is lower than last year's collections. Faster wage growth in personal income led to an increase in withholdings expectations, adding \$93.2 million to forecasted revenue. However, this increase was offset by the individual income tax rate cut for tax year 2024 totaling approximately \$180.2 million, resulting in a \$43.1 million decline in projected total individual income tax. The tax rate reduction included in the FY 25 budget lowered the top marginal tax rate from 6.4 percent to 6.2 percent for tax year 2024. The main upward revisions to the forecast driving the increase in projected revenue occurred in corporate income tax, bringing this category closer to last year's collections, and earnings on investments, which is now expected to exceed last year. These two categories accounted for \$108.8 million and \$200.0 million of the increase respectively, offsetting the individual income tax reduction.

For FY 26, the BEA issued a forecast of \$13.98 billion, reflecting expected growth of 2.5 percent, or \$334.7 million, over the revised FY 25 forecast. Personal income growth is

expected to slow from 5.7 percent in FY 25 to 4.6 percent in FY 26, which is just below the historical pre-pandemic average of 4.9 percent from 2010 to 2019. Recent trends in labor market dynamics indicate slower wage growth, a key component of personal income, as the total labor force is growing faster than total employment.

Correspondingly, growth in the major revenue categories is expected to be slightly below historical averages as a result. Further, the board continues to be mindful of potential challenges to the economy and will continue monitoring economic conditions that may impact the forecast.

With these new estimates, the budget outlook for the next legislative session remains positive. The revised estimate for FY 25 results in an expected budgetary surplus of \$421.2 million for this fiscal year. This projected surplus combined with the FY 2023-24 surplus of \$331.6 million and the FY 25 Capital Reserve Fund of \$369.8 million available currently result in a total of \$1.12 billion in one-time funds available to appropriate for non-recurring purposes.

Growth in the FY 26 revenue forecast over the budget base is sufficient to enact the next individual income tax rate reduction from 6.3 percent to 6.2 percent for tax year 2025, which will impact available revenue for the FY 26 budget. By temporary proviso, the FY 25 budget lowered the tax rate for tax year 2024 an additional 0.1 percent to 6.2 percent ahead of the statutorily scheduled reduction. This rate change for 2025 enacted by the projected growth in revenue will maintain the tax rate at 6.2 percent currently in effect. After accounting for contributions to the Tax Relief Trust Fund, General Reserve and Capital Reserve Funds, and the tax rate change, new recurring funding of \$533.5 million will be available to appropriate during the upcoming FY 26 budget process. Additional explanation can be found in the BEA’s meeting materials, which are posted on the agency’s website at www.rfa.sc.gov.

FY 2025-26 Budget Outlook
(Millions of Dollars)

Net New Recurring General Fund Revenue - FY 2025-26 <i>(Less Tax Relief Trust Fund, General Reserve Fund, and Capital Reserve Fund contributions and incremental income tax rate reduction)</i>	\$533.5
Non-Recurring Revenue	
FY 2023-24 Contingency Reserve Fund <i>(prior year surplus)</i>	\$331.6
FY 2024-25 Capital Reserve Fund	\$369.8
Projected FY 2024-25 General Fund Surplus	\$421.2
Total Non-Recurring Revenue	\$1,122.6
Estimated Additional Revenue for Appropriation	\$1,656.1

(Figures may not add to totals due to rounding)

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Attachment

AVAILABLE FUNDS - FY 2025-26 BUDGET PROCESS as of November 19, 2024

