

BEA Regional Advisory Committee

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Introduction

- Because multiple presenters show the economic data, I often discuss other issues affecting the SC revenues/budget.
- This year I want to focus on a new law enacted in March 2026 that may could have a very large impact on SC revenues and is perhaps more important than it seems for our revenue forecasting process.

Introduction: H. 4216

- H. 4216 adopts a new rate, two-bracket income tax structure starting in tax year 2026 and sets forth an automatic process of lowering the rates until the income tax is eliminated.
- Currently, the individual income tax accounts for 45% of all gross General Fund revenue, making this potentially the most significant issue facing the future of SC tax revenues and forecasts.
- Let's look at some details →

H. 4216 Details

- For tax year 2026 a new two bracket structure:
 - 1.99% (\$0-\$30,000)
 - 5.21% (\$30,000+)
- Base change from federal taxable income to federal AGI (new SC deduction).
- Future automatic income tax cuts starting in tax year 2027:
 - Occur if forecasted income tax revenue growth is at least 5%
 - Apply only to top rate until flat 1.99% rate, then that single rate is reduced.
- The downward adjustment to the tax rate in each year is limited to:
 - Whatever reduction reduces individual income tax revenue by \$200 million, or
 - 25 percent of the recurring income tax ‘revenue surplus’
 - (defined as forecast income tax revenue increase over prior fiscal year)
 - If forecasted income tax revenue growth is 5%+, but less than \$200 million, then the cut is limited to the projected increase in revenue.

RFA Fiscal Impact Statement

The RFA's fiscal impact statement only models the SR impact of the immediate bracket & rate changes: \$308.7m in FY 26-27.

It provides no long-term analysis of the revenue impacts or possible path or timeline to elimination.

I have modelled the long-term impact. My analysis shows H. 4216 contains provisions that create a long timeline for lowering rates, and no path to full elimination.



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE STATEMENT OF ESTIMATED FISCAL IMPACT

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This fiscal impact statement is produced in compliance with the South Carolina Code of Laws and House and Senate rules. The focus of the analysis is on governmental expenditure and revenue impacts and may not provide a comprehensive summary of the legislation.

Bill Number: H. 4216 Signed by Governor on March 30, 2026
Subject: Income Tax
Requestor: House of Representatives
RFA Analyst(s): Jolliff
Impact Date: May 29, 2026

Fiscal Impact Summary

Estimated Fiscal Year Impact of Individual Income Tax Change

Fiscal Year	General Fund Impact
FY 2025-26	(\$16,207,000)
FY 2026-27	(\$308,700,000)

Please note, our estimates of the impact are based on the current income growth assumptions applied to the sample of tax returns with federal tax data from tax year 2024. We have based our updated analysis on the impact that the proposed change would have on tax revenue compared to the current tax rates of 0 percent, 3 percent, and 6 percent.

Let's examine the key issues with H. 4216 →

(1) The cuts will be infrequent and small

- The 25% of revenue surplus rule doesn't apply unless revenue growth exceeds \$800 million (13.3%+ growth), which is highly unlikely based on historical data.
- Thus, when they happen, cuts are limited to \$200 million (3.3% of revenue initially).
 - Note that this is 50% bigger than even the FY26-27 effect of the rate change (\$308.7M)
- Even with everything static and cuts every year, it takes 30 years to eliminate a \$6 billion revenue stream \$200 million at a time. But the base is growing, and cuts don't happen without rapid growth.
- Examples of current provisions in action:
 - 5% or \$300 million forecasted growth:
 - \$200 million cut, \$100 million new revenue, now \$6.1 billion to eliminate in the future.
 - 10% or \$600 million forecasted growth:
 - \$200 million cut, \$400 million new revenue, now \$6.4 billion to eliminate in the future.
- ***To eliminate the tax requires reducing revenue to \$0. Any path to elimination must reduce the \$6 billion revenue stream over time. This is a key point, and it's something the current provisions do not accomplish.***

(2) Cuts are based on forecasted growth, not actual growth

- The 5% growth trigger for a cut is based on forecasted revenue, not actual revenue.
- Actual revenue growth is more variable than forecasts, which also tend to be conservative.
- 5%+ income tax revenue growth (necessary for a cut under H. 4216):
 - Met in 2/3 of the years since FY93-94 in actual realized revenue
 - Met in only 1 of the last 16 years (since FY09-10) in forecasted revenue
 - Also, forecast growth has never met the other 25% trigger of 13%+ growth.
- Thus, even when actual revenue growth provides the available resources to cut rates, they won't happen unless that growth was forecasted, which is very unlikely based on historical revenue forecast data.
- Given how low our forecasts have been relative to actual revenue growth, this points to a possible need to carefully examine and update the forecast model to improve accuracy. This is critically important given an entire stream of tax cuts now depends on whether these estimates are higher or lower than 5%.

(3) \$200 million default cut is not indexed for inflation

- Over time the \$200 million default cut becomes a much smaller percent of the tax base because it is not indexed to inflation.
- This happens both because of inflation eroding the real value and because the revenue base continues to grow.
- This makes the phase-out progressively slower in real terms over the very long time frame this law tries to eliminate the tax.

(4) Additional factors to consider

- Mathematically, as long as the tax base grows faster than tax revenue, tax rates can be reduced even with rising revenue. However, there remains no path to elimination until revenues fall from the prior year.
- Even in simulations with cuts triggered almost every year and very high economic growth, achieving a 1.99% flat rate takes many decades, and never converges to a zero rate within 100 fiscal years.

Alternative Path to Elimination?

- I think it is possible our next Governor may want to accelerate this process of income tax elimination.
- One faster elimination strategy would be to cut rates when *other revenues* in the General Fund (from all sources) have actual growth sufficient to replace the lost revenue from rate reductions in the income tax (opposed to H. 4216 which only cuts income tax rates when income tax revenues grow).
- Other adjustments could accelerate it (tax modernization, use of excess funds as distinct from core reserve funds, etc.).
- But the bottom line for now is that H. 4216 is likely to have little significant effect on SC revenues as it is currently written, although it brings up the question of how to more accurately forecast 5%+ income tax revenue growth rates.

Moving on to the forecast...

- Now... turning to the economic forecasts for FY26-27 and FY27-28. My primary concern is that monetary growth has accelerated in mid 2026 which will spur higher inflation. →



My Thoughts on the Forecasts

These are the BEA estimates you sent us

Fiscal Year	Personal Income	Employment	Inflation
FY 2025-26 Actual	5.2%	0.9%	3.1%
FY 2026-27	4.4% 4.7%	1.3% 1.4%	2.5% 2.9%
FY 2027-28	4.6%	1.2%	2.6%

These are my forecasts:

	SC PI%	SC Empl %	Inflation %
FY 26-27	6.3%	1.7%	3.9%
FY 27-28	6.2%	1.7%	3.9%

Personal Income: I have higher for FY26-27 (6.3% vs 4.7%) and for FY27-28 (6.2% vs 4.6%)

Employment: I have higher for FY26-27 (1.7% vs 1.4%) / higher for FY27-28 (1.7% vs 1.2%)

Inflation: I have higher for FY26-27 (3.9% vs 2.9%) / higher for FY27-28 (3.9% vs 2.6%)

QUESTIONS?

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