

South Carolina Individual Income Tax: Basic Tax Structure and Comparisons

South Carolina Revenue and Fiscal Affairs Office
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South Carolina's Individual Income Tax Structure



SC Income Tax Structure – Definitions of Income

- Adjusted gross income (AGI) is gross income, such as wages or capital gains, minus adjustments to income, such as contributions to a retirement account or student loan interest.
- Most state individual income tax systems are based on federal AGI and have state-specific deductions and exemptions.
- Federal taxable income is federal AGI adjusted for the federal standard deduction or itemized deductions.
- South Carolina adopts the federal standard deduction or itemized deductions (with a few exceptions), and federal taxable income is the starting point for determining South Carolina taxable income.
- Only five states conform to federal taxable income and the federal standard deduction.

SC Tax Structure – State Deductions and Exemptions

South Carolina's other major state deductions contribute to low tax burden

In addition to the standard deduction, SC has other deductions and exemptions, the largest of which are:

- Dependent exemption - as of tax year 2020, \$4,260 can be deducted for each eligible dependent,
- Dependents under six - an additional deduction equal to the dependent deduction can be claimed for each dependent under age six,
- Social Security - Social Security and Railroad Retirement Benefits are excluded from taxable income,
- Age 65 or older - any income up to \$15,000 can be deducted,
- Retirement income - before age 65, a deduction of retirement income of up to \$3,000 can be claimed, and
- Net Capital Gains - 44% of net capital gains can be deducted from income.

SC Income Tax Structure – Recent Changes

- With the Tax Cuts and Jobs Act of 2017, the federal standard deduction was increased significantly, and the personal exemption eliminated.
- South Carolina conformed to this change and implemented a dependent deduction.
- Most state standard deductions are smaller than South Carolina's deductions, but many states still have personal exemptions of varying sizes.
- Most SC returns claim the standard deduction. After federal tax reform, only 9% of SC filers itemized deductions on their federal return in tax year 2018.

Tax Year 2020			
	Single	Married	Head of Household
Standard Deduction	\$12,400	\$24,800	\$18,650
Dependent Deduction	\$4,260	\$4,260	\$4,260
Personal Exemption	None	None	None

SC Tax Structure – Tax Rates and Brackets

- South Carolina applies the following marginal tax rates to taxable income after all deductions and exemptions have been subtracted.

Tax Year 2020	
Tax Bracket	Tax Rate
>\$0	0%
>\$3,070	3%
>\$6,150	4%
>\$9,230	5%
>\$12,310	6%
>\$15,400	7%

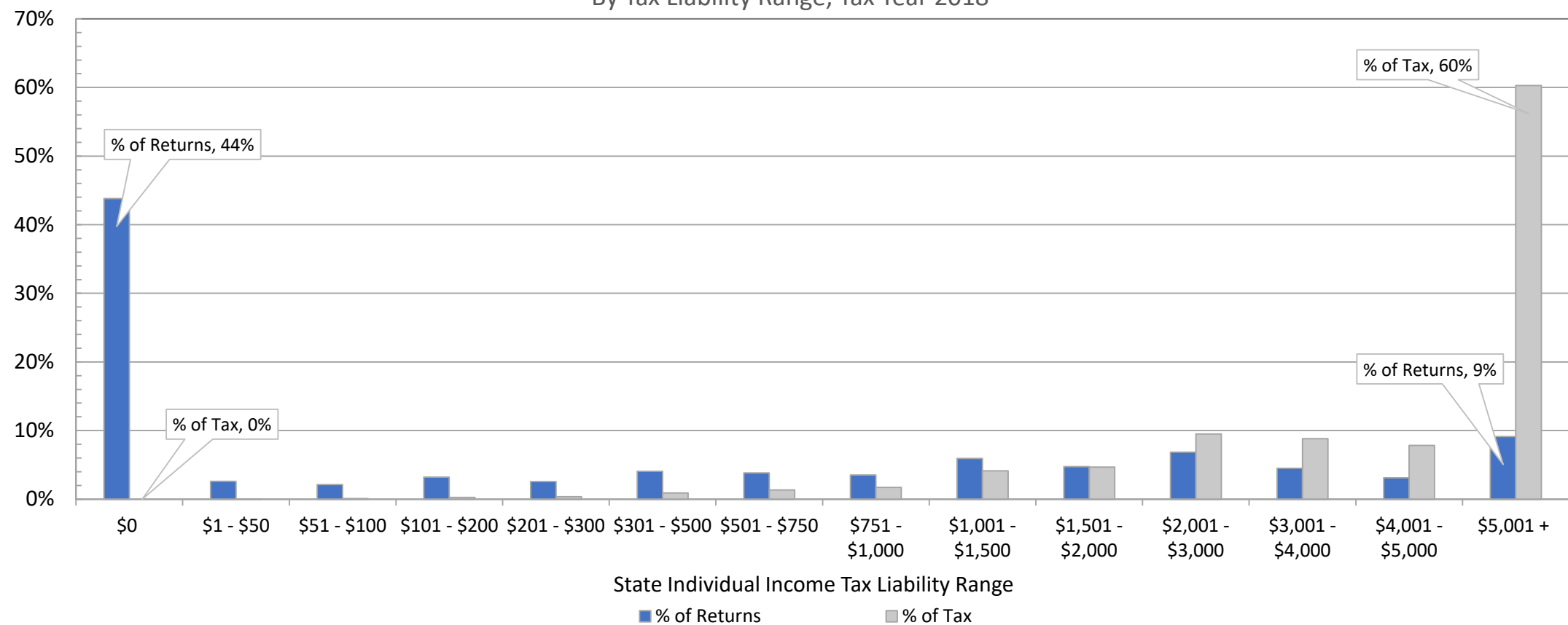
Source: Tax rate and brackets were obtained from 2020 South Carolina state tax forms. Data compiled by the S.C. Revenue and Fiscal Affairs Office.

- South Carolina also allows small businesses to elect a flat 3% tax rate on Active Trade or Business income.

South Carolina Tax Liability

SC’s tax structure results in a wide range of liabilities; a large number of returns, 44%, pay no income tax, whereas 9% of returns pay 60% of the tax

DISTRIBUTION OF STATE INDIVIDUAL INCOME TAX RETURNS AND TAX LIABILITY
By Tax Liability Range, Tax Year 2018



Source: Department of Revenue Individual Income Tax Returns; Calculations by SC Revenue and Fiscal Affairs Office - 131/lhj/1/17/2020

South Carolina Income Tax Burden and Comparisons



Comparing Income Tax Burden Across States

Because states have different levels of income, definitions of taxable income, exemptions, and tax rates, this analysis:

- Highlights the key factors that contribute to the overall individual income tax burden,
- Illustrates how these factors vary by state, and
- Attempts to combine these elements into a single tax burden calculation, as measured by the average effective tax rate.

Key Points for Comparison

- Forty-one states impose a broad-based individual income tax, two impose an individual income tax on dividends and interest, and seven impose no individual income tax.
- Top marginal tax rates around the country range from 2.9% to 13.3%, but deductions, exemptions, and brackets vary widely.
- Each state's deductions, exemptions, and the resulting taxable income can result in different levels of tax liability at similar marginal rates.
- Average effective tax rates, as measured by federal adjusted gross income (AGI) compared to final tax liability, allow for a better comparison of the tax burden in each state.
- As will be explained, South Carolina has a relatively low individual income tax burden as measured by the average effective tax rate, ranking as the tenth lowest in tax year 2018.
- South Carolina's zero tax bracket and overall tax structure contribute to the state's smaller effective tax burden.

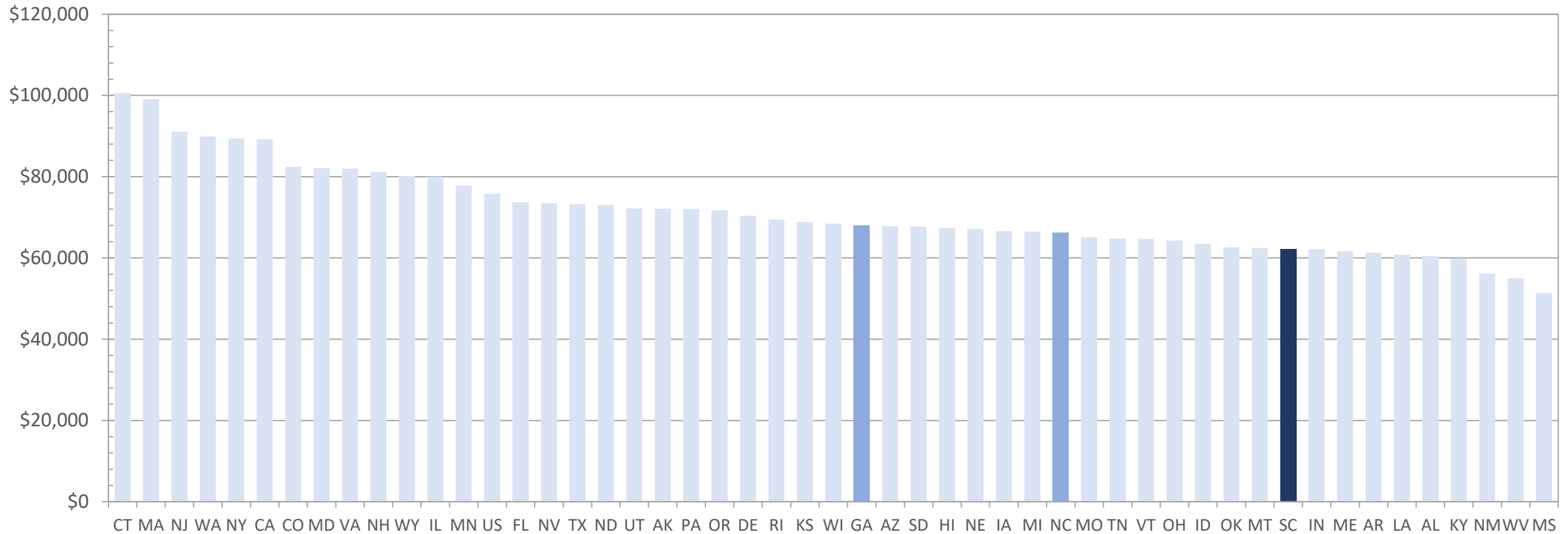
Federal Adjusted Gross Income by State



Average Federal AGI

South Carolina had the 10th lowest average AGI per return in 2018

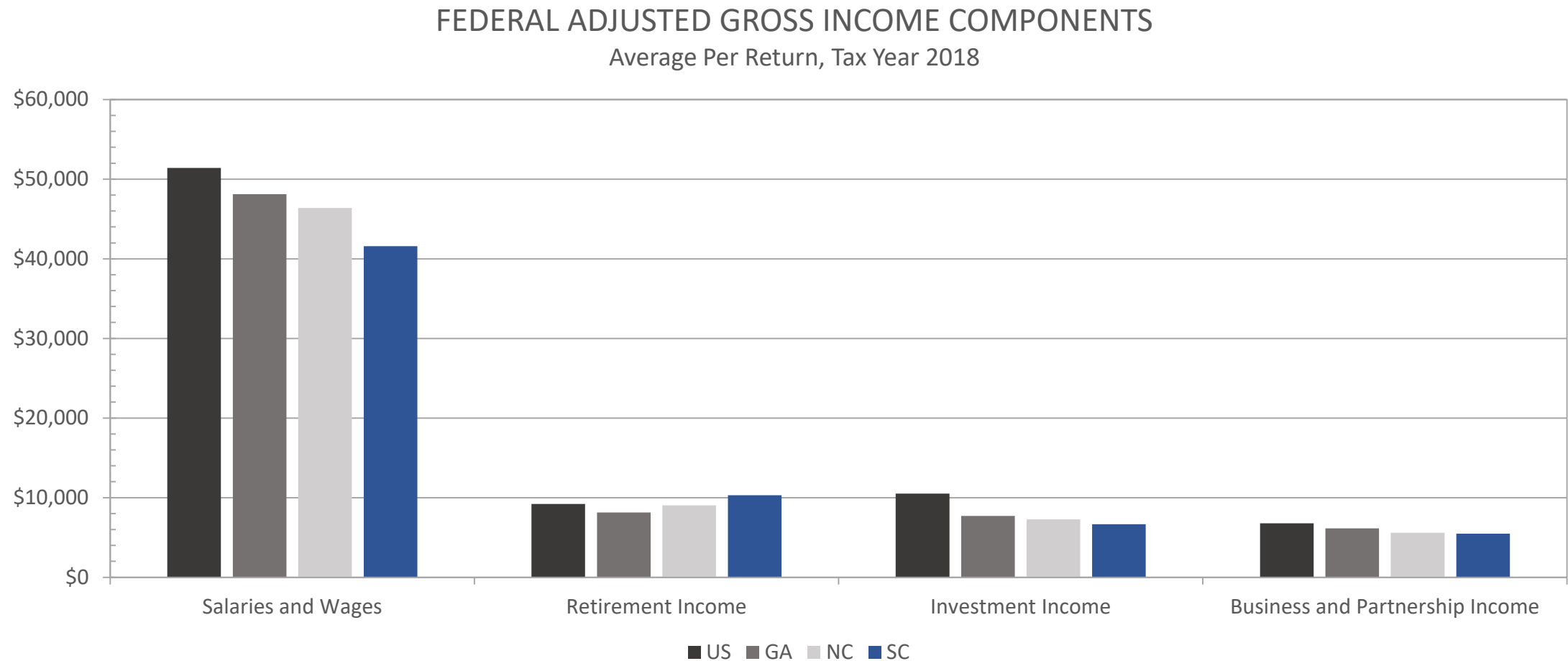
AVERAGE FEDERAL AGI PER TAX RETURN
for Tax Year 2018



Source: IRS, Statistics of Income Division, Individual Master File System, August 2020. Calculations by the S.C. Revenue and Fiscal Affairs Office.

Average AGI Components

South Carolina average income lags in all categories except retirement income; the state's retirement income deduction is especially important in reducing the overall tax burden



Source: IRS, Statistics of Income Division, Individual Master File System, August 2020. Calculations by the S.C. Revenue and Fiscal Affairs Office.

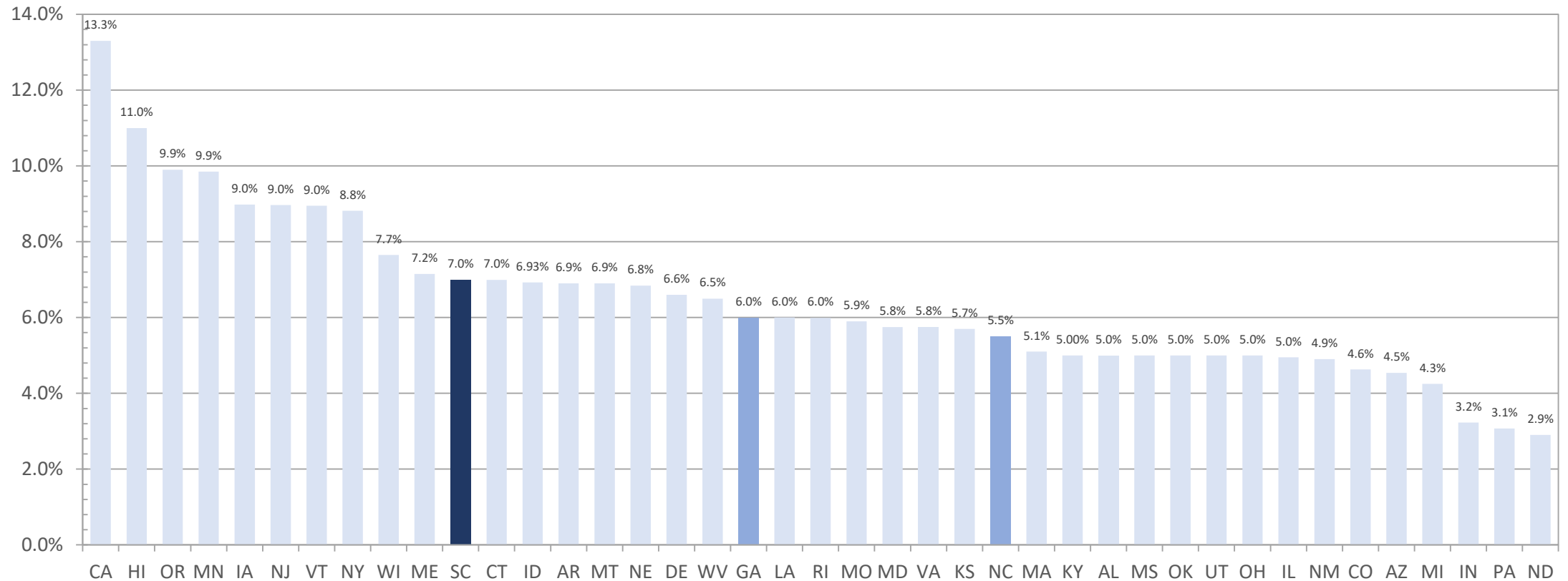
State Marginal Income Tax Rates



State Top Marginal Income Tax Rates

South Carolina had the 11th highest top marginal individual income tax rate in 2018

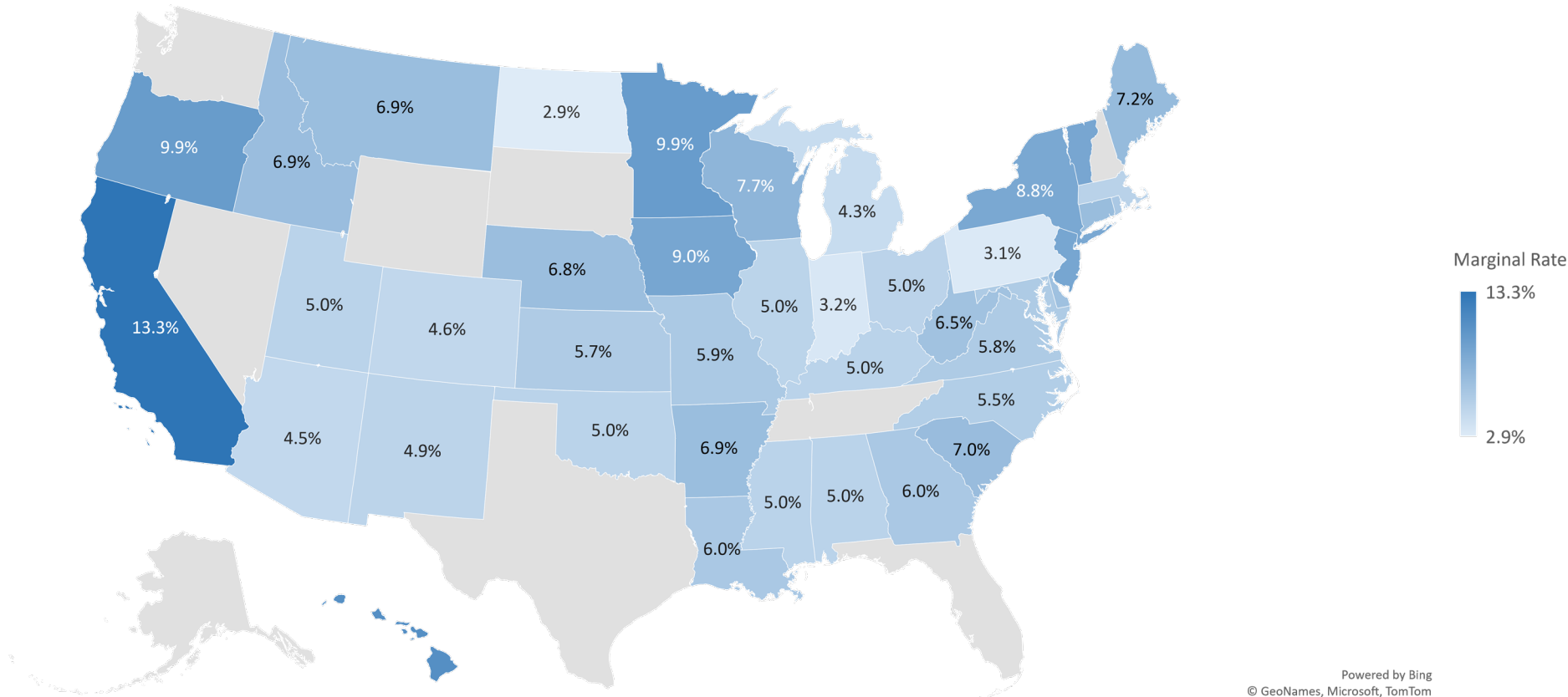
HIGHEST STATE MARGINAL INDIVIDUAL INCOME TAX RATES
for Tax Year 2018



Source: The Federation of Tax Administrators from various sources. Note: Tax rates shown are for 2018 for consistency with the effective tax rates. For later comparisons, GA top tax rate for 2020 is 5.75%; NC top tax rate for 2020 is 5.25%

State Top Marginal Income Tax Rates

HIGHEST STATE MARGINAL INDIVIDUAL INCOME TAX RATES
for Tax Year 2018



Source: The Federation of Tax Administrators from various sources. Note: Tax rates shown are for 2018 for consistency with the effective tax rates. For later comparisons, GA top tax rate for 2020 is 5.75%; NC top tax rate for 2020 is 5.25%

State Average Effective Tax Rates



Average Effective Income Tax Rates

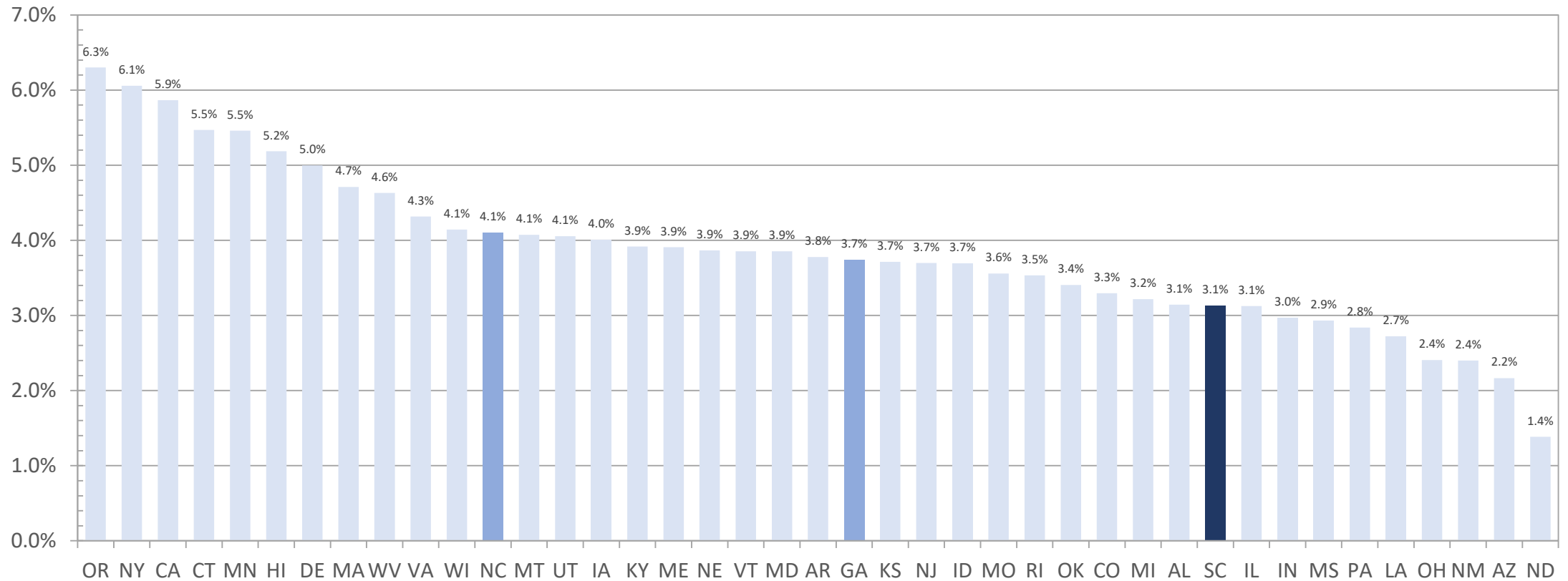
Effective rates provide a method to compare the tax burden across states

- Due to widely varying state deductions, exemptions, and tax brackets, marginal tax rates may not represent the true tax burden across states.
- Effective tax rates can be used to more accurately compare income tax liabilities relative to total income across states.
- A state's average effective tax rate is calculated as total state income tax liability divided by total federal adjusted gross income.

State Average Effective Income Tax Rates

South Carolina's effective individual income tax burden falls below neighboring states

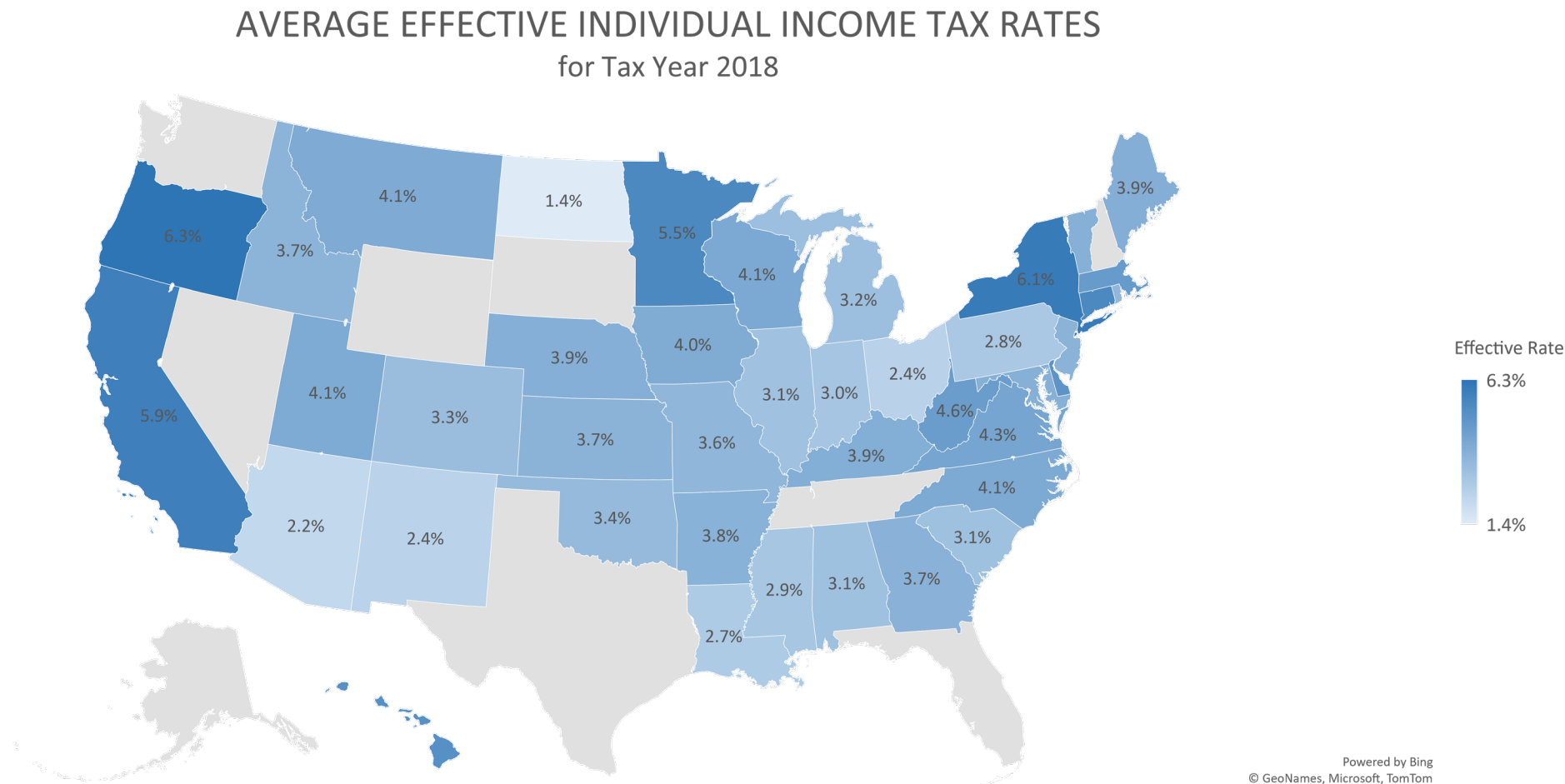
STATE AVERAGE EFFECTIVE INDIVIDUAL INCOME TAX RATES
for Tax Year 2018



Source: IRS, Statistics of Income Division, Individual Master File System, Tax Year 2018 returns. Calculations by the S.C. Revenue and Fiscal Affairs Office.



State Average Effective Income Tax Rates



Source: IRS, Statistics of Income Division, Individual Master File System, Tax Year 2018 returns. Calculations by the S.C. Revenue and Fiscal Affairs Office.

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State Income Tax Liability Comparisons



State Tax Liability Comparisons– SC, GA, and NC

- South Carolina's neighboring states, Georgia and North Carolina, have very different tax structures that can result in a higher or lower tax liability, depending on a taxpayer's filing status and income level.
- While there's not an “average” taxpayer, the following examples show a comparison of the tax liability for SC, GA, and NC at \$50,000 of income for different filing statuses.
- Notably, the comparison of the tax burden changes at different levels of income, and SC can have a higher or lower tax liability relative to GA and NC.

Tax Liability Comparison – Tax Year 2020

Married Filing Jointly Family of Four with AGI of \$50,000

South Carolina		
Adjusted Gross Income	\$50,000	
Standard Deduction	(\$24,800)	
Dependent Deduction	(\$8,520)	
Taxable Income	\$16,680	
Tax Bracket	Tax Rate	Tax Liability
>\$0	0%	\$0
>\$3,070	3%	\$92
>\$6,150	4%	\$123
>\$9,230	5%	\$154
>\$12,310	6%	\$185
>\$15,400	7%	\$90
Total	\$644	
Effective Tax Rate	1.29%	

Georgia		
Adjusted Gross Income	\$50,000	
Standard Deduction and Personal Exemption	(\$13,400)	
Dependent Deduction	(\$6,000)	
Taxable Income	\$30,600	
Tax Bracket	Tax Rate	Tax Liability
>\$0	1%	\$10
>\$1,000	2%	\$40
>\$3,000	3%	\$60
>\$5,000	4%	\$80
>\$7,000	5%	\$150
>\$10,000	5.75%	\$1,185
Total	\$1,525	
Effective Tax Rate	3.05%	

North Carolina		
Adjusted Gross Income	\$50,000	
Standard Deduction	(\$21,500)	
Dependent Deduction	(\$4,000)	
Taxable Income	\$24,500	
Tax Bracket	Tax Rate	Tax Liability
>\$0	5.25%	\$1,286
Total	\$1,286	
Effective Tax Rate	2.57%	

Source: Tax rate and brackets for each state were obtained from 2020 state tax forms. Data compiled by the S.C. Revenue and Fiscal Affairs Office. Note: Marginal tax rates in Georgia and North Carolina have changed slightly since 2018. Rates from 2018 were used in previous charts.



Tax Liability Comparison – Tax Year 2020

65+ Single with AGI of \$50,000, including \$10,000 in federally taxable Social Security benefits and \$20,000 in retirement income*

South Carolina		
Adjusted Gross Income	\$50,000	
Standard Deduction	(\$12,400)	
Federally taxable Social Security Deduction	(\$10,000)	
65 and Older Retirement Income Deduction	(\$15,000)	
Taxable Income	\$12,600	
Tax Bracket	Tax Rate	Tax Liability
>\$0	0%	\$0
>\$3,070	3%	\$92
>\$6,150	4%	\$123
>\$9,230	5%	\$154
>\$12,310	6%	\$17
>\$15,400	7%	\$0
Total	\$386	
Effective Tax Rate	0.77%	

Georgia		
Adjusted Gross Income	\$50,000	
Standard Deduction (65+) and Personal Exemption	(\$8,600)	
Federally taxable Social Security Deduction	(\$10,000)	
Retirement Income Exclusion*	(\$20,000)	
Taxable Income	\$11,400	
Tax Bracket	Tax Rate	Tax Liability
>\$0	1%	\$8
>\$750	2%	\$30
>\$2,250	3%	\$45
>\$3,750	4%	\$60
>\$5,250	5%	\$87
>\$7,000	5.75%	\$253
Total	\$483	
Effective Tax Rate	0.97%	

North Carolina		
Adjusted Gross Income	\$50,000	
Standard Deduction	(\$10,750)	
Federally taxable Social Security Deduction	(\$10,000)	
Taxable Income	\$29,250	
Tax Bracket	Tax Rate	Tax Liability
>\$0	5.25%	\$1,536
Total	\$1,536	
Effective Tax Rate	3.07%	

Source: Tax rate and brackets for each state were obtained from 2020 state tax forms. Data compiled by the S.C. Revenue and Fiscal Affairs Office. Note: Marginal tax rates in Georgia and North Carolina have changed slightly since 2018. Rates from 2018 were used in previous charts.
 *Georgia retirement income exclusion: \$16,000 in taxable pensions and \$4,000 in eligible earned income.



Tax Liability Comparison – Tax Year 2020

Single with AGI of \$50,000

South Carolina		
Adjusted Gross Income		\$50,000
Standard Deduction		(\$12,400)
Taxable Income		\$37,600
Tax Bracket	Tax Rate	Tax Liability
>\$0	0%	\$0
>\$3,070	3%	\$92
>\$6,150	4%	\$123
>\$9,230	5%	\$154
>\$12,310	6%	\$185
>\$15,400	7%	\$1,554
Total		\$2,108
Effective Tax Rate		4.22%

Georgia		
Adjusted Gross Income		\$50,000
Standard Deduction and Personal Exemption		(\$7,300)
Taxable Income		\$42,700
Tax Bracket	Tax Rate	Tax Liability
>\$0	1%	\$8
>\$750	2%	\$30
>\$2,250	3%	\$45
>\$3,750	4%	\$60
>\$5,250	5%	\$87
>\$7,000	5.75%	\$2,053
Total		\$2,283
Effective Tax Rate		4.57%

North Carolina		
Adjusted Gross Income		\$50,000
Standard Deduction		(\$10,750)
Taxable Income		\$39,250
Tax Bracket	Tax Rate	Tax Liability
>\$0	5.25%	\$2,061
Total		\$2,061
Effective Tax Rate		4.12%

Source: Tax rate and brackets for each state were obtained from 2020 state tax forms. Data compiled by the S.C. Revenue and Fiscal Affairs Office. Note: Marginal tax rates in Georgia and North Carolina have changed slightly since 2018. Rates from 2018 were used in previous charts.



Tax Liability Comparison – Tax Year 2020

Head of Household and two dependents with AGI of \$50,000

South Carolina		
Adjusted Gross Income	\$50,000	
Standard Deduction	(\$18,650)	
Dependent Deduction	(\$8,520)	
Taxable Income	\$22,830	
Tax Bracket	Tax Rate	Tax Liability
>\$0	0%	\$0
>\$3,070	3%	\$92
>\$6,150	4%	\$123
>\$9,230	5%	\$154
>\$12,310	6%	\$185
>\$15,400	7%	\$520
Total	\$1,074	
Effective Tax Rate	2.15%	

Georgia		
Adjusted Gross Income	\$50,000	
Standard Deduction and Personal Exemption	(\$7,300)	
Dependent Deduction	(\$6,000)	
Taxable Income	\$36,700	
Tax Bracket	Tax Rate	Tax Liability
>\$0	1%	\$10
>\$1,000	2%	\$40
>\$3,000	3%	\$60
>\$5,000	4%	\$80
>\$7,000	5%	\$150
>\$10,000	5.75%	\$1,535
Total	\$1,875	
Effective Tax Rate	3.75%	

North Carolina		
Adjusted Gross Income	\$50,000	
Standard Deduction	(\$16,125)	
Dependent Deduction	(\$3,000)	
Taxable Income	\$30,875	
Tax Bracket	Tax Rate	Tax Liability
>\$0	5.25%	\$1,621
Total	\$1,621	
Effective Tax Rate	3.24%	

Source: Tax rate and brackets for each state were obtained from 2020 state tax forms. Data compiled by the S.C. Revenue and Fiscal Affairs Office. Note: Marginal tax rates in Georgia and North Carolina have changed slightly since 2018. Rates from 2018 were used in previous charts.



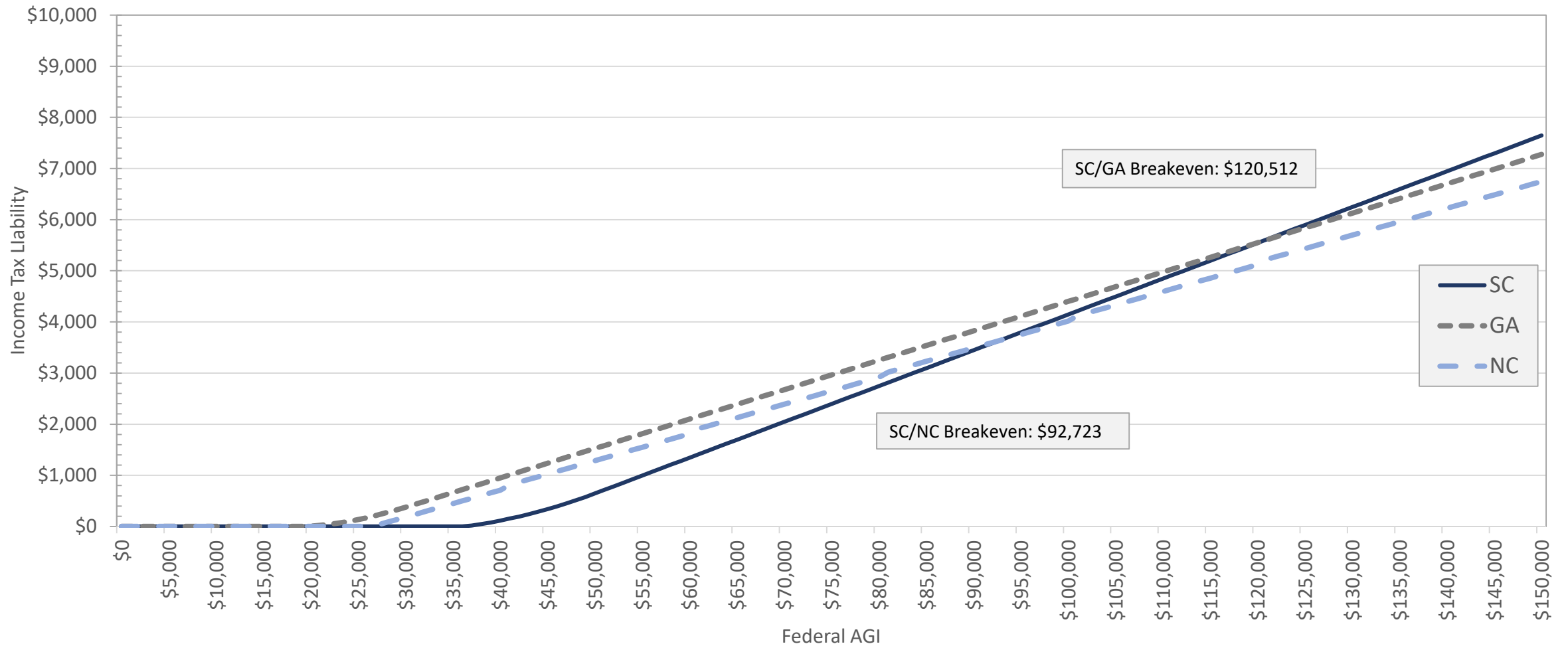
Federal Adjusted Gross Income versus Income Tax Liability

- Additionally, each state's individual income tax liability can be visualized across a range of incomes to better compare each state's tax structure.
- The “breakeven” point refers to the level of AGI at which individual income tax liability is greater in South Carolina than the comparison state, either Georgia or North Carolina.
- Four scenarios are included:
 - Married filing jointly family of four
 - 65+ single with \$10,000 in federally taxable Social Security benefits
 - Single
 - Head of household and two dependents

Tax Liability Comparison – Tax Year 2020

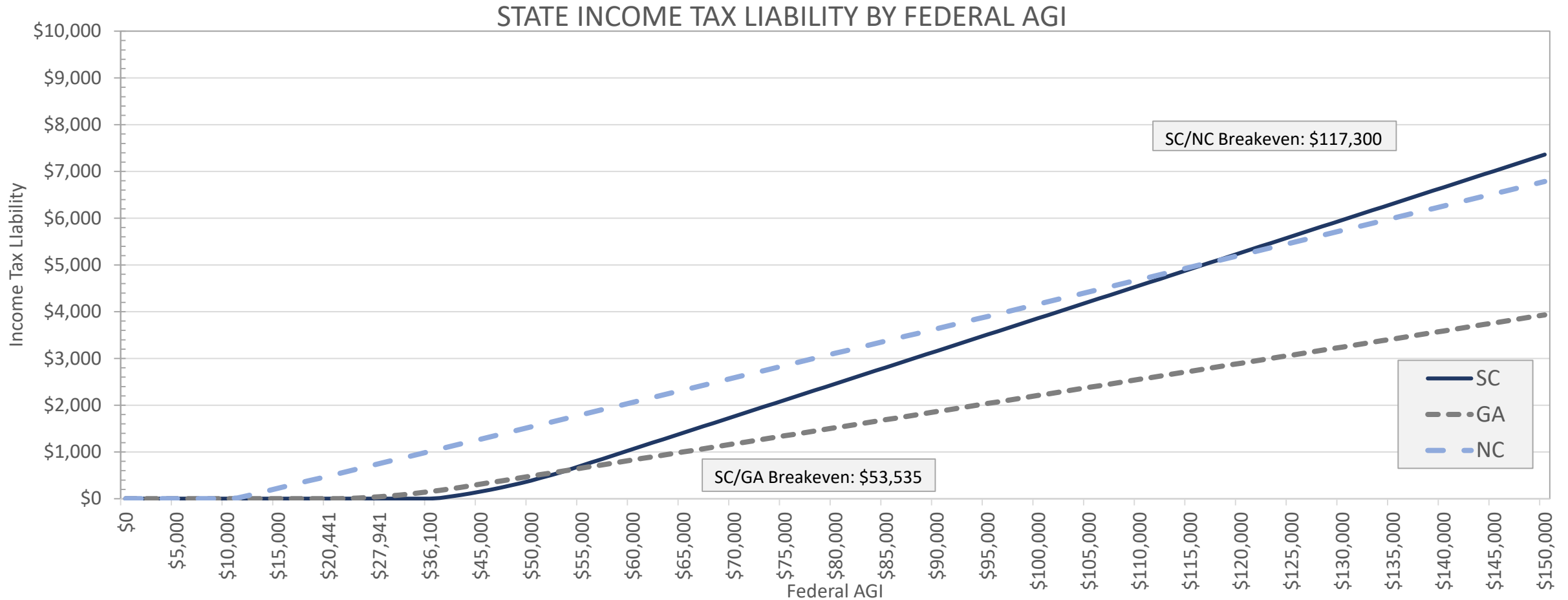
Married filing jointly family of four

STATE INCOME TAX LIABILITY BY FEDERAL AGI



Tax Liability Comparison – Tax Year 2020

65+ single with a maximum of \$10,000 in federally taxable Social Security benefits*

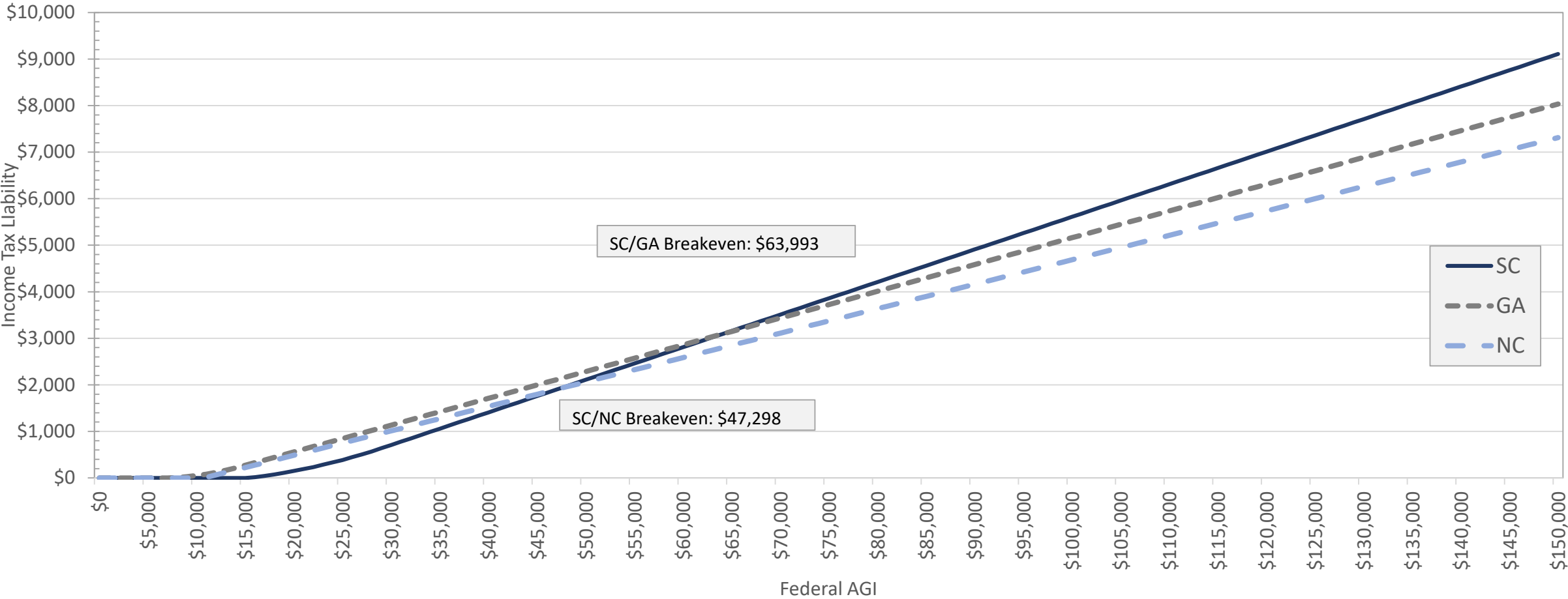


*Assumes 40% of all non-Social Security income comes retirement income and 60% comes from earned income. For Georgia, up to \$65,000 of retirement income, which can include up to \$4,000 in earned income, can be deducted. Social Security income totals \$11,764.71 in this scenario; at most, \$10,000 of this can be taxed at the federal level.

Tax Liability Comparison – Tax Year 2020

Single

STATE INCOME TAX LIABILITY BY FEDERAL AGI



Tax Liability Comparison – Tax Year 2020

Head of household and two dependents

STATE INCOME TAX LIABILITY BY FEDERAL AGI

