



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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Bill Number: S. 1073
Author: Setzler
Subject: State Income Tax Laws and Internal Revenue Code
Requestor: Senate Finance
RFA Analyst(s): Shuford
Impact Date: February 24, 2016

Estimate of Fiscal Impact

	FY 2016-17	FY 2017-18
State Expenditure		
General Fund	\$0	\$0
Other and Federal	\$0	\$0
Full-Time Equivalent Position(s)	0.00	0.00
State Revenue		
General Fund	\$857,900	\$0
Other and Federal	\$0	\$0
Local Expenditure	\$0	\$0
Local Revenue	\$0	\$0

Fiscal Impact Summary

This bill would have no expenditure impact to the General Fund, Federal Funds, or Other Funds. This bill would increase General Fund income tax revenue by \$857,900 in FY 2016-17.

Explanation of Fiscal Impact

State Expenditure

The Department of Revenue anticipates that this bill would have no expenditure impact to the General Fund, Federal Funds, or Other Funds.

State Revenue

This bill updates South Carolina's conformity to the Internal Revenue Code (IRC) through December 31, 2015. Research by the Department of Revenue reports that three federal tax acts enacted in 2015 may have a revenue impact if adopted through this conformity legislation. The table attached provides a brief summary of the 2015 federal tax law changes and their estimated impact on General Fund income tax revenue for FY 2016-17. The following analysis reviews the federal tax provisions amended in 2015 that have a substantial South Carolina revenue impact.

The Surface Transportation and Veterans Health Care Choice Improvement Act of 2015 modifies mortgage information reporting requirements to require the amount of the outstanding principal balance, the address of the property, and the loan origination date. This additional information is intended to increase taxpayer compliance. This act also requires that the fair market value for income tax purposes of a property acquired from a decedent be consistent with

the value as determined for estate tax purposes. This is designed to prevent a taxpayer from overstating the basis of inherited property when it is sold, in many cases years after the estate is closed. This inconsistency in fair market value may reduce the amount of capital gains tax due when the property is sold.

The Bipartisan Budget Act of 2015 clarifies that family partnership rules will not affect the determination of whether a person with a capital interest is a partner. With this federal change, a person with capital interest will be recognized as a partner even if the interest is received by gift as long as the capital is a material income-producing factor in the partnership and the partnership determination would be valid under generally applicable rules.

The Protecting Americans from Tax Hikes Act of 2015 allows a non-corporate taxpayer to exclude from gross income any grant, award, or allowance made pursuant to Section 402 (Clean Coal Power Initiatives) of the Energy Policy Act of 2005. This exclusion is applicable to grants received in tax years beginning after 2011.

All other federal tax law changes impacting South Carolina revenue are itemized in the table on page 3. In summary, we expect that updating conformity in Section 12-6-40(A)(1)(a) through the end of 2015 will increase General Fund income tax revenue by \$857,900 in FY 2016-17.

Local Expenditure

N/A

Local Revenue

N/A

2015 Federal Acts and Provisions with South Carolina Revenue Impacts for S. 1073	FY 2016-17
H.R. 3236: The Surface Transportation and Veterans Health Care Choice Improvement Act of 2015	
<i>II. Revenue Provisions</i>	
3. Modification of mortgage information reporting requirements (SC does not adopt this section, but reporting requirement will increase taxpayer compliance)	\$ 105,200
4. Require consistency between estate tax value and income tax basis of assets acquired from a decedent	\$ 155,050
5. Clarify the 6-year statute of limitations in the case of overstatement basis (SC does not adopt the federal statute of limitations, but does extend SC statute of limitations for federal notice of adjustments)	\$ 34,250
H.R. 1314: The Bipartisan Budget Act of 2015	
<i>XI. Revenue Provisions Related to Tax Compliance</i>	
1. Partnership audits and adjustments	\$ 0
2. Partnership interests created by gift	\$ 551,900
H.R. 2029(2)(Q): Protecting Americans from Tax Hikes Act of 2015	
<i>III. Miscellaneous Provisions</i>	
<i>A. Family Tax Relief</i>	
2. Improvements to Section 529 accounts (Computer technology and equipment permanently allowed as an expense; refunded tuition is expense if re-contributed within 60 days of refund)	(\$ 6,250)
4. Exclusion for wrongfully incarcerated individuals	(\$ 5,000)
<i>B. Real Estate Investment Trusts (“REITs”)</i>	
1. Restriction on tax-free spinoffs involving REITs, including transition rules	\$ 61,900
2. Reduction in percentage limitation on assets of REIT that may be taxable REIT subsidiaries	\$ 0
3. Prohibited transaction safe harbors	\$ 26,400
11. Treatment of certain services provided by taxable REIT subsidiaries	(\$ 1,100)
16. Dividends derived from RICs and REITs ineligible for deduction under United States source portion of dividends from certain foreign corporations	\$ 36,050
<i>C. Additional Provisions</i>	
1. Deductibility of charitable contributions to agricultural research organizations	(\$ 6,226)
6. Church plan clarification	(\$ 3,750)
<i>D. Revenue Provisions</i>	
1. Updated ASHRAE standards for energy efficient commercial buildings deduction	\$ 4,850
3. Exclusion from gross income of certain clean coal power grants to non-corporate taxpayers	(\$ 219,150)
4. Clarify the valuation rule for early termination of certain charitable remainder unitrusts	\$ 54,800
5. Prevention of transfer of certain losses from tax indifferent parties	\$ 67,860
	\$ 857,900

Frank A. Rainwater, Executive Director