

# STATE INDIVIDUAL INCOME TAX COMPARISONS

## REQUESTED BY HOUSE TAX POLICY REVIEW COMMITTEE

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# STATE INDIVIDUAL INCOME TAX COMPARISONS 2012 Report

<http://rfa.sc.gov/econ/reports/econanalysis>



# MAJOR FINDINGS

- Forty-one states impose a broad based individual income tax.
- South Carolina has a relatively low individual income tax burden. Tax burden was the tenth lowest nationwide in tax year 2012.



# STATE AVERAGE EFFECTIVE INDIVIDUAL INCOME TAX RATES

## Tax Year 2012



Sources: State and Local Government Finances by Level of Government and by State: 2102, US Census Bureau and Internal Revenue Service, Statistics of Income Division, Individual Master File System, December 2013. Calculations by the S.C. Revenue and Fiscal Affairs Office.

# MAJOR FINDINGS

## Three Contributing Factors

- South Carolina taxpayers have lower incomes compared to taxpayers in other states.
- Tax deductions, exemptions, and brackets vary. South Carolina allows taxpayers to retain all federal deductions and exemptions and has a zero tax bracket.
- State tax rates vary widely. Top marginal tax rates ranged from 3.07% to 11%.

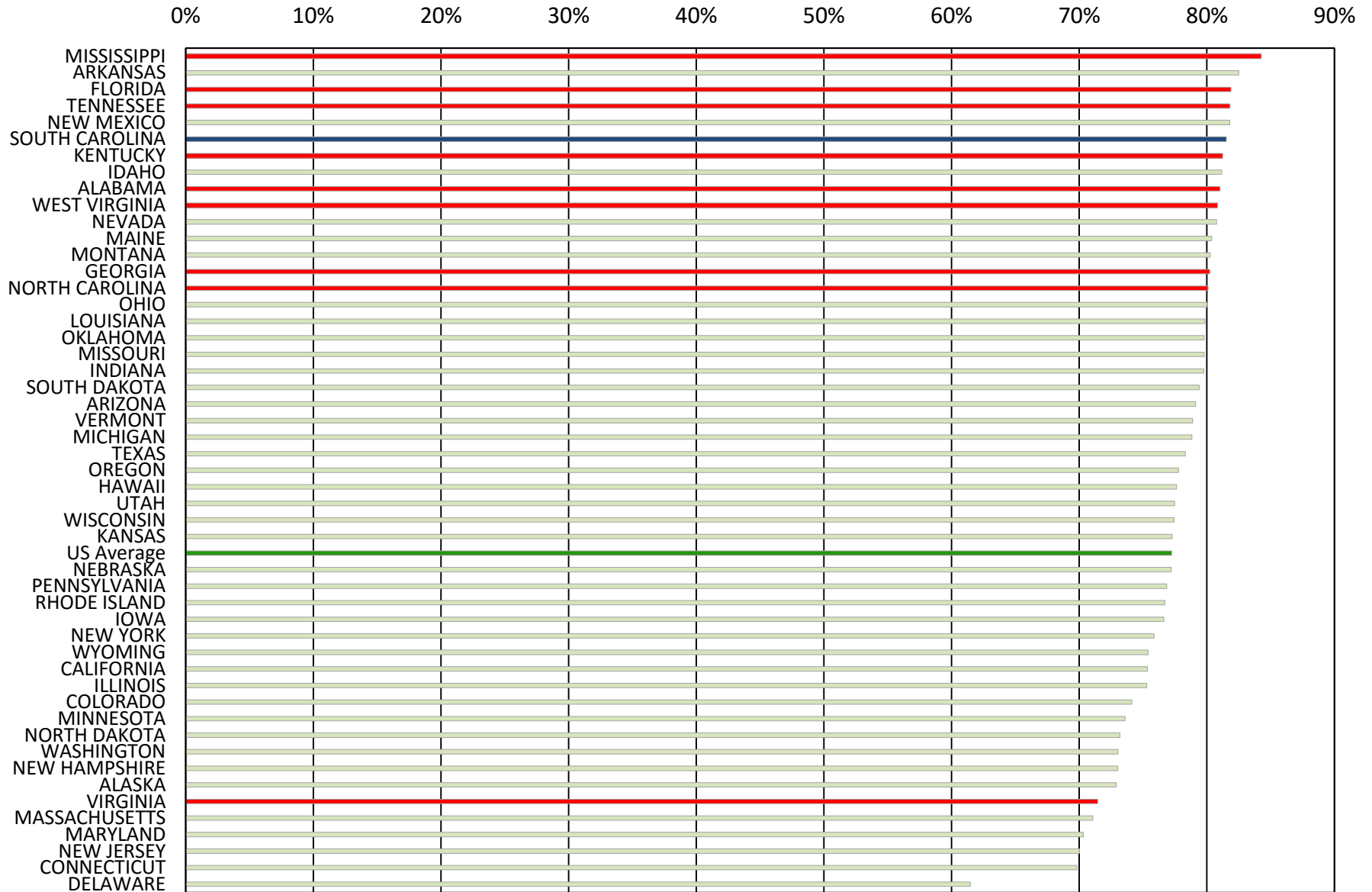


# LOWER FEDERAL ADJUSTED GROSS INCOMES

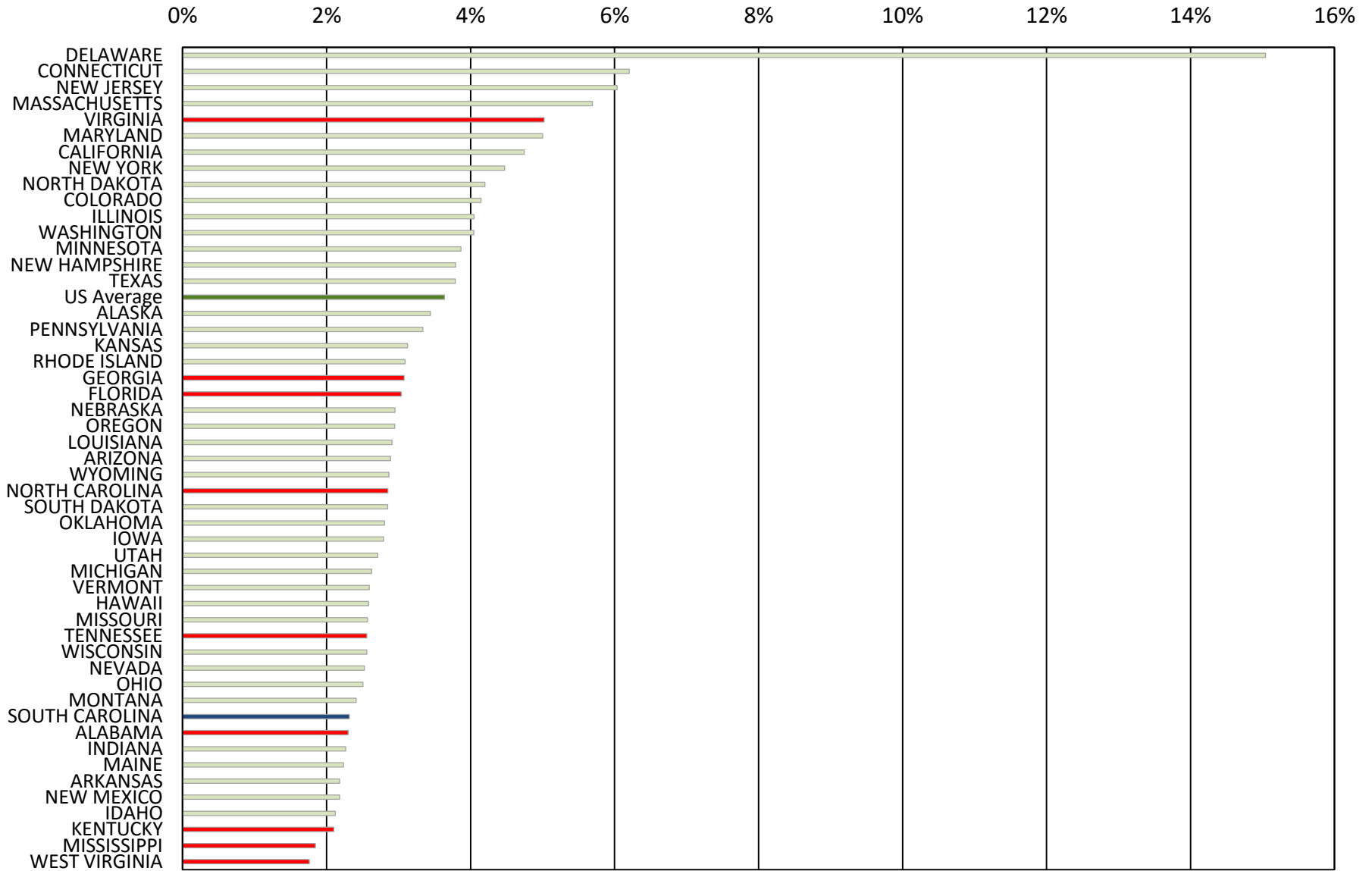


# TAX YEAR 2012 PERCENTAGE OF FEDERAL RETURNS UNDER \$50,000 OF AGI

## By State



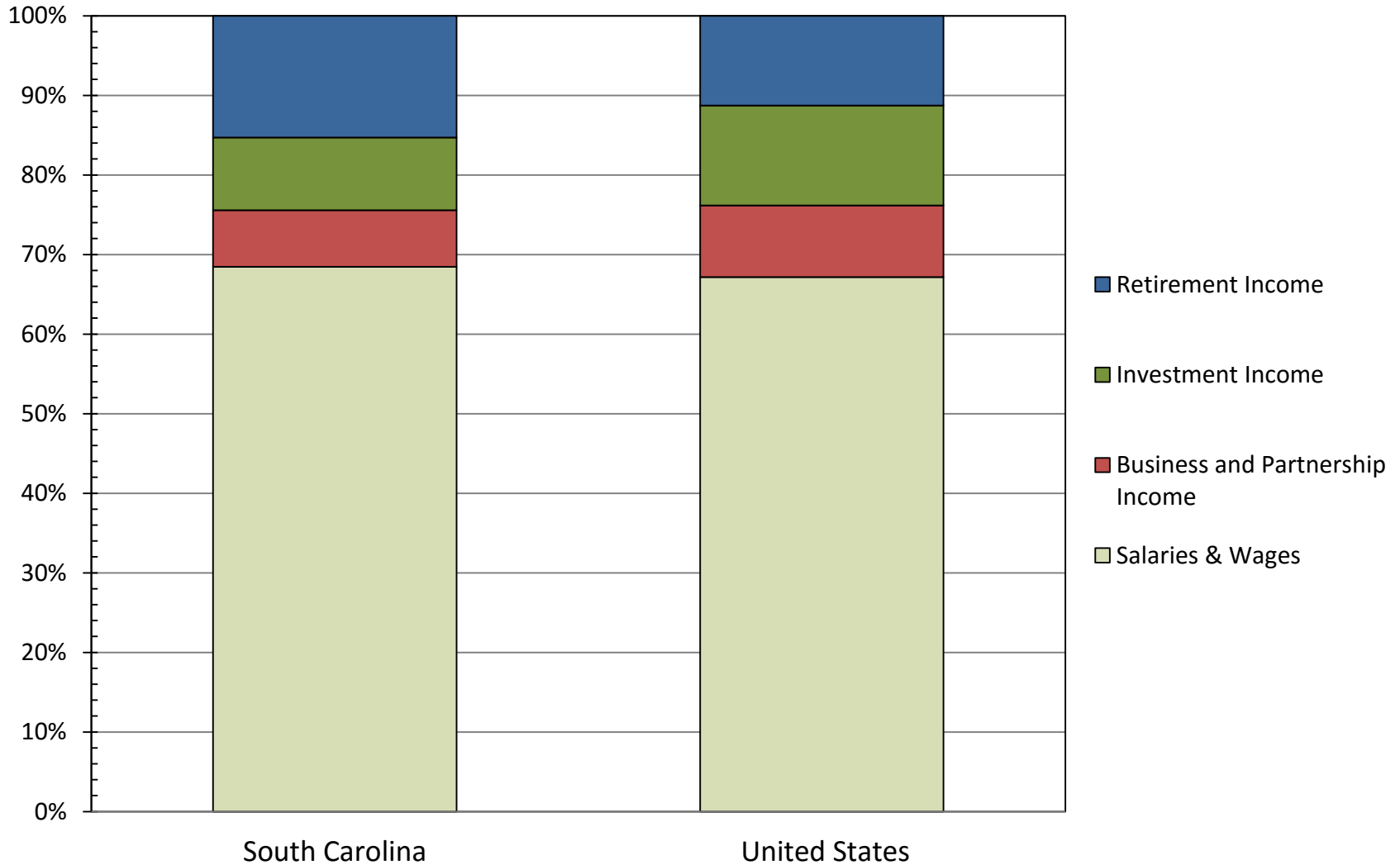
# TAX YEAR 2012 PERCENTAGE OF FEDERAL RETURNS OVER \$200,000 OF AGI By State



Source: Internal Revenue Service, Statistics of Income Division, Individual Master File System, December 2013. Calculations by the S. C. Revenue and Fiscal Affairs Office.

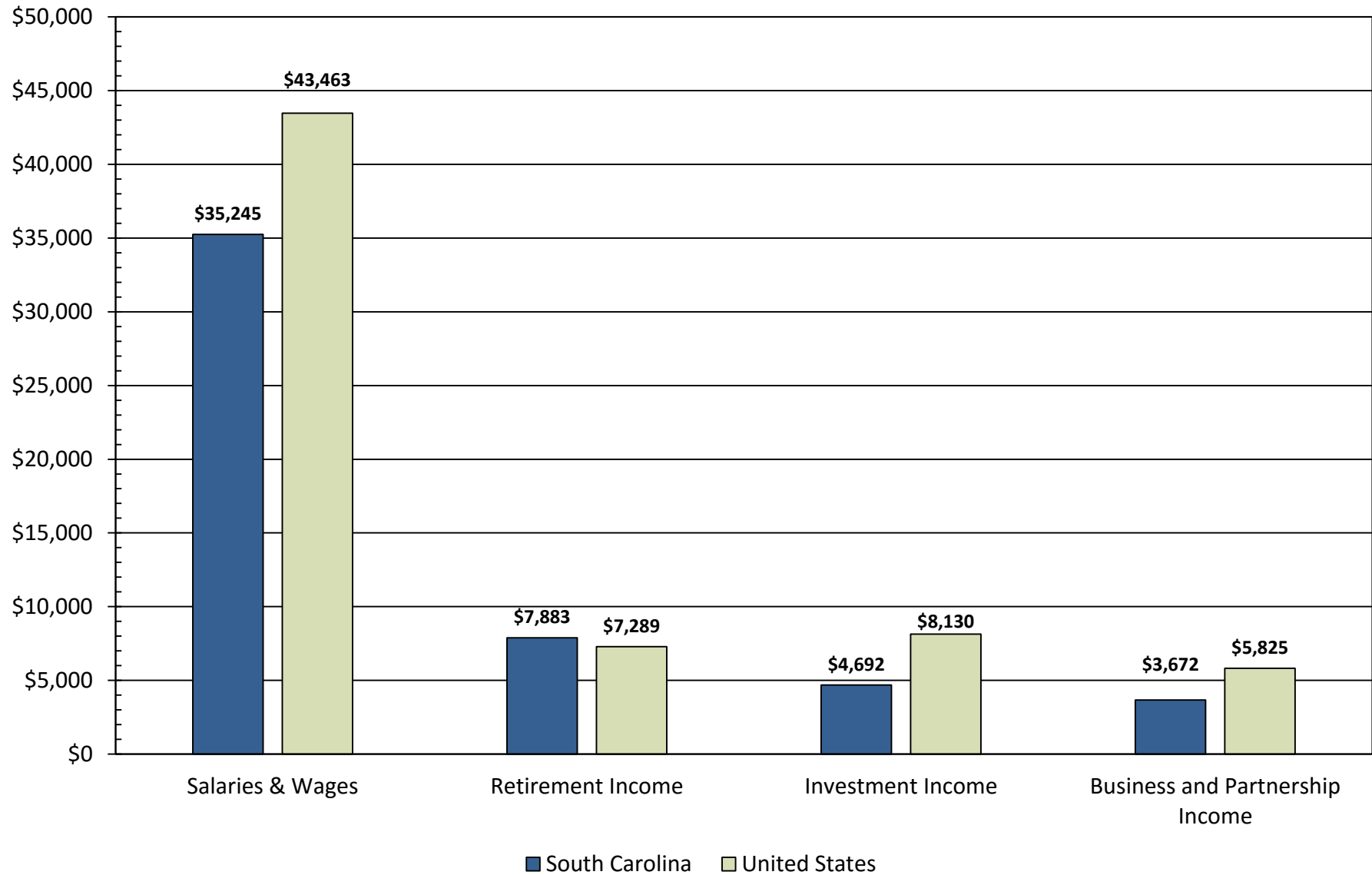


## FEDERAL ADJUSTED GROSS INCOME COMPONENTS As a Percentage of Total Federal Adjusted Gross Income



# FEDERAL ADJUSTED GROSS INCOME COMPONENTS

## Average Per Return



Source: Internal Revenue Service, Statistics of Income Division, Tax Year 2012. <http://www.irs.gov/uac/SOI-Tax-Stats-Historic-Table-2> RFA: GOS: 09/07/16.

# TAX STRUCTURE



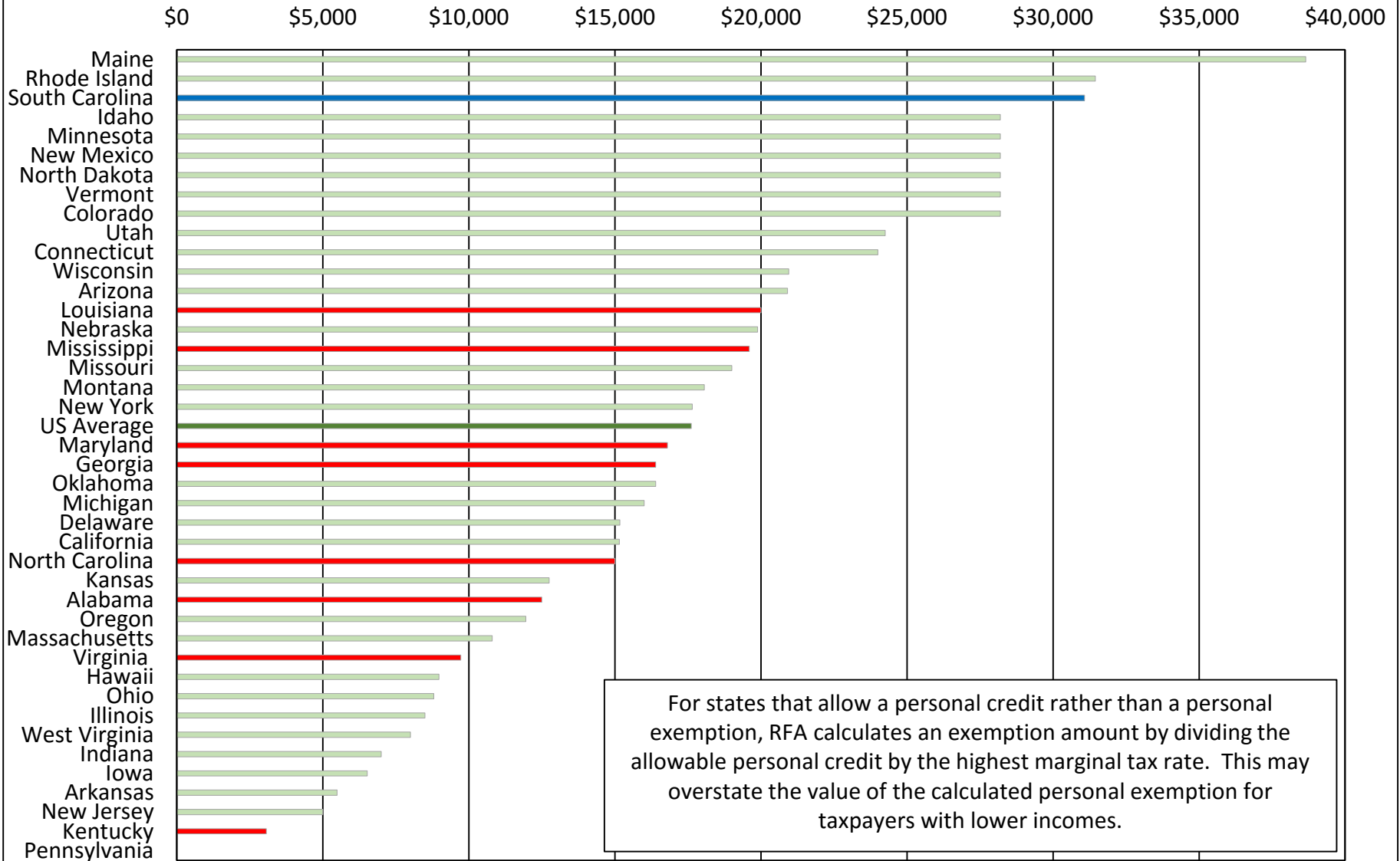
# ADJUSTED GROSS INCOME AND TAXABLE INCOME

Married Filing Jointly Family of Four for Tax Year 2014

|                       | <u>South Carolina</u> | <u>Georgia</u> | <u>North Carolina</u> |
|-----------------------|-----------------------|----------------|-----------------------|
| Adjusted Gross Income | \$50,000              | \$50,000       | \$50,000              |
| Less                  |                       |                |                       |
| Standard Deduction    | (\$12,400)            | (\$3,000)      | (\$15,000)            |
| Personal Exemptions   | (\$15,800)            | (\$13,400)     | \$0                   |
| Equals                |                       |                |                       |
| Taxable Income        | \$21,800              | \$33,600       | \$35,000              |

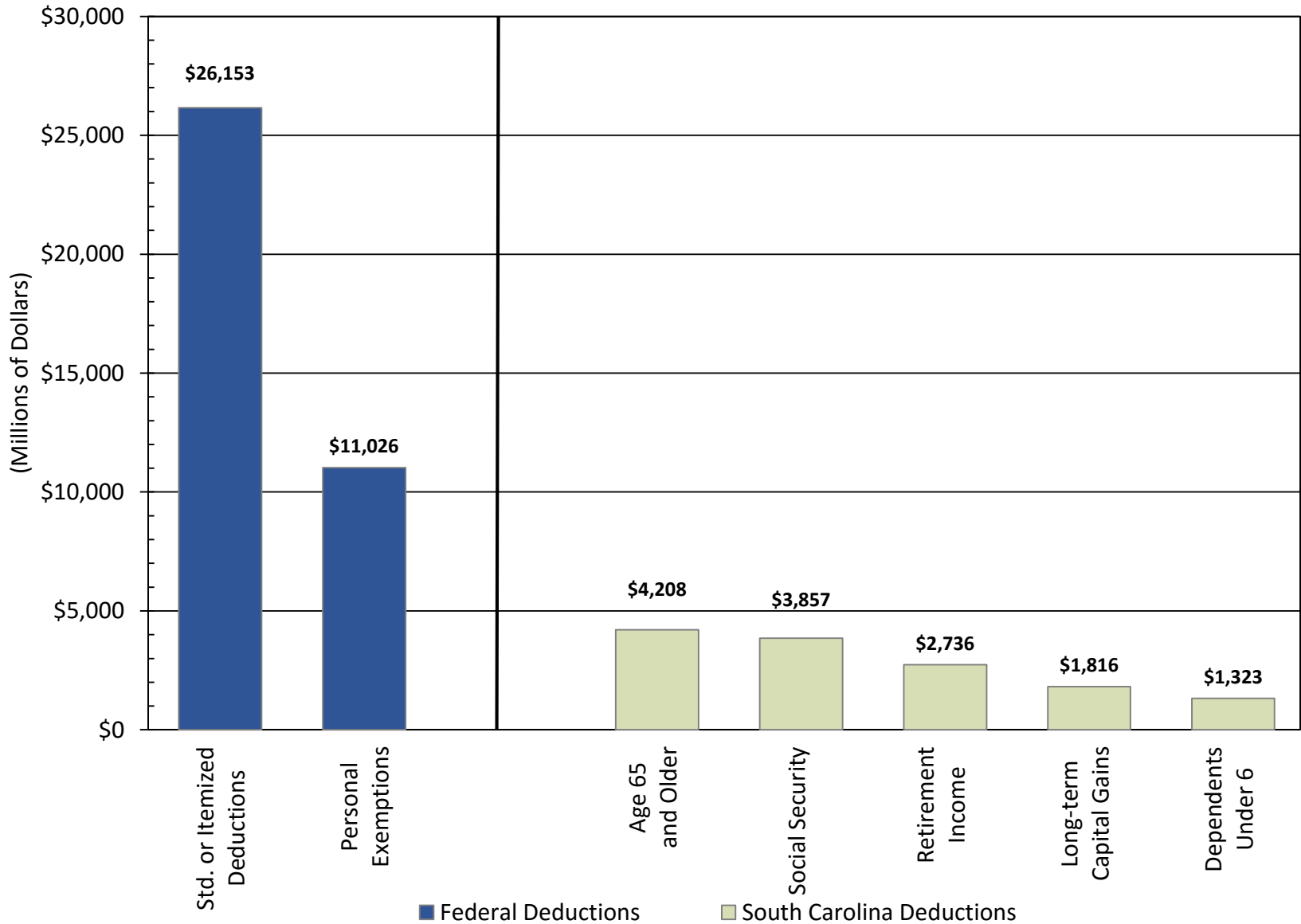
## TAXABLE INCOME REDUCTIONS BY STATE IN TAX YEAR 2014

### Combined Standard Deduction, Personal Exemptions, and Zero Tax Brackets For a Married Filing Joint Return with Two Dependents



Source: Information on Deductions, exemptions, and tax brackets for each state were obtained from 2014 state tax forms.

# FEDERAL AND STATE DEDUCTIONS FROM SOUTH CAROLINA INCOME Tax Year 2014



Source: S.C. Department of Revenue federal and state individual income tax return sample; Data compiled by S.C. Revenue and Fiscal Affairs. – LJ/09/12/16

# MARGINAL TAX RATES AND EFFECTIVE TAX RATES



# TAX LIABILITY CALCULATION

## Married Filing Jointly Family of Four

### With Adjusted Gross Income of \$50,000 in Tax Year 2014

#### South Carolina

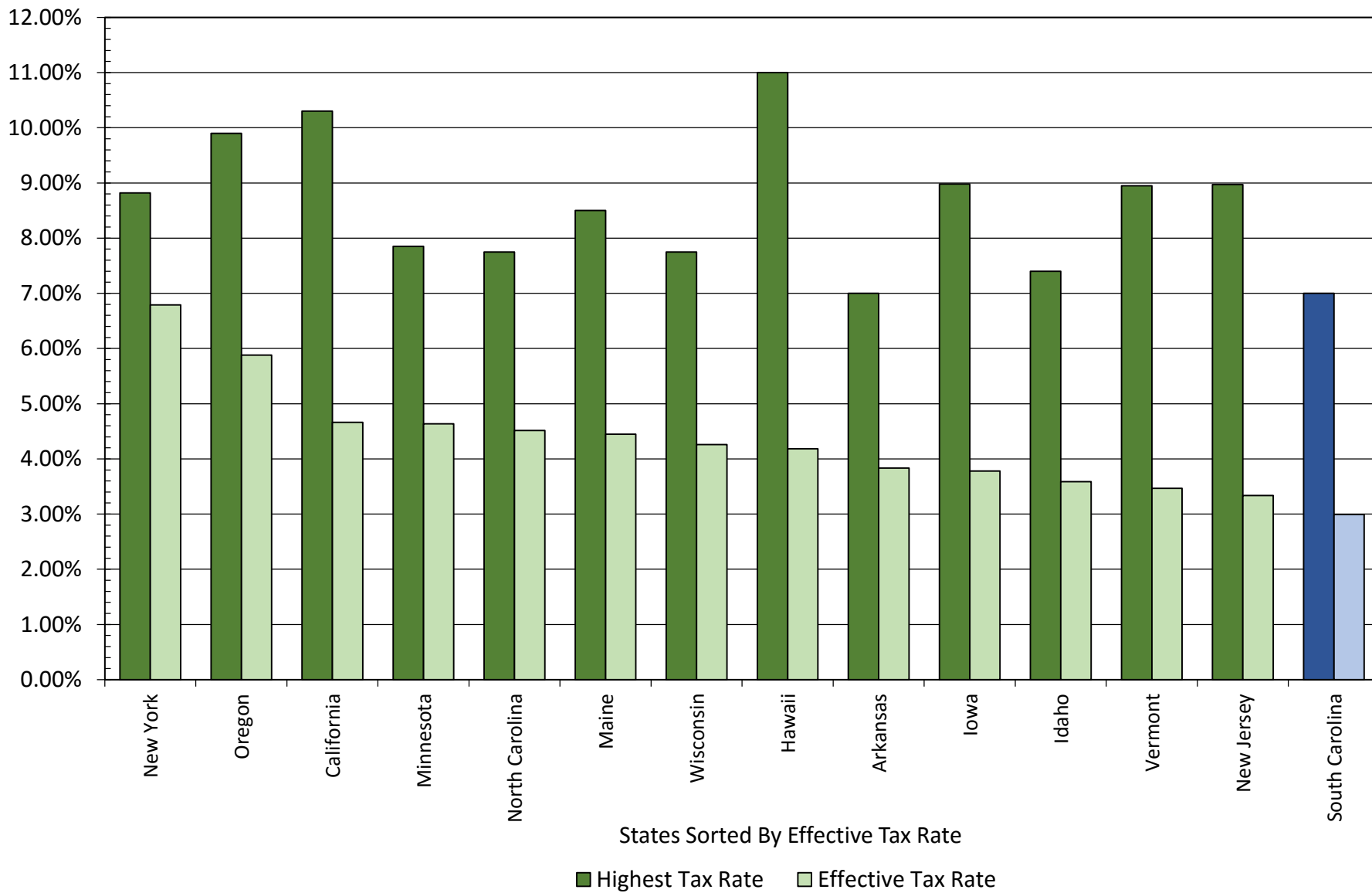
#### Georgia

#### North Carolina

|                           |            |                |          |            |                |
|---------------------------|------------|----------------|----------|------------|----------------|
| Taxable Income:           | \$21,800   |                | \$33,600 |            | \$35,000       |
|                           | <b>Tax</b> | <b>Tax</b>     |          | <b>Tax</b> | <b>Tax</b>     |
| Tax Rate                  | Brackets   | Liability      | Tax Rate | Brackets   | Liability      |
| 0%                        | \$2,880    | \$0            | 1%       | \$1,000    | \$10           |
| 3%                        | \$5,760    | \$86           | 2%       | \$3,000    | \$40           |
| 4%                        | \$8,640    | \$115          | 3%       | \$5,000    | \$60           |
| 5%                        | \$11,520   | \$144          | 4%       | \$7,000    | \$80           |
| 6%                        | \$14,400   | \$173          | 5%       | \$10,000   | \$150          |
| 7%                        | Over       | \$518          | 6%       | Over       | \$1,416        |
| <b>Total</b>              |            | <b>\$1,036</b> |          |            | <b>\$1,756</b> |
| <b>Effective Tax Rate</b> |            | <b>2.1%</b>    |          |            | <b>3.5%</b>    |
|                           |            |                |          |            | <b>\$2,030</b> |

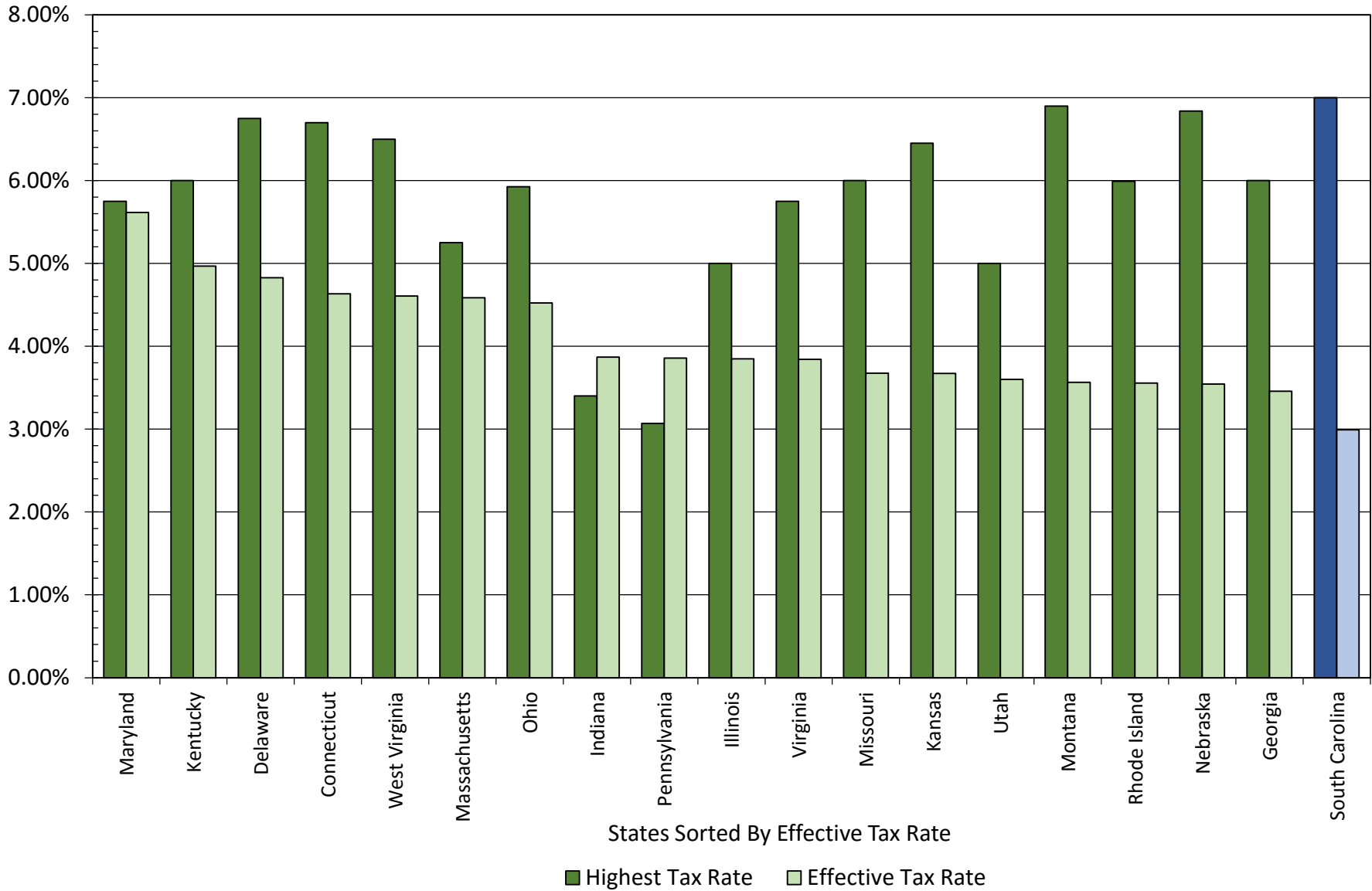


## STATES WITH HIGHER MARGINAL TAX RATES & HIGHER EFFECTIVE RATES Relative to South Carolina



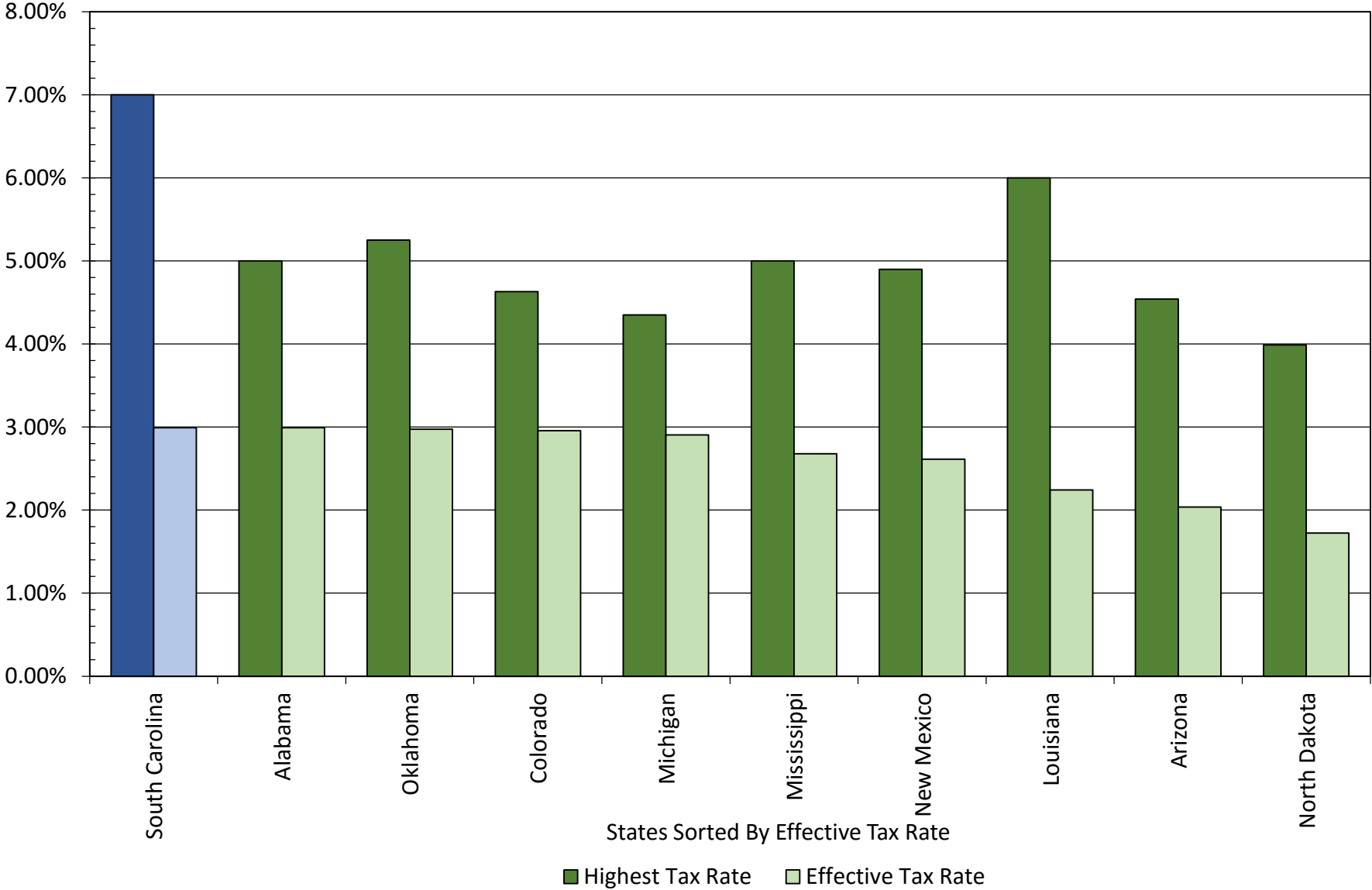
Source: Tax rate and brackets for each state were obtained from 2012 state tax forms. Data compiled by the S.C. Revenue and Fiscal Affairs Office. GOS/09/09/16

# STATES WITH LOWER MARGINAL TAX RATES & HIGHER EFFECTIVE RATES Relative to South Carolina



Source: Tax rate and brackets for each state were obtained from 2012 state tax forms. Data compiled by the S.C. Revenue and Fiscal Affairs Office. GOS/09/09/16

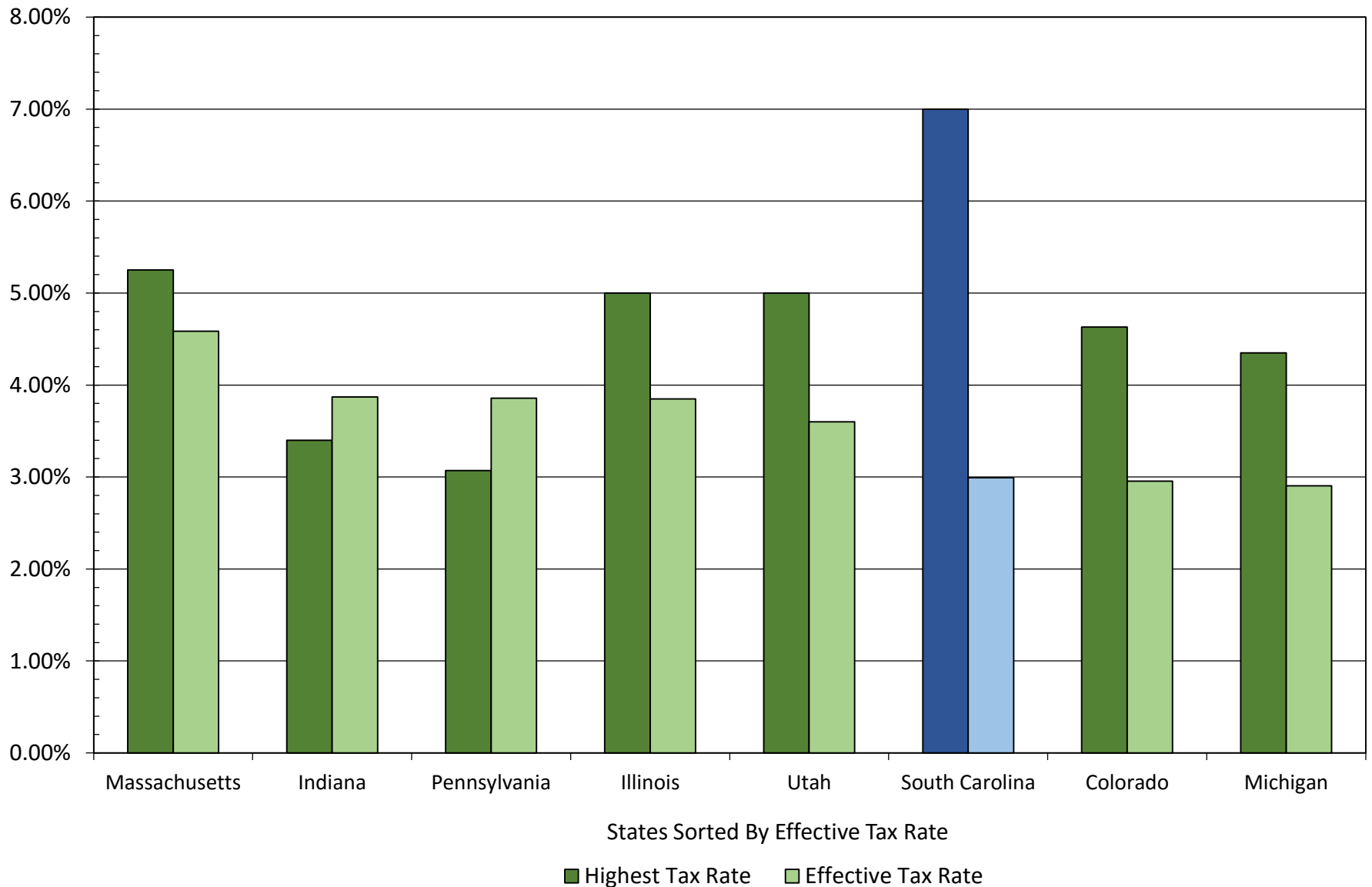
# STATES WITH LOWER MARGINAL TAX RATES & LOWER EFFECTIVE RATES Relative to South Carolina



Source: Tax rate and brackets for each state were obtained from 2012 state tax forms. Data compiled by the S.C. Revenue and Fiscal Affairs Office. GOS/09/09/16

## STATES WITH A FLAT INCOME TAX RATE

### Compared to South Carolina's Marginal and Effective Tax Rates



Source: Tax rate and brackets for each state were obtained from 2012 state tax forms. Data compiled by the S.C. Revenue and Fiscal Affairs Office. GOS/09/09/16

# QUESTIONS

