

## South Carolina: Governor presents new budget, emphasizes income tax cut plan



David M. Kall | Thursday, January 25, 2018

Earlier this month, Gov. Henry McMaster unveiled his 2018-19 executive budget. In his [announcement](#), he touted the plan as “a balanced budget that prioritizes taxpayer savings in the form of an income tax cut that, in its first five years of implementation, will result in \$2.2 billion of taxpayer savings. All while investing in important areas of need such as public safety, workforce readiness, K-12 education, and access to healthcare.”

Recurring items in the general fund of about \$8 billion are these:

- \$ 270.5 million: Revenue growth for fiscal year 2018-19 less General Revenue Fund (GRF), Capital Reserve Fund (CRF) & Tax Relief Trust Fund
- \$ 117.4 million: Excess debt service
- \$ 5.7M: Homestead exemption surplus
- \$(139.7) million: Income tax cut phase-in
- \$(14.1) million: Veterans’ retirement income tax exemption
- \$(8.6) million: Law enforcement, firefighters, and peace officers retirement income tax exemption
- \$231.3 million: Available for appropriation

Non-recurring fund sources are these:

- \$145.4 million: Capital reserve fund

## South Carolina Governor presents new budget emphases

---

- \$16.6 million: Lapse of debt service funds
- \$4.1 million: Litigation recovery account
- \$ 166 million: Available for appropriation in FY 2018-19

Appropriations from all revenue sources are as follows:

- 37 percent: Health and social services
- 20 percent: Higher education
- 17 percent: K-12 education and cultural
- 11 percent: Transportation
- 7 percent: General government
- 4 percent: Public safety and criminal justice
- 2 percent: Regulatory
- 2 percent: Economic development and natural resources

The governor's [executive overview](#) set forth the “major themes” of his budget, in this order:

1. Tax relief
2. Economic development & workforce
3. Education
4. Public safety
5. Healthcare
6. Good government & ethics
7. Energy and environment

Specifically with respect to his tax relief plan, in his announcement, the governor asserted that “[r]ecognizing that the quickest way to stymie South Carolina’s growing economic prosperity is to unduly overtax and overregulate our people, [the] executive budget proposes two bold tax reform initiatives that will keep more money in the pockets of every South Carolinian[.]”

- A 1 percent rate reduction over five years for all six personal income tax brackets, which will result in \$2.2 billion in taxpayer savings through the course of implementation, starting with an immediate \$139 million cut that is certified in this budget.
- An immediate and full retirement income exemption for military veterans and first responders, including retired state and federal law enforcement, firefighters and peace officers, representing \$22 million in relief the first year.

Among other items on the governor’s wish list are full, permanent state tax exemptions on retirement income for military veterans and retired first responders, including state and federal law enforcement, firefighters, and peace officers, and the provision of more resources for the children’s hospital network for medical treatment of child abuse victims.

Following up on the budget proposal, [Statehouse Report](#) pointed to one detail that received no mention in the governor’s announcement: South Carolina is facing a projected \$40-\$45 million shortfall for the fiscal year that will end this June. Thus, “this year may only see core elements of government funded as the state continues to fix problems of the past, such as state employee pensions.” What is more, within the next

## South Carolina Governor presents new budget emphases

---

several weeks, the Board of Economic Advisors may enact mandatory cuts across all state agencies.

This makes the euphoric tone in the letter that Gov. McMaster submitted with his general budget a bit perplexing. That document starts with these words: “South Carolina is on the cusp of unprecedented prosperity. In 2017 alone, we announced more than 17,200 new jobs from over 120 economic development projects, representing \$4.78 billion in new capital investment - beating 2016 by more than \$1 billion and over 5,000 jobs. Our unemployment rate is 3.9 percent - the lowest since 2001. More people are working than ever before. Yet, there remains much to be done.”

The letter concedes the fact that South Carolina “has the highest income tax rate (7 percent) of all states in the southeast and the 12<sup>th</sup> highest in the nation.” But this, combined with the new changes in the federal tax structure, is why “we must move quickly to maintain our state’s superior ability to attract new jobs, capital investment, and economic opportunity. The time has come to remove the burden of our high income tax rate.” The income tax cut for the first year amounts to \$139 million.

For fiscal years 2019-20, 2020-21, 2021-22, and 2022-23, the income tax cuts reach, cumulatively, \$424 million, \$864 million, \$1.47 billion and \$2.2 billion, respectively. Once fully phased in, the [Post and Courier](#) reported, citing state Revenue and Fiscal Affairs Office, the income tax cuts “would reduce state revenue by more than \$750 million annually, saving taxpayers between \$55 and almost \$55,000, depending on their income, or about \$300 on average.”

For all of this, the Statehouse Report article quoted one lawmaker, the vice chair of the Ways and Means Committee, who suggested that “[a]t some point all of these budget chickens are coming home to roost.” She was referring to the fact that the cuts could reduce revenue by more than \$782 million; “[t]here is no way the state can afford to give ... a tax cut at the expense of state employee salary raises, funding education, dealing with all of the things we have continually kicked down the road...”

Nevertheless, two more important items are “phase two of the state’s pension reform fix and an increase in the state’s health insurance plan.” Additionally, certain expenses are projected to increase, like health insurance costs, Medicaid, federally mandated child support, and coverage for newly eligible state scholarship recipients, which is the result of a legislative change. And the vice chair would like to see a raise for all state employees, plus a fix to the “ailing bus fleet.”

Indeed, there is much to be done.

---



**David M. Kall**