



March 19, 2018

The Honorable Hugh Leatherman
President Pro Tempore
111 Gressette Building
Columbia, SC 29201

Chairman Leatherman,

The South Carolina Chamber of Commerce and businesses from across the state ask that the General Assembly pass tax conformity this session. Tax conformity is important to businesses simplifying compliance and filing for South Carolina taxpayers. This year it is as important as ever to provide as much certainty as possible with the passage of tax reform on the federal level.

The South Carolina Chamber and our Tax Committee have been studying the issue. We have looked into what other state's like Georgia and North Carolina have done, as well as talk to state and national tax experts. Attached you will find a proposal that is the product of that study and work.

We call for a proposal that is revenue neutral. State taxpayers SHOULD NOT pay more taxes on the state level as a result of the changes that were made at the federal level. On the personal tax side, the state should reduce its 7% top income tax bracket down to 6.7%. This move offsets the estimated \$180 million windfall that is projected the state would receive through conforming with the changes to the federal code. On the business tax side, our proposal calls for decoupling from three additional items in 2018-foreign income provisions, caps on interest expenses and keeping economic development grants as untaxable. These additional measurers offset the projected \$25million windfall that the state is estimated to receive from businesses through conformity.

South Carolina must remain competitive. Both Georgia and North Carolina have already passed conformity. We strongly urge the General Assembly's support of this measure. This proposal will save taxpayers hundreds of millions of dollars and prevent a huge compliance burden for all filers. Please let me know if you have any questions.

Sincerely,

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3/19/2018 11:27 AM

SECTION 12-6-50. Internal Revenue Code sections specifically not adopted by State.

- (1) Sections 1(a) through 1(e), 3, 11, and 1201 relating to federal tax rates;
- (2) Sections 22 through 54, 515, 853, 901 through 908, and 960 relating to tax credits;
- (3) Sections 55 through 59A relating to minimum taxes;
- (4) Sections 78, 85(c), 86, 87, 168(k), 168(l), 168(m), 168(n), 196, and 280C relating to dividends received from certain foreign corporations by domestic corporations, unemployment compensation, taxation of social security and certain railroad retirement benefits, the alcohol fuel credit, bonus depreciation, deductions for certain unused business credits, and certain expenses for which credits are allowable;
- (5) Sections 72(m)(5)(B), 72(f), 72(o), 72(q), and 72(t), relating to penalty taxes on certain retirement plan distributions;
- (5A) Section 108(i) relating to the deferral and ratable inclusion of income arising from business indebtedness discharged by the reacquisition of a debt instrument;
- (5B) Section 163(j) relating to deduction for net interest expense and 163(e)(5)(F) relating to original issue discount on certain high yield obligations;
- (6) Section 172(b)(1) relating to net operating loss carrybacks;
- (7) Section 199 relating to the deduction attributable to domestic production activities;
- (8) Sections 531 through 564 relating to certain special taxes on corporations;
- (9) Sections 581, 582, and 585 through 596 relating to the taxation of banking institutions;
- (10) Sections 665 through 668 relating to taxation of certain accumulation distributions from trusts;
- (11) Sections 801 through 848 relating to taxation of insurance companies;
- (12) Sections 250, 267A, 367, 381(c)(20), 382(d)(3), 382(k)(1) and 861 through 909, 912, 931 through 940, and 944 through 989 relating to the taxation of foreign income; provided, however, disallowance of expenses attributable to excluded foreign income shall not exceed one percent of excluded foreign income. Accordingly, South Carolina taxable income shall not include income specified in Section 951A or 965 of the Internal Revenue Code of 1986. Deductions, exclusions, or subtractions provided by Section 250 and Section 965, or any other section of the Internal

Revenue Code of 1986 shall not apply to the extent the related income has been subtracted pursuant to this subparagraph.

(13) Sections 1352 through 1359 relating to an alternative tax on qualifying shipping activities;

(14) Sections 1400 through 1494;

(15) Sections 1501 through 1505 relating to consolidated tax returns; and

(16) Sections 2001 through 7655, 7801 through 7871, and 8001 through 9602, except for Sections 6015 and 6701, and except for Sections 6654 and 6655 which are adopted as provided in Section 12-6-3910 and Section 12-54-55. However, Section 6654(d)(1)(D) relating to estimated tax payments for qualified individuals as defined in that item is not adopted.

(17) Section 68 relating to the reduction on itemized deductions and Section 151(d)(3) relating to the reduction on the personal exemption for:

(a) a joint return or surviving spouse with an adjusted gross income exceeding three hundred thousand dollars or the same adjusted gross income adjusted for inflation pursuant to Section 68, whichever is higher;

(b) a head of household with an adjusted gross income exceeding two hundred seventy-five thousand dollars or the same adjusted gross income adjusted for inflation pursuant to Section 68, whichever is higher; and

(c) an individual who is not married and who is not a surviving spouse or head of household with an adjusted gross income exceeding two hundred fifty thousand dollars or the same adjusted gross income adjusted for inflation pursuant to Section 68, whichever is higher.

(18) Section 118(b)(2) relating to any contribution by any governmental entity or civic group (other than a contribution made by a shareholder as such)