

The Bottom Line: H.4216 Income Tax Reduction

H.4216 restructures South Carolina's individual income tax by moving toward a flat rate, creating a new state-specific deduction in place of federal deductions, and updating related filing rules and credits.

Core tax rate change

- Replaces current brackets with two brackets starting in tax year 2026: 1.99% on taxable income up to 30,000 and 5.21% on income of 30,000 or more, with a \$966 subtraction in the top bracket.
- Beginning in tax year 2027, the top 5.21% rate must be cut in years when projected individual income tax revenues (net of Trust Fund for Tax Relief) grow by at least 5%, with each cut sized to reduce revenue by the greater of 200 million or 25% of the recurring surplus, until the top rate reaches 1.99%.
- After the top rate reaches 1.99%, that single rate applies to all taxable income and must continue to be reduced under the same 5%-growth trigger until the rate reaches 0%.
- The Board of Economic Advisors makes the growth determination; the Revenue and Fiscal Affairs Office must notify the Department of Revenue of the percentage adjustment based on the forecast in effect on February 15 each year.

Changes to deductions (federal vs. state)

- Explicitly does not adopt federal standard deduction and itemized deduction provisions in Internal Revenue Code Section 63(b)–(g) and any related provisions allowing those deductions.
- Creates a new South Carolina Income Adjusted Deduction (SCIAD) instead, equal to: 15,000 (single or married filing separately), 22,500 (head of household), and 30,000 (married filing jointly or surviving spouse).
- Phases down SCIAD as federal adjusted gross income rises:
 - Single/MFS: reduced by a fraction where the numerator is federal AGI over 40,000 and the denominator is 55,000.
 - Head of household: reduced by a fraction where the numerator is federal AGI over 60,000 and the denominator is 82,500.

- MFJ/surviving spouse: reduced by a fraction where the numerator is federal AGI over 80,000 and the denominator is 110,000.
- If the fraction is 1 or more, no SCIAD is allowed; if 0, the full SCIAD is allowed; if between 0 and 1, SCIAD is reduced proportionally, with any reduction rounded down to the next lowest 10.

Filing threshold and nonresident adjustments

- Updates who must file a return to tie the filing threshold to South Carolina gross income compared to SCIAD plus the retirement income deduction under Section 12-6-1170(B), instead of using federal exemption and standard deduction concepts.
- For nonresidents, replaces the use of federal standard or itemized deductions with SCIAD, prorated so it is reduced in proportion to the share of federal adjusted gross income that is South Carolina adjusted gross income.

Withholding tables and EITC credit

- Directs the Department of Revenue, in consultation with the Revenue and Fiscal Affairs Office, to adjust withholding tables to reflect these changes, consistent with fiscal responsibility.
- Amends the state earned income tax credit so that full-year resident individuals may claim a non-refundable credit equal to 125% of their federal EITC, capped at 200.

Effective date

- It takes effect upon approval by the Governor and first applies to tax years beginning after 2025.