

*Tax Legislation***South Carolina Moves to Decouple From Interest Deduction Changes**

South Carolina would decouple from certain federal business tax provisions and give individuals a new personal exemption under a bill advancing in the Legislature.

The state House gave initial approval May 3 to a bill (H.B. 5341) that reacts to certain recent federal tax changes by conforming with some and decoupling from others. The measure, which still needs Senate consideration, aims to keep taxpayers from seeing their state taxes increase from those federal changes.

According to fiscal notes accompanying H.B. 5341, South Carolina is one of the six states most tied to federal provisions, because it conforms to federal taxable income rather than federal adjusted gross income, which most states are tied to.

Even with the proposed decoupling included, aligning with the 2017 federal tax act (Pub. L. No. 115-97) and the Bipartisan Budget Act of 2018 would result in additional state revenue of about \$253 million, the fiscal notes said. To keep that money in the hands of taxpayers, the bill would create a \$1,525 personal exemption.

Business Tax Provisions H.B. 5341 also would decouple from new interest expense limitations, certain foreign tax provisions, taxes on income from economic

incentives, and new limitations on bank premium deductions. Those decouplings would affect businesses and are “all pro-taxpayer,” Burnet R. Maybank III, a tax attorney with Nexsen Pruet LLC in Columbia, S.C., who previously led the state revenue agency, told Bloomberg Tax May 3.

The fate of H.B. 5341 is uncertain, as the Senate has yet to act on the bill and the Legislature is scheduled to adjourn May 10. “We’re hopeful that if it doesn’t get three readings in the Senate before then,” lawmakers will consider it when they meet for a short period to consider vetoed bills and conduct other limited business, typically in late June, Maybank said.

“Failure by the state to conform to the federal tax changes would result in significantly increased compliance challenges and costs,” Rick Reames, another former state revenue department director who also works for Nexsen Pruet, told Bloomberg Tax. “It is encouraging to see the South Carolina House moving swiftly to avoid the chaos,” he said.

Two other bills drafted in reaction to federal changes, H.B. 5162 and H.B. 5203, haven’t advanced out of committee, and consideration of them is likely done for the session.

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□ Text of H.B. 5341 is at <http://src.bna.com/yv2>.

Text of the fiscal notes are at <http://src.bna.com/yv3>.

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