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MEMORANDUM

Date: December 11, 2025

Subject: Income Tax Conformity with H.R. 1 of 2025 (Public Law 119-21), the One Big Beautiful Bill Act

Approved by: Mr. Frank A. Rainwater, Executive Director 

Attachments: Table 1 and Table 2

This memo is to provide our analysis of the estimated impact of income tax conformity with H.R. 1 of 2025 (Public Law 119-21), known as the One Big Beautiful Bill Act (OBBBA), for sections that South Carolina currently adopts. This analysis does not include provisions that are not adopted currently.

To estimate the impact of conforming to the Internal Revenue Code (IRC) changes, Revenue and Fiscal Affairs (RFA) utilized U.S. estimates by the Joint Committee on Taxation and the Congressional Budget Office and adjusted those estimates to project the impact of adopting these federal provisions on South Carolina. Further, RFA made additional adjustments to refine these estimates with respect to South Carolina. Our analysis incorporates the latest growth assumptions and income tax return data for tax year 2024 and feedback provided by the SC Association of CPAs.

The provisions affecting South Carolina are listed in Table 1. Further, there are several provisions that we believe will impact South Carolina regardless of conformity because federal law determines how these provisions are implemented, and the impact cannot be avoided. Essentially, federal law will dictate taxpayer behavior, and the change in revenue resulting from these provisions will occur regardless of whether South Carolina adopts the bill to extend conformity. These provisions are provided in Table 2 for reference and will be accounted for by the Board of Economic Advisors in the revenue forecast.

Based on typical timing for the passage of legislation, we anticipate that decisions on conformity will occur late in FY 2025-26. As such, we anticipate that taxpayers will adjust their tax filings for provisions impacting tax year 2025 through filing extensions or amended returns and that these provisions will not affect revenue collections until FY 2026-27. As such, the impact in FY 2026-27 includes the effects of both tax year 2025 and tax year 2026. If conforming legislation is adopted early, the timing of the impact may be adjusted accordingly.

The explanations of provisions below are for those provisions with a significant impact on revenue of more than +/- 0.5 percent of total income tax revenue (+/- \$7 million). Line numbers refer to the Line No. column on Table 1. Table 2 does not have any provisions with a significant impact. Provisions that affect federal adjusted gross income (AGI) for individuals are noted on the tables.

EFFECTIVE IN TAX YEAR 2025

Individuals

Line 2. Temporary senior deduction: Effective for tax year 2025 through 2028, individuals who are age 65 and older may claim an additional deduction of \$6,000. This new deduction is in addition to the current additional standard deduction for seniors under existing law. The \$6,000 senior deduction is per eligible individual (i.e., \$12,000 total for a married couple where both spouses qualify). Deduction phases out for taxpayers with modified adjusted gross income over \$75,000 (\$150,000 for joint filers).

Line 3. Increase to standard deduction: The OBBBA makes three main changes to the standard deduction: (1) the temporary increases to the standard deduction as enacted under the Tax Cuts and Jobs Act of 2017 (TCJA) that were to expire after 2025 are made permanent, (2) the 2025 deduction amount is further increased as shown below, and (3) the inflation indexing of the standard deduction is changed by adding one additional year of inflation starting in tax year 2026.

For tax year 2025, the federal standard deduction is increased to the following amounts:
\$15,750 (up from \$15,000) for single or married filing separately
\$31,500 (up from \$30,000) for married filing jointly or a qualifying surviving spouse
\$23,625 (up from \$22,500) for head of household

Line 4. Temporary increase to limitation on deduction for state and local taxes: Taxpayers who itemize their deductions are allowed to deduct certain state and local taxes, known as the SALT deduction. The SALT cap is increased from \$10,000 to \$40,000 for 2025. The increased SALT cap is subject to a phasedown for taxpayers with modified adjusted gross income above \$500,000 for 2025. Taxpayers who are fully phased down will be capped at \$10,000. The cap and income threshold are increased by 1 percent each year beginning in tax year 2026. The changes are effective for tax year 2025 through 2029. Beginning in 2030, the cap will revert to \$10,000 for all taxpayers.

Line 5. No tax on overtime: Effective for tax year 2025 through 2028, individuals who receive qualified overtime compensation may deduct the pay that exceeds their regular rate of pay - such as the "half" portion of "time-and-a-half" compensation - that is

required by the Fair Labor Standards Act (FLSA) and that is reported on a Form W-2, Form 1099, or other specified statement furnished to the individual. Maximum annual deduction is \$12,500 (\$25,000 for joint filers). Deduction phases out for taxpayers with modified adjusted gross income over \$150,000 (\$300,000 for joint filers). Deduction is available for both itemizing and non-itemizing taxpayers.

Line 6. No tax on tips: Effective for 2025 through 2028, employees and self-employed individuals may deduct qualified tips received in occupations that are listed by the IRS as customarily and regularly receiving. Maximum annual deduction is \$25,000; for self-employed, deduction may not exceed individual's net income (without regard to this deduction) from the trade or business in which the tips were earned. Deduction phases out for taxpayers with modified adjusted gross income over \$150,000 (\$300,000 for joint filers). Deduction is available for both itemizing and non-itemizing taxpayers.

Line 7. No tax on car loan interest: Effective for tax year 2025 through 2028, individuals may deduct interest paid on a loan used to purchase a qualified vehicle, provided the vehicle is purchased for personal use and meets other eligibility criteria. Maximum annual deduction is \$10,000. Deduction phases out for taxpayers with modified adjusted gross income over \$100,000 (\$200,000 for joint filers). Deduction is available for both itemizing and non-itemizing taxpayers.

Businesses (Pass-through Entities or Corporations)

Line 10. Full expensing of domestic research and experimental expenditures: Beginning in tax year 2025, taxpayers are allowed to immediately deduct domestic research and experimental (R&E) expenditures. Beginning with tax year 2022, the TCJA required taxpayers to capitalize and amortize all R&E expenditures. Under the new rules, taxpayers can fully expense domestic R&E costs in the year incurred beginning in tax year 2025. In addition to now allowing full expensing, transition rules are provided permitting certain taxpayers to deduct unamortized domestic R&E expenditures paid or incurred in 2022 through 2024 by filing for a change in accounting method.

Line 11. Increased dollar limitations for expensing of certain depreciable business assets: IRC §179 allows a deduction for taxpayers who elect to expense a specified amount of the cost of qualifying property purchased for use in a business. This deduction applies to tangible property, such as machinery and equipment purchased for use in a trade or business. Eligible property includes qualified real property and certain property used to furnish lodging. Qualified real property includes improvements to roofs, HVAC, fire alarm systems, and security systems to nonresidential real property. Beginning in 2025, the maximum expensing under IRC §179 is increased from \$1.22 million to \$2.5 million, and the investment limitation is

increased from \$3.05 million to \$4 million. Amounts are indexed for inflation beginning after 2025.

EFFECTIVE IN TAX YEAR 2026

Individuals

Line 20. Floor on deduction of charitable contributions made by individuals:

Beginning in tax year 2026, a 0.5 percent floor on charitable deductions will apply to individuals who itemize.

Line 27. Exceptions from limitations on deduction for business meals: Beginning in tax year 2026, no deduction is allowed for employer expenses for providing meals for the convenience of the employer except for entertainment to customers (IRC §274(e)(8)) or meals provided to crew members of commercial vessels or certain oil and gas platforms or drilling rigs (IRC §274(n)(2)(C)). The deduction is included in federal AGI.

OTHER ISSUES

The OBBBA includes a charitable deduction allowance up to \$1,000 (\$2,000 for married filing jointly) for taxpayers who do not itemize beginning in tax year 2026. SC did not adopt IRC §170(p) specifically for 2021 in Act 87 of 2021. We understand the year reference should be updated to continue to non-conform. However, if this provision is adopted, either directly or inadvertently by not updating the year reference, it would reduce individual income tax revenue by approximately \$19 million beginning in tax year 2026.

The opportunity zone program, which would have expired for investments after December 31, 2026, is permanently extended. The OBBBA makes certain changes to the determination of qualifying areas and reporting requirements, which are not expected to materially change the impact. As this is an extension of a program currently in the revenue base, there is no additional impact. (See Line 39. Permanent renewal and enhancement of opportunity zones)

TABLE 1 - PROVISIONS BY TAX YEAR AND TYPE

(Amounts are in millions of dollars)

Line No.	Provision	§IRC	Tax Type	Affects Fed. AGI (Y/N) [1]	Effective	Tax Year 2025	Tax Year 2026	Tax Year 2027	Tax Year 2028	Tax Year 2029	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
1	2025 - Individual Provisions													
2	Temporary senior deduction (\$6,000) [2]	§151(c) and (d)(5)	I	N	2025	(\$62.7)	(\$63.8)	(\$64.9)	(\$66.0)	\$0	(\$126.5)	(\$64.9)	(\$66.0)	\$0
3	Increase to standard deduction (S: \$750, MFJ: \$1,500, HOH: \$1,125) [2]	§63(c)(7)	I	N	2025	(\$80.8)	(\$82.2)	(\$83.6)	(\$85.0)	(\$86.5)	(\$163.1)	(\$83.6)	(\$85.0)	(\$86.5)
4	Temporary increase to limitation on deduction for state and local taxes (exp 12/31/29) [2]	§164(b)(6)	I	N	2025	(\$2.7)	(\$2.7)	(\$2.7)	(\$2.8)	(\$2.8)	(\$5.4)	(\$2.7)	(\$2.8)	(\$2.8)
5	No tax on overtime (exp 12/31/28)	§225	I	N	2025	(\$47.1)	(\$49.2)	(\$51.7)	(\$54.3)	\$0	(\$96.3)	(\$51.7)	(\$54.3)	\$0
6	No tax on tips (exp 12/31/28)	§224	I	N	2025	(\$18.2)	(\$18.4)	(\$19.4)	(\$20.5)	\$0	(\$36.7)	(\$19.4)	(\$20.5)	\$0
7	No tax on car loan interest (exp 12/31/28)	§163(h)(4)	I	N	2025	(\$13.0)	(\$19.4)	(\$23.8)	(\$29.3)	\$0	(\$32.4)	(\$23.8)	(\$29.3)	\$0
8	2025 - Business Provisions													
9	Treatment of payments from partnerships to partners for property or services	§707(a)(2)	I	n/a	2025	\$2.2	\$3.2	\$2.7	\$2.2	\$1.6	\$5.4	\$2.7	\$2.2	\$1.6
10	Full expensing of domestic research and experimental expenditures	§174	B	n/a	2025	(\$50.4)	(\$11.8)	(\$8.0)	(\$4.3)	(\$1.8)	(\$62.2)	(\$8.0)	(\$4.3)	(\$1.8)
11	Increased dollar limitations for expensing of certain depreciable business assets	§179(b)	B	Y	2025	(\$6.1)	(\$5.1)	(\$4.3)	(\$3.6)	(\$3.0)	(\$11.2)	(\$4.3)	(\$3.6)	(\$3.0)
12	Termination of cost recovery for energy property	§168(e)(3)(B)(vi)	B	n/a	2025	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.2	\$0.1	\$0.1	\$0.1
13	Spaceports are treated like airports under exempt facility bond rules	§142	B	n/a	2025	Negligible	Negligible	Negligible	Negligible	Negligible	\$0	\$0	\$0	\$0
14	2026 - Individual Provisions													
15	Extension and modification of limitation on deduction for qualified residence interest	§163(h)(3)(F)	I	N	2026	\$0	(\$0.6)	(\$0.6)	(\$0.6)	(\$0.5)	(\$0.6)	(\$0.6)	(\$0.6)	(\$0.5)
16	Extension and modification of limitation on casualty loss deduction	§165(h)(5)	I	N	2026	\$0	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)
17	Termination of miscellaneous itemized deductions other than educator expenses	§67(g)	I	N	2026	\$0	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)
18	Adjustment of charitable deduction for certain expenses incurred in support of native Alaskan subsistence whaling	§170(n)	I	N	2026	\$0	Negligible	Negligible	Negligible	Negligible	\$0	\$0	\$0	\$0
19	Extension and modification of limitation on wagering losses	§165(d)	I	N	2026	\$0	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3
20	0.5 percent floor on deduction of charitable contributions made by individuals	§170(b)(1)	I	N	2026	\$0	\$8.7	\$8.9	\$9.1	\$9.3	\$8.7	\$8.9	\$9.1	\$9.3
21	Exclusion for employer payments of student loans	§127	I	Y	2026	\$0	(\$2.5)	(\$2.7)	(\$2.8)	(\$3.0)	(\$2.5)	(\$2.7)	(\$2.8)	(\$3.0)
22	Enhancement of the dependent care assistance program	§129(a)	I	Y	2026	\$0	(\$1.4)	(\$1.5)	(\$1.6)	(\$1.6)	(\$1.4)	(\$1.5)	(\$1.6)	(\$1.6)
23	Qualified transportation fringe benefits – qualified bicycle commuting reimbursement	§§132(f)(8)	I	Y	2026	\$0	(\$0.6)	(\$0.6)	(\$0.6)	(\$0.6)	(\$0.6)	(\$0.6)	(\$0.6)	(\$0.6)
24	Extension and modification of limitation on deduction and exclusion for moving expenses	§132(g)(2), §217(k)	I	Y	2026	\$0	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)
25	Treatment of certain individuals performing services in Sinai Peninsula of Egypt	§112	I	Y	2026	\$0	Negligible	Negligible	Negligible	Negligible	\$0	\$0	\$0	\$0

Line No.	Provision	§IRC	Tax Type	Affects Fed. AGI (Y/N) [1]	Effective	Tax Year 2025	Tax Year 2026	Tax Year 2027	Tax Year 2028	Tax Year 2029	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
26	Extension and modification of exclusion from gross income of student loans discharged on account of death or disability	§108(f)(5)	I	Y	2026	\$0	Negligible	Negligible	Negligible	Negligible	\$0	\$0	\$0	\$0
27	Exceptions from limitations on deduction for business meals	§274(o)	I	Y	2026	\$0	\$7.9	\$8.2	\$8.5	\$8.8	\$7.9	\$8.2	\$8.5	\$8.8
28	Trump accounts and contribution pilot program	§530A	I	n/a	2026	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
29	2026 - Business Provisions													
30	Treatment of capital gains from the sale of certain farmland property	§1062	B	n/a	2026	\$0	(\$2.8)	(\$1.8)	(\$0.9)	(\$0.2)	(\$2.8)	(\$1.8)	(\$0.9)	(\$0.2)
31	Exception to percentage of completion method of accounting for certain residential construction contracts	§460(e)	B	n/a	2026	\$0	(\$0.8)	(\$0.5)	(\$0.3)	(\$0.2)	(\$0.8)	(\$0.5)	(\$0.3)	(\$0.2)
32	Restoration of taxable REIT subsidiary asset test	§856(c)(4)(B)(ii)	I	n/a	2026	\$0	(\$0.3)	(\$0.3)	(\$0.4)	(\$0.5)	(\$0.3)	(\$0.3)	(\$0.4)	(\$0.5)
33	Treatment of certain qualified sound recording productions	§181	B	n/a	2026	\$0	(\$0.2)	(\$0.2)	\$0.2	\$0.3	(\$0.2)	(\$0.2)	\$0.2	\$0.3
34	Termination of energy efficient commercial buildings deduction	§179D	B	n/a	2026	\$0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
35	Expansion of qualified small business stock gain exclusion	§1202	I	Y	2026	\$0	\$0.1	\$0.0	(\$0.2)	(\$1.5)	\$0.1	\$0.0	(\$0.2)	(\$1.5)
36	Modification and extension of limitation on excess business losses of noncorporate taxpayers	§461(l)	I	n/a	2026	\$0	\$0.2	\$0.1	\$0.1	\$0.1	\$0.2	\$0.1	\$0.1	\$0.1
37	Excessive employee remuneration from controlled group members and allocation of deduction	§162(m)	B	n/a	2026	\$0	\$2.2	\$2.5	\$2.6	\$2.7	\$2.2	\$2.5	\$2.6	\$2.7
38	1 percent floor on deduction of charitable contributions made by corporations	§170(b)(2)(A)	C	n/a	2026	\$0	\$2.8	\$3.2	\$2.9	\$2.7	\$2.8	\$3.2	\$2.9	\$2.7
39	Permanent renewal and enhancement of opportunity zones	§1400Z	B	n/a	2026	\$0	*	*	*	*	\$0	\$0	\$0	\$0
40	2027 - Individual Provisions													
41	Income exclusion for education expenses paid by a scholarship granting organization	§139K	I	Y	2027	\$0	\$0	(\$3.1)	(\$3.7)	(\$4.1)	\$0	(\$3.1)	(\$3.7)	(\$4.1)

Line No.	Provision	§IRC	Tax Type	Affects Fed. AGI (Y/N) [1]	Effective	Tax Year 2025	Tax Year 2026	Tax Year 2027	Tax Year 2028	Tax Year 2029	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
42	Other Tax Types													
43	Nonprofit Community Development Activities in Remote Native Villages	Subchapter F, Chapter 1, Exempt Organizations	NP	n/a	2025	Negligible	Negligible	Negligible	Negligible	Negligible	\$0	\$0	\$0	\$0
44	Exclusion of interest on loans secured by rural or agricultural real property	§139L	S&L	n/a	2025	Negligible	Negligible	Negligible	Negligible	Negligible	\$0	\$0	\$0	\$0
45														
46	Total Individual (includes portion of business provisions)					(\$240.1)	(\$226.8)	(\$238.9)	(\$250.0)	(\$82.3)	(\$466.9)	(\$238.9)	(\$250.0)	(\$82.3)
47	Total Corporate (includes portion of business provisions)					(\$38.6)	(\$9.9)	(\$5.1)	(\$1.3)	\$1.3	(\$48.5)	(\$5.1)	(\$1.3)	\$1.3
48	Total					(\$278.7)	(\$236.7)	(\$244.0)	(\$251.3)	(\$81.0)	(\$515.4)	(\$244.0)	(\$251.3)	(\$81.0)

Notes:

n/a - See note [1]

Negligible - impact of provision is immaterial

* - Provision extends existing program in current revenue base; no additional impact

Internal revenue code section references provided by SC Department of Revenue

[1] - Federal AGI column only applies to individuals; does not address businesses (pass-through or corporate)

[2] - Impact is an allocation of the net impact of all three provisions- each provision would have a higher impact separately

Tax Types:

B- Both individual and corporate income tax

C - Corporate income tax

I - Individual income tax

NP - Nonprofits

S&L - Savings and loan tax

TABLE 2 - PROVISIONS BY TAX YEAR AND TYPE (Impact will occur regardless of conformity)

(Amounts are in millions of dollars)

Line No.	Provision	§IRC	Tax Type	Affects Fed. AGI (Y/N) [1]	Effective	Tax Year 2025	Tax Year 2026	Tax Year 2027	Tax Year 2028	Tax Year 2029	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
1	Allowance of bronze and catastrophic plans in connection with health savings accounts	\$223	I	n/a	2025/26	(\$0.3)	(\$0.7)	(\$0.9)	(\$1.0)	(\$1.1)	(\$1.0)	(\$0.9)	(\$1.0)	(\$1.1)
2	Permanent extension of safe harbor for absence of deductible for telehealth services	\$223	I	n/a	2025/26	(\$0.3)	(\$0.7)	(\$1.0)	(\$1.2)	(\$1.3)	(\$1.0)	(\$1.0)	(\$1.2)	(\$1.3)
3	Treatment of direct primary care service arrangements	\$223	I	n/a	2025/26	(\$0.2)	(\$0.4)	(\$0.6)	(\$0.7)	(\$0.8)	(\$0.7)	(\$0.6)	(\$0.7)	(\$0.8)
4	Certain postsecondary credentialing expenses treated as qualified higher education expenses for purposes of 529 accounts (impact included in line 5 below)	\$529	I	n/a	2026	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
5	Additional expenses treated as qualified higher education expenses of purposes of 529 accounts	\$529	I	n/a	2026	\$0	(\$0.1)	(\$0.2)	(\$0.2)	(\$0.3)	(\$0.1)	(\$0.2)	(\$0.2)	(\$0.3)
6	Rollovers from 529 plans to qualified 529A plans (ABLE Plans)	§529(c)(3)	I	n/a	2026	\$0	Negligible	Negligible	Negligible	Negligible	\$0	\$0	\$0	\$0
7	Extension and enhancement of increased limitation on contributions to ABLE accounts	§529A	I	n/a	2026	\$0	Negligible	Negligible	Negligible	Negligible	\$0	\$0	\$0	\$0
8	Income from hydrogen storage, carbon capture, advanced nuclear, hydropower, and geothermal energy added to qualifying income of certain publicly traded partnerships	§7704(d)(1)(E)	I	n/a	2026	\$0	(\$0.0)	(\$0.0)	(\$0.0)	(\$0.0)	(\$0.0)	(\$0.0)	(\$0.0)	(\$0.0)
9														
10	Total Individual (includes portion of business provisions)					(\$0.8)	(\$1.9)	(\$2.6)	(\$3.2)	(\$3.4)	(\$2.7)	(\$2.6)	(\$3.2)	(\$3.4)
11	Total Corporate (includes portion of business provisions)					\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
12	Total					(\$0.8)	(\$1.9)	(\$2.6)	(\$3.2)	(\$3.4)	(\$2.7)	(\$2.6)	(\$3.2)	(\$3.4)

Notes:

n/a - See note [1]

Negligible - impact of provision is immaterial

Internal revenue code section references provided by SC Department of Revenue

[1] - Federal AGI column only applies to individuals; does not address businesses (pass-through or corporate)

Tax Types:

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