

# Statement of Estimated State Revenue Impact

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**Bill Number:** S.279

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**Committee Requesting Impact:** Senate Finance

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## Bill Summary

TO AMEND THE CODE OF LAWS OF SOUTH CAROLINA, 1976, BY ADDING SECTION 12-6-1145 SO AS TO AUTHORIZE A DEDUCTION FROM STATE OF SOUTH CAROLINA TAXABLE INCOME UP TO SPECIFIED AMOUNTS FOR TUITION PAID BY A PARENT OR LEGAL GUARDIAN FOR THEIR CHILD OR WARD TO ATTEND AN INDEPENDENT SCHOOL OR A PUBLIC SCHOOL OUTSIDE THE CHILD'S OR WARD'S SCHOOL DISTRICT OF RESIDENCE, AND TO ALSO AUTHORIZE A SIMILAR INCOME TAX DEDUCTION UP TO A SPECIFIED AMOUNT TO A PARENT OR LEGAL GUARDIAN FOR HOME SCHOOL EXPENDITURES; AND BY ADDING SECTION 12-6-1146 SO AS TO AUTHORIZE A CREDIT AGAINST A TAXPAYER'S SOUTH CAROLINA INCOME TAX LIABILITY OR CERTAIN OTHER TAX LIABILITY FOR CONTRIBUTIONS MADE TO NONPROFIT SCHOLARSHIP FUNDING ORGANIZATIONS THAT PROVIDE GRANTS FOR CHILDREN WHO ARE ELIGIBLE FOR THE FEDERAL FREE OR REDUCED SCHOOL LUNCH PROGRAM, WHO ARE "EXCEPTIONAL NEEDS" CHILDREN, OR WHOSE FAMILIES MEET THE REQUIREMENTS FOR FEDERAL MEDICAID BENEFITS TO ATTEND INDEPENDENT SCHOOLS OF THEIR CHOICE, AND TO PROVIDE THE PROCEDURES FOR, AND CONDITIONS AND LIMITATIONS OF THESE TAX CREDITS.

## REVENUE IMPACT <sup>1/</sup>

This bill will reduce General Fund income taxes, insurance premium taxes, and bank license fees by \$38,957,058 in FY 2013-14.

## Explanation of Bill

This bill allows a \$2,000 tax deduction for instruction-related expenses paid for a student to attend a home school, a \$4,000 tax deduction for tuition, textbook and other fees, and school-related transportation paid for a student to attend an independent school, and a \$1,000 deduction for public school students to attend a school district which is not their school district of residence. Beginning with FY 2014-15 the dollar amount of the deductions must be increased on an annual basis by an inflation factor equal to the percentage increase in the previous year of the Consumer Price Index, Southeast Region, plus the percentage increase in the previous year in the population of the State as determined by the Office of Research and Statistics of the State Budget and Control Board.

The legislation also allows a tax credit for contributions to nonprofit scholarship funding organizations of up to \$15 million per year for students eligible for the federal free or reduced price lunch program or whose family qualifies for Medicaid benefits and an additional tax credit of up to \$10 million per year for scholarship contributions to nonprofit organizations for exceptional needs' children. The two tax credits may be applied to individual and corporate income taxes, insurance premium taxes, or bank license fees. Both tax credits are limited to 60% of the taxpayers' tax liability. Unused credits may be carried forward for five years.

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Based on the experience of similar tax credits in other states, we expect that South Carolina taxpayers will claim the total \$25 million in tax credits allowed in FY 2013-14. Beginning with FY 2014-15 the dollar amount of the credits must be increased on an annual basis by an inflation factor equal to the percentage increase in the previous year of the Consumer Price Index, Southeast Region, plus the percentage increase in the previous year in the population of the State as determined by the Office of Research and Statistics of the State Budget and Control Board.

The following tables report our detailed estimates of the revenue impact for each deduction and credit.

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## S.279 Revenue Impact Summary of Tax Deductions for Student Tuition and Expenses and Tax Credits for Contributions to Nonprofit Scholarship Funding Organizations

**FY 2013-14**

<b>Type of Deduction</b>	<b>Number of Students Claiming Deduction</b>	<b>Total Tax Deductions Claimed</b>	<b>Total Revenue Reduction</b>
\$2,000 <b>deduction</b> for home school instruction-related expenditures	13,749	27,498,000	1,412,418
\$4,000 <b>deduction</b> for independent school tuition	52,035	208,139,000	12,384,337
\$1,000 <b>deduction</b> for public school students attending a non-resident school district	3,294	3,291,000	160,303
<b>Credit</b> against individual and corporate income taxes, insurance premium taxes, and bank license fees for contributions to a nonprofit scholarship funding organization for students eligible for the federal free or reduced price lunch program or whose families qualify for Medicaid benefits and attend an independent school			15,000,000
<b>Credit</b> against individual and corporate income taxes, insurance premium taxes, and bank license fees for contributions to a nonprofit scholarship funding organization for exceptional needs' students			10,000,000
<b>Totals</b>	69,077	238,928,000	38,957,058

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## \$2,000 Income Tax Deduction for Home School Students by SC Taxable Income FY 2013-14

(1)		(2)	(3)	(4)	(5)	(6)	(7)	(8)	
SC Taxable Income Class		Average IIT Liability Per Return	Average Tax Rate	K - 12 Total Home School Students	Tax Deductions Claimed	Total Tax Deductions Claimed	Average Tax Liability Reduction per Student	Total Revenue Reduction	
No Taxable Income		-	-	340	-	-	-	-	
1	1,000	17	0.32%	507	507	1,014,000	6	3,254	
	1,001	2,000	12	0.73%	190	190	381,000	15	2,795
	2,001	3,000	13	0.48%	172	172	345,000	10	1,639
	3,001	4,000	41	1.05%	155	155	310,000	21	3,265
	4,001	5,000	71	1.44%	146	146	293,000	29	4,206
	5,001	6,000	102	1.69%	114	114	229,000	34	3,861
	6,001	7,000	144	2.00%	83	83	167,000	40	3,346
	7,001	8,000	185	2.23%	79	79	158,000	45	3,527
	8,001	9,000	231	2.46%	75	75	149,000	49	3,671
	9,001	10,000	285	2.72%	71	71	141,000	54	3,830
	10,001	11,000	342	2.95%	65	65	130,000	59	3,834
	11,001	12,000	402	3.16%	130	130	259,000	63	8,183
	12,001	13,000	463	3.35%	121	121	242,000	67	8,101
	13,001	14,000	523	3.51%	120	120	239,000	70	8,378
	14,001	15,000	593	3.70%	108	108	216,000	74	7,988
	15,001	20,000	813	4.22%	840	840	1,679,000	84	70,848
	20,001	25,000	1,175	4.74%	862	862	1,723,000	95	81,585
	25,001	35,000	1,705	5.19%	1,276	1,276	2,552,000	104	132,378
	35,001	50,000	2,579	5.57%	987	987	1,974,000	111	109,896
	50,001	75,000	3,940	5.83%	2,099	2,099	4,199,000	117	244,922
	75,001	100,000	5,756	6.05%	1,520	1,520	3,041,000	121	184,001
	100,001	200,000	9,210	6.29%	1,843	1,843	3,687,000	126	231,770
	200,001	500,000	21,100	6.62%	1,814	1,814	3,627,000	132	240,265
	500,001	over	78,327	6.31%	371	371	743,000	126	46,873
Totals		1,542	5.71%	14,089	13,749	27,498,000	103	1,412,418	

**Columns 1-3:** BEA staff estimates of SC taxable income, average tax liability, and average tax rate are based on DOR Tax Year 2011 data and individual income tax revenue projection for FY 2013-14.

**Column 4:** BEA staff estimate of the number of home school students by income levels is based on the number of exemptions claimed on individual income tax returns and U.S. Department of Education, National Center for Educational Statistics, Parent and Family Involvement in Education Survey of the National Household Education Surveys Program, 2007. BEA staff estimate of 14,089 for the total number of home school students in FY 2013-14 is based on the most recent five years of growth as reported by a FY 2011-12 Office of Research and Statistics survey.

**Column 5:** Tax deductions claimed are estimated for all returns with income tax liability. All students are qualified pursuant to the proposed legislation, but the family return must have taxable income to claim the deduction since the deduction is non-refundable.

**Column 6:** Total tax deductions claimed is the \$2,000 deduction times the number of deductions claimed.

**Column 7:** The average tax liability reduction per student is calculated by multiplying the \$2,000 deduction times the average tax rate for taxpayers at the various levels of taxable income listed.

**Column 8:** The total revenue reduction is calculated by multiplying the average tax liability reduction per student times the number of deductions claimed at each taxable income level listed.

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## \$4,000 Income Tax Deduction for Independent School Students by SC Taxable Income FY 2013-14

(1)		(2)	(3)	(4)	(5)	(6)	(7)	(8)
SC Taxable Income Class		Average IIT Liability Per Return	Average Tax Rate	K - 12 Total Independent School Students	Tax Deductions Claimed	Total Tax Deductions Claimed	Average Tax Liability Reduction per Student	Total Revenue Reduction
No Taxable Income		-	-	531	-	-	-	-
1	1,000	17	0.32%	614	614	2,455,000	13	7,879
1,001	2,000	12	0.73%	110	110	441,000	29	3,235
2,001	3,000	13	0.48%	100	100	400,000	19	1,901
3,001	4,000	41	1.05%	90	90	360,000	42	3,792
4,001	5,000	71	1.44%	85	85	339,000	57	4,866
5,001	6,000	102	1.69%	68	68	273,000	68	4,603
6,001	7,000	144	2.00%	38	38	151,000	80	3,026
7,001	8,000	185	2.23%	35	35	141,000	89	3,147
8,001	9,000	231	2.46%	33	33	133,000	99	3,277
9,001	10,000	285	2.72%	31	31	125,000	109	3,395
10,001	11,000	342	2.95%	9	9	36,000	119	1,062
11,001	12,000	402	3.16%	188	188	753,000	126	23,792
12,001	13,000	463	3.35%	175	175	702,000	134	23,499
13,001	14,000	523	3.51%	178	178	711,000	140	24,925
14,001	15,000	593	3.70%	165	165	659,000	148	24,371
15,001	20,000	813	4.22%	982	982	3,928,000	169	165,749
20,001	25,000	1,175	4.74%	852	852	3,407,000	189	161,324
25,001	35,000	1,705	5.19%	3,520	3,520	14,078,000	207	730,256
35,001	50,000	2,579	5.57%	3,657	3,657	14,629,000	223	814,424
50,001	75,000	3,940	5.83%	6,996	6,996	27,986,000	233	1,632,385
75,001	100,000	5,756	6.05%	5,342	5,342	21,370,000	242	1,293,029
100,001	200,000	9,210	6.29%	9,662	9,662	38,646,000	251	2,429,344
200,001	500,000	21,100	6.62%	15,858	15,858	63,432,000	265	4,201,953
500,001	over	78,327	6.31%	3,246	3,246	12,984,000	252	819,104
Totals		1,542	5.71%	52,566	52,035	208,139,000	238	12,384,337

**Columns 1-3:** BEA staff estimates of SC taxable income, average tax liability, and average tax rate are based on DOR Tax Year 2011 data and individual income tax revenue projection for FY 2013-14.

**Column 4:** BEA staff estimate of the number of independent school students by income levels is based on the number of exemptions claimed on individual income tax returns and U.S. Department of Education, National Center for Educational Statistics, Parent and Family Involvement in Education Survey of the National Household Education Surveys Program, 2007. BEA staff estimate of 52,566 for the total number of independent school students in FY 2013-14 is based on the historical growth from 1995 to 2011 as reported by an Office of Research and Statistics survey of SC private schools.

**Column 5:** Tax deductions claimed are estimated for all returns with income tax liability. All students are qualified pursuant to the proposed legislation, but the family return must have taxable income to claim the deduction since the deduction is non-refundable.

**Column 6:** Total tax deductions claimed is the \$4,000 deduction times the number of deductions claimed.

**Column 7:** The average tax liability reduction is calculated by multiplying the \$4,000 deduction times the average tax rate for taxpayers at the various levels of taxable income listed.

**Column 8:** The total revenue reduction is calculated by multiplying the average tax liability reduction per student times the number of deductions claimed at each taxable income level listed.

# Statement of Estimated State Revenue Impact

## \$1,000 Income Tax Deduction for Public School Students Attending a Non-Resident School District by SC Taxable Income

FY 2013-14

(1)		(2)	(3)	(4)	(5)	(6)	(7)	(8)
SC Taxable Income Class		Average IIT Liability Per Return	Average Tax Rate	K - 12 Total Public School Students	Number of Tax Deductions Claimed	Total Tax Deductions Claimed	Average Tax Liability Reduction per Student	Total Revenue Reduction
No Taxable Income		-	-	461	-	-	-	-
1	1,000	17	3.21%	208	208	208,000	32	6,676
	1,001	12	0.73%	66	66	66,000	7	484
	2,001	13	0.48%	59	59	59,000	5	280
	3,001	41	1.05%	53	53	53,000	11	558
	4,001	71	1.44%	51	51	51,000	14	732
	5,001	102	1.69%	55	55	55,000	17	927
	6,001	144	2.00%	48	48	48,000	20	962
	7,001	185	2.23%	46	46	46,000	23	1,027
	8,001	231	2.46%	43	43	43,000	24	1,059
	9,001	285	2.72%	41	41	41,000	27	1,114
	10,001	342	2.95%	40	40	40,000	29	1,180
	11,001	402	3.16%	46	46	46,000	32	1,453
	12,001	463	3.35%	43	43	43,000	34	1,439
	13,001	523	3.51%	42	42	42,000	35	1,472
	14,001	593	3.70%	39	39	39,000	37	1,442
	15,001	813	4.22%	196	196	196,000	42	8,271
	20,001	1,175	4.74%	159	159	159,000	47	7,529
	25,001	1,705	5.19%	241	241	241,000	52	12,501
	35,001	2,579	5.57%	290	290	290,000	56	16,145
	50,001	3,940	5.83%	388	388	388,000	58	22,632
	75,001	5,756	6.05%	249	249	249,000	60	15,066
	100,001	9,210	6.29%	350	350	350,000	63	22,002
	200,001	21,100	6.62%	447	447	447,000	66	29,611
	500,001	78,327	6.31%	91	91	91,000	63	5,741
Totals		1,542	5.71%	3,755	3,294	3,291,000	49	160,303

**Columns 1-3:** BEA staff estimates of SC taxable income, average tax liability, and average tax rate are based on DOR Tax Year 2011 data and individual income tax revenue projection for FY 2013-14.

**Column 4:** BEA staff estimate of the number of public school students attending a non-resident school district by income levels is based on the number of exemptions claimed on individual income tax returns and U.S. Department of Education, National Center for Educational Statistics, Parent and Family Involvement in Education Survey of the National Household Education Surveys Program, 2007. BEA staff estimate of 3,755 for the total number of public school students attending a non-resident school district in FY 2013-14 is based on a September 2011 survey of the school districts by the BEA and the SC Association of School Business Officials.

**Column 5:** Tax deductions claimed are estimated for all returns with income tax liability. All students are qualified pursuant to the proposed legislation, but the family return must have taxable income to claim the deduction since the deduction is non-refundable.

**Column 6:** Total tax deductions claimed is the \$1,000 deduction times the number of deductions claimed.

**Column 7:** The average tax liability reduction per student is calculated by multiplying the \$1,000 deduction times the average tax rate for taxpayers at the various levels of taxable income listed.

**Column 8:** The total tuition deduction is calculated by multiplying the average tax liability reduction per student times the number of deductions claimed at each taxable income level listed.

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Frank A. Rainwater  
Chief Economist

**Analyst:** Shuford

<sup>1/</sup> This statement meets the requirement of Section 2-7-71 for a state revenue impact by the BEA, or Section 2-7-76 for a local revenue impact or Section 6-1-85(B) for an estimate of the shift in local property tax incidence by the Office of Economic Research.