

Statement of Estimated State Revenue Impact

Date: May 6, 2013 (March 19, 2013 Revenue Impact revised to update the estimated number of students)

Bill Number: S.279

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Committee Requesting Impact: Senate Finance

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 ^{1/}

This bill will reduce General Fund income taxes, insurance premium taxes, and bank license fees by \$39,096,827 in FY 2013-14.

This revised revenue impact is increased by \$139,769 from the original \$38,957,058 to update the estimated number of students.

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

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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. 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

Type of Deduction	Number of Students Claiming Deduction	Total Tax Deductions Claimed	Total Revenue Reduction
\$2,000 deduction for home school instruction-related expenditures	13,500	27,000,000	1,386,870
\$4,000 deduction for independent school tuition	52,729	210,917,000	12,549,654
\$1,000 deduction for public school students attending a non-resident school district	3,294	3,291,000	160,303
Credit 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
Credit 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
Totals	69,523	241,208,000	39,096,827

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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		-	-	334	-	-	-	-
1	1,000	17	0.32%	498	498	996,000	6	3,197
1,001	2,000	12	0.73%	187	187	374,000	15	2,743
2,001	3,000	13	0.48%	169	169	338,000	9	1,606
3,001	4,000	41	1.05%	152	152	304,000	21	3,202
4,001	5,000	71	1.44%	144	144	287,000	29	4,120
5,001	6,000	102	1.69%	112	112	225,000	34	3,794
6,001	7,000	144	2.00%	82	82	164,000	40	3,286
7,001	8,000	185	2.23%	77	77	155,000	45	3,460
8,001	9,000	231	2.46%	73	73	147,000	49	3,622
9,001	10,000	285	2.72%	69	69	139,000	54	3,775
10,001	11,000	342	2.95%	64	64	128,000	59	3,775
11,001	12,000	402	3.16%	127	127	254,000	63	8,025
12,001	13,000	463	3.35%	119	119	237,000	67	7,934
13,001	14,000	523	3.51%	118	118	235,000	70	8,238
14,001	15,000	593	3.70%	106	106	212,000	74	7,840
15,001	20,000	813	4.22%	825	825	1,649,000	84	69,582
20,001	25,000	1,175	4.74%	846	846	1,692,000	95	80,118
25,001	35,000	1,705	5.19%	1,253	1,253	2,506,000	104	129,992
35,001	50,000	2,579	5.57%	969	969	1,938,000	111	107,892
50,001	75,000	3,940	5.83%	2,061	2,061	4,123,000	117	240,489
75,001	100,000	5,756	6.05%	1,493	1,493	2,986,000	121	180,673
100,001	200,000	9,210	6.29%	1,810	1,810	3,620,000	126	227,559
200,001	500,000	21,100	6.62%	1,781	1,781	3,562,000	132	235,959
500,001	over	78,327	6.31%	365	365	729,000	126	45,989
Totals		1,542	5.71%	13,834	13,500	27,000,000	103	1,386,870

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		-	-	539	-	-	-	-
1	1,000	17	0.32%	622	622	2,488,000	13	7,985
	1,001	12	0.73%	112	112	447,000	29	3,279
	2,001	13	0.48%	101	101	406,000	19	1,929
	3,001	41	1.05%	91	91	365,000	42	3,844
	4,001	71	1.44%	86	86	344,000	57	4,938
	5,001	102	1.69%	69	69	276,000	67	4,653
	6,001	144	2.00%	38	38	153,000	80	3,066
	7,001	185	2.23%	36	36	143,000	89	3,192
	8,001	231	2.46%	34	34	134,000	98	3,301
	9,001	285	2.72%	32	32	126,000	108	3,422
	10,001	342	2.95%	9	9	36,000	117	1,062
	11,001	402	3.16%	191	191	763,000	126	24,108
	12,001	463	3.35%	178	178	711,000	134	23,801
	13,001	523	3.51%	180	180	720,000	140	25,240
	14,001	593	3.70%	167	167	668,000	148	24,704
	15,001	813	4.22%	995	995	3,980,000	169	167,943
	20,001	1,175	4.74%	863	863	3,453,000	189	163,502
	25,001	1,705	5.19%	3,567	3,567	14,266,000	207	740,008
	35,001	2,579	5.57%	3,706	3,706	14,824,000	223	825,280
	50,001	3,940	5.83%	7,090	7,090	28,360,000	233	1,654,200
	75,001	5,756	6.05%	5,414	5,414	21,655,000	242	1,310,273
	100,001	9,210	6.29%	9,791	9,791	39,162,000	251	2,461,781
	200,001	21,100	6.62%	16,070	16,070	64,279,000	265	4,258,061
	500,001	78,327	6.31%	3,289	3,289	13,158,000	252	830,081
Totals		1,542	5.71%	53,268	52,729	210,917,000	238	12,549,654

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.

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\$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.

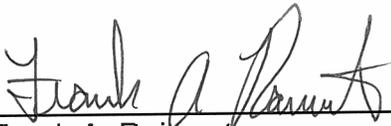
Column 5: Tax deductions claimed are estimated for all returns with income tax liability. All students are qualified pursuant to the proposed legislation, but the family return must have taxable income to claim the deduction since the deduction is non-refundable.

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
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Analyst: Shuford

^{1/} 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.