

Statement of Estimated State Revenue Impact

Date: May 13, 2014 (As amended by the Senate on June 5, 2013)

Bill Number: S.387

Authors: O'Dell, Campbell, Cromer, Hembree, Setzler, McGill, and Johnson

Committee Requesting Impact: Ways and Means

Bill Summary

TO AMEND SECTION 12-10-95, AS AMENDED, CODE OF LAWS OF SOUTH CAROLINA, 1976, RELATING TO THE CREDIT AGAINST WITHHOLDING FOR RETRAINING, SO AS TO INCREASE THE CREDIT, TO SPECIFY ELIGIBLE EMPLOYEES AND PROGRAMS, TO PROVIDE THAT A BUSINESS MAY NOT CLAIM THE CREDIT IF THE EMPLOYEE IS REQUIRED TO REIMBURSE OR PAY FOR THE COSTS OF THE RETRAINING, TO INCREASE THE MATCH AMOUNT FOR THE BUSINESS, AND TO PROVIDE THE PROGRAMS ARE SUBJECT TO REVIEW BY THE DEPARTMENT OF REVENUE AND THE STATE BOARD OF TECHNICAL AND COMPREHENSIVE EDUCATION; TO AMEND SECTION 12-10-105, AS AMENDED, RELATING TO THE ANNUAL FEE FOR A BUSINESS CLAIMING THE CREDIT, SO AS TO PROVIDE THAT THE ANNUAL FEE IS NOT APPLICABLE TO THE RETRAINING CREDIT; AND TO AMEND SECTION 12-20-105, AS AMENDED, RELATING TO THE CREDIT AGAINST THE LICENSE TAX FOR CERTAIN INFRASTRUCTURE EXPENSES, SO AS TO PROVIDE THAT AN ELIGIBLE PROJECT MAY BE OWNED OR CONSTRUCTED BY A GOVERNMENTAL ENTITY IF THE PROJECT IS EXPECTED TO CONTRIBUTE TO THE ECONOMIC DEVELOPMENT OF THE GOVERNMENTAL ENTITY, TO FURTHER SPECIFY ELIGIBLE INFRASTRUCTURE, AND TO PROVIDE THAT A GOVERNMENTAL ENTITY MAY SELL THE PROJECT AFTER THE COMPANY PAYS FOR THE INFRASTRUCTURE.

REVENUE IMPACT ^{1/}

This bill will decrease General Fund income tax revenue by \$2,000,000 and General Fund corporate license tax revenue by \$1,700,000 in FY 2014-15. The bill also decreases Other Fund revenue by \$8,000 for the Department of Revenue and \$35,000 for the Coordinating Council for Economic Development in FY2014-15.

Explanation of bill as amended by the Senate on June 5, 2013

This amendment, contained in Section 4 of the bill, allows a taxpayer that is subject to a corporate license tax to be eligible to claim a credit against its license tax liability for amounts paid in cash to provide infrastructure for an eligible project. Traditionally, the allowable costs included site preparation costs, but are not limited to clearing, grubbing, grading, and stormwater retention expenses of the project. This Section would amend Section 12-20-105 by adding subsection (l) to include in the definition of an eligible project for the promotion of economic development a county or municipality owned multiuse sports and recreational complex. This section would further define infrastructure of a multiuse sports and recreational complex to include the costs of land acquisition and preparation, the construction of facilities and venues, improvements and upgrades to existing facilities and venues, and any other capital costs incurred in the acquisition, construction, and operation of the complex. The complex must be located in a county that has collected at least \$5,000,000 in state accommodations tax revenue in at least one fiscal year. The only counties that meet this threshold requirement are Beaufort, Charleston, and Horry counties.

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Act 187 of 2012 increased the maximum aggregate credit that may be claimed by a single company to \$400,000 in any tax year. Although there are five electric utilities that directly serve the three eligible counties, any electric utility provider that has not reached the maximum aggregate credit amount may make a cash contribution to an eligible project. There is currently one project in Horry County that meets the amended definition of an eligible project of a county or municipality owned multiuse sports and recreational complex. The new facility is expected to expand sports tourism in the North Grand Strand Area. The complex is targeting college and youth baseball and softball events with plans to expand to other events in the future. Plans also include an amphitheater, a veteran's memorial, and a lakefront area with water sports attractions. The projected \$19,000,000 multiuse complex is comprised of \$12,000,000 in hospitality fee revenue and revenue from a one-cent sales tax for tourism, and \$7,000,000 in state funding for the land purchase.

Based on information from the Department of Revenue in a statutorily-issued report summarizing the history of the tax credits allowed pursuant to this section, there is additional capacity in the tax credits claimed by electric utilities each year. We expect that one or two companies will meet the amended criterion each fiscal year, but not up to the maximum credit contribution limit. This section, therefore, is expected to reduce state corporate license tax revenue by an estimated \$500,000 in FY2014-15. This act takes effect upon approval by the Governor and applies for contributions made for a multiuse sports and recreational complex placed in service after 2011.

Explanation of bill as amended by Senate Finance Subcommittee on March 5, 2013

Section 1 of this amendment increases the job retraining credit against withholding tax from \$500 a year not to exceed \$2,000 over five consecutive years to \$1,000 per year not to exceed \$5,000 over five consecutive years. A further provision in this Section requires qualifying businesses to expend at least \$1.50 for every \$1 claimed as a credit against withholding tax. Current statute requires the business to match retraining expenditures on a dollar for dollar basis. The proposed legislation clarifies and expands the definitions of eligible employees and the eligible retraining programs. Subpart (F) of this legislation deletes the requirement that businesses claiming the retraining credits are subject to the reporting and audit requirements in §12-10-80(A). Specifically, this deletes the requirement of an annual report that itemizes the sources and uses of these funds and the requirement that each qualifying business with claims in excess of \$10,000 per year be audited at least once every three years by the Department of Revenue. Department of Revenue data report that job retraining credits have averaged \$2,000,000 annually over the last five years. Factoring in these proposed changes, we anticipate that the amount of job retraining credits claimed will effectively double, thereby decreasing General Fund income tax revenue by \$2,000,000 in FY 2013-14.

This amendment reduces the \$500 annual renewal fee shared equally between the Coordinating Council for Economic Development and the Department of Revenue to \$250 with the revenue being retained by the Department of Revenue. Revenue from this annual renewal fee has averaged \$70,000 over the last three years. Reducing the fee to \$250 will

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reduce total fee revenue by \$35,000 annually. The new allocation of this revenue entirely to the Department of Revenue will reduce Other Fund revenue for the Coordinating Council for Economic Development \$35,000 in FY 2013-14. The amendment will not impact Other Fund revenue for the Department of Revenue from this fee.

Section 2 of the amendment increases the threshold for businesses required to pay an annual \$1,000 annual fee. Businesses will remit the annual fee only if claim in excess of \$40,000 in job retraining credits. Currently, businesses that claim in excess of \$10,000 in job retraining credits must remit the annual fee. The Department of Revenue reports that these fees have averaged \$20,000 per year over the last three years and that eight firms job retraining credits fall below the proposed \$40,000 threshold. This provision would reduce Other Fund revenue for the Department of Revenue by \$8,000 in FY 2013-14.

This amendment does not alter the provisions of Section 3 of the bill, as introduced, expanding the utility tax credit in §12-20-105. The estimated revenue impact of Section 3 of the original bill is explained below.

Explanation of bill as introduced

Section 1 of this bill increases the job retraining credit against withholding tax from \$500 a year not to exceed \$2,000 over five consecutive years to \$1,000 per year not to exceed \$5,000 over five consecutive years. A further provision in this Section requires qualifying businesses to expend at least \$1.50 for every \$1 claimed as a credit against withholding tax. Current statute requires the business to match retraining expenditures on a dollar for dollar basis. The proposed legislation clarifies and expands the definitions of eligible employees and the eligible retraining programs. Subpart (F) of this legislation deletes the requirement that businesses claiming the retraining credits are subject to the reporting and audit requirements in §12-10-80(A). Specifically, this deletes the requirement of an annual report that itemizes the sources and uses of these funds and the requirement that each qualifying business with claims in excess of \$10,000 per year be audited at least once every three years by the Department of Revenue. Department of Revenue data report that job retraining credits have averaged \$2,000,000 annually over the last five years. Factoring in these proposed changes, we anticipate that the amount of job retraining credits claimed will effectively double, thereby decreasing General Fund income tax revenue by \$2,000,000 in FY 2013-14.

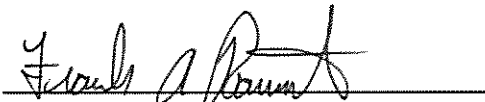
Section 1 also deletes the \$500 annual renewal fee shared equally between the Coordinating Council for Economic Development and the Department of Revenue. Revenue from this annual renewal fee has averaged \$70,000 over the last three years. Elimination of the fee will reduce Other Fund revenue for the Coordinating Council for Economic Development and the Department of Revenue by \$35,000 each in FY 2013-14.

Section 2 of the bill deletes the \$1,000 annual fee remitted to the Department of Revenue by businesses claiming in excess of \$10,000 in job retraining credits. The Department of Revenue reports that these fees have averaged \$20,000 per year over the last three years.

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This provision would reduce Other Fund revenue for the Department of Revenue by \$20,000 in FY 2013-14.

Section 3 of the bill expands the eligibility for the license fee tax credit in §12-20-105 to projects owned or constructed by governmental entities. Current law restricts the credit to projects owned by local political subdivisions located in an office, business, commercial, or industrial park. The bill also expands the existing credit to project expenditures relating to compliance with the site certification requirements of the South Carolina Department of Commerce. This program assists communities in determining the marketability of existing sites and certifies these sites are ready for industrial development. In FY 2012-13, 30 utilities and electric cooperatives claimed \$7,120,646 in credits through the existing statute. Approximately 83 entities are eligible for this credit. If the proposed expansion increases the number of utilities claiming the credit by 10%, or three additional utilities at the maximum annual credit of \$400,000, this bill would decrease General Fund corporate license fee revenue by \$1,200,000 in FY 2013-14.


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¹⁷ This statement meets the requirement of Section 2-7-71 for a state revenue impact by the BEA, 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.