

Statement of Estimated State Revenue Impact

Date: March 11, 2013

Bill Number: S.387

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

Committee Requesting Impact: Finance

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 \$1,200,000 in FY 2013-14. 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 FY2013-14.

Explanation of bill as amended by 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.

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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 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

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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. 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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^{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.