

Statement of Estimated State and Local Revenue Impact

Date: May 20, 2014 (As amended on May 15, 2014 by the House Ways & Means Committee)

Bill Number: S. 437

Authors: Cleary, Reese, Rankin, et al.

Committee Requesting Impact: House Ways & Means

Bill Summary

A bill to amend Section 12-43-220, as amended, Code of Laws of South Carolina, 1976, relating to valuation and classification of property for purposes of the property tax, so as to provide that the owner-occupant of residential property qualifies for the four percent assessment ratio allowed owner-occupied residential property, if the owner is otherwise qualified and the residence is not rented for more than one hundred days a year, and to delete other references to rental of these residences; and to amend Section 12-54-240, relating to disclosure of records, reports, and returns with the Department of Revenue, so as to provide verification that the federal Schedule E conforms with the same document required by a county assessor is not prohibited.

REVENUE IMPACT ^{1/}

State: This bill as amended will reduce General Fund Revenue by \$52,000 in FY 2015-16 for increased obligations to the Property Tax Relief Trust Fund for homestead exemption reimbursements. We expect this reduction to be partially offset by increased income tax revenue as taxpayers take advantage of this provision and rent their primary residence for more days. Additionally, we expect that this bill as amended will have a minimal impact on lowering accommodations sales tax revenue.

Local: Local property tax revenue would be reduced by an estimated \$1,056,000. State reimbursements would increase by \$52,000 for a net local revenue loss of \$1,004,000 in FY 2015-16.

Explanation of Amendment (May 15, 2014) – House Ways & Means Committee

The amendment adds a section to amend Section 12-36-920(A) regarding sales tax on accommodations. Currently, sales tax on accommodations excludes property that consists of less than six sleeping rooms, which is used as the individual's place of abode. The amendment adds an exclusion for any property for which the gross rental proceeds are wholly excluded from gross income of the taxpayer pursuant to IRS Code Section 280(A)(g). This IRS provision allows a taxpayer to exclude rental income for a taxpayer's residence that is rented for less than fifteen days. This amendment would extend the sales tax exemption on accommodations to a taxpayer's legal residence rented less than fifteen days with six or more sleeping rooms. Based upon data from the Census's 2012 American Community Survey, 1.2% of single family homes in the US have six or more sleeping rooms. Therefore, we expect that this amendment will have a minimal impact on accommodations sales tax revenue.

The amendment also changes the effective date for Section 1 of the bill that allows a taxpayer to rent a property for up to 72 days and retain the special 4% assessment ratio as addressed below. The provision would now apply to tax years after 2014. This bill as

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amended will reduce General Fund Revenue by \$52,000 in FY 2015-16 for increased obligations to the Property Tax Relief Trust Fund for homestead exemption reimbursements. We expect this reduction to be partially offset by increased income tax revenue as taxpayers take advantage of this provision and rent their primary residence for more days. Local property tax revenue would be reduced by an estimated \$1,056,000. State reimbursements would increase by \$52,000 for a net local revenue loss of \$1,004,000 in FY 2015-16.

Explanation of Amendment (June 4, 2013) - Senate

The amendment revises the number of days that a property may be rented and still qualify for the special 4% assessment ratio from 100 days to 72 days. Currently, an owner-occupied home can be rented for up to 15 days and still remain eligible for the 4.0% assessment ratio. Based on conversations with various county assessors' offices and other county offices, we estimate that approximately 470 properties would qualify for the owner occupied special assessment if the property may be rented for up to 72 days. Of these properties approximately 226 would further qualify for the over age 65 homestead exemption of \$50,000. We estimate that General Fund revenue will be reduced by \$52,000 in FY 2014-15 for increased Property Tax Relief Trust Fund reimbursements for homestead exemptions excluding school operations. All other owner occupied reimbursements are capped and will not be affected by the increase in homes qualifying for owner occupied status. The projected General Fund loss would be partially offset by additional income tax revenue as taxpayers elect to rent their home for additional days due to this provision. However, we do not have a reasonable basis of determining the number of taxpayers affected or the resultant income tax increase.

For the 470 properties newly qualifying for the owner occupied assessment ratio, local property taxes will be reduced for the lower assessment ratio and for the full property tax exemption from school operations millage allowed for owner occupied properties since state reimbursements for school operations are capped. Additionally property tax revenue will be reduced for the over 65 homestead exemption newly qualifying properties. We estimate local property tax revenue will be reduced by \$1,056,000 in FY 2014-15 for the reduced assessment ratio, the school operations exemptions, and homestead exemptions. State homestead exemption reimbursements will increase \$52,000 for a net local revenue loss of \$1,004,000 in FY 2014-15.

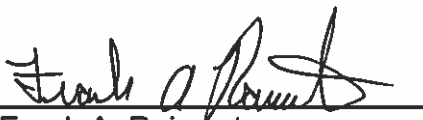
Explanation of Bill as Filed

Under current law, owner occupied homes are assessed at 4.0% for property tax purposes while all other homes are assessed at 6.0%. Currently, an owner-occupied home can be rented for up to fifteen days and still remain eligible for the 4.0% assessment ratio. This bill would allow the home to qualify for the 4.0% assessment ratio if it is not rented for more than one hundred days in a calendar year. Based on conversations with various county assessors' offices and other county offices, we estimate that approximately 650 properties would qualify for the owner occupied special assessment if the property may be rented for up to 100 days. Of these properties approximately 267 would further qualify for the over age 65 homestead exemption of \$50,000. We estimate that General Fund revenue will be reduced by \$60,000 in FY 2013-14 for increased Property Tax Relief Trust Fund reimbursements for homestead exemptions excluding school operations. All other owner occupied reimbursements are

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capped and will not be affected by the increase in homes qualifying for owner occupied status. The projected General Fund loss would be partially offset by additional income tax revenue as taxpayers elect to rent their home for additional days due to this provision. However, we do not have a reasonable basis of determining the number of taxpayers affected or the resultant income tax increase.

For the 650 properties newly qualifying for the owner occupied assessment ratio, local property taxes will be reduced for the lower assessment ratio and for the full property tax exemption from school operations millage allowed for owner occupied properties since state reimbursements for school operations are capped. Additionally property tax revenue will be reduced for the over 65 homestead exemption newly qualifying properties. We estimate local property tax revenue will be reduced by \$1,433,000 in FY 2013-14 for the reduced assessment ratio, the school operations exemptions, and homestead exemptions. State homestead exemption reimbursements will increase \$60,000 for a net local revenue loss of \$1,373,000 in FY 2013-14.



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¹¹ 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.