Statement of Estimated State and Local Revenue Impact

Date: June 5, 2014 (As Enrolled for Ratification on June 3, 2014)

Bill Number: S. 437

Authors: Cleary, Reese, Rankin, et al.

Committee Requesting Impact: Senate

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 2014-15 for increased homestead exemption reimbursements from the Property Tax Relief Trust Fund. 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, Section 2 is expected to reduce accommodations sales tax revenue by a minimal amount. Further, Section 4 will reduce General Fund deed recording fee revenue by $9,095, and revenue designated for the Conservation Bank Trust Fund would be reduced by $3,032 in FY 2014-15.

Local: Local property tax revenue would be reduced by an estimated $1,160,000. State reimbursements would increase by $52,000 for a net local revenue decline of $1,108,000 in FY 2014-15. Section 6 is expected to have a limited local property tax revenue impact, but the amount is currently undetermined.

Explanation of Amendment (May 29, 2014) – Senate
The Senate further amended the bill by changing the effective date for Section 1 from tax year 2015 to tax year 2014. Section 1, as discussed in the explanation of the Senate amendment on June 4, 2013 below, allows a taxpayer to rent a property for up to 72 days and retain the special 4% assessment ratio. We estimate this section will reduce General Fund Revenue by $52,000 in FY 2014-15 for increased homestead exemption reimbursements from the Property Tax Relief Trust Fund. 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 will be reduced by an estimated $1,056,000. State reimbursements will increase by $52,000 for a net local revenue reduction of $1,004,000 in FY 2014-15.

Sections 2 and 3 of the amended bill are unchanged from the bill as amended by the House Ways & Means Committee on May 15, 2014. As discussed below, these sections 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. Currently, the exemption only applies to a legal residence with less than six sleeping rooms. We expect that this amendment will have a minimal impact on accommodations sales tax revenue.

Section 4A: This section would amend Section 12-37-220(B)(16) to expand the property tax exemption to include trusts established solely for the benefit of a religious organization. Currently this exemption applies to property of any religious, charitable, eleemosynary, educational, or literary society, corporation, or other association. The property must be used by the organization for the conduct of its business and no profit or benefit may be derived from the use of the property for any private stockholder or individual. This bill would extend the exemption to property held in a trust exclusively for the benefit of a religious organization. Based on information from the U.S. Department of the Treasury, Internal Revenue Service, nearly $404,191,000 in real estate was transferred as a charitable contribution to religious organizations under a trust form of ownership in the United States during tax year 2009. Adjusting this figure to SC, we estimate that approximately $6,062,865 in property annually would qualify for the expanded exemption. If this property is exempted from property taxes, we estimated that this would reduce local property tax revenue by $104,000 in FY 2014-15. The scope of the property qualifying for this exemption is expected to be limited; however, the potential impact may vary greatly from our estimate depending upon the value of the property exempted.

Section 4B: This section would amend Section 12-24-40(8) to exempt from the deed recording fee transfers from a trust established for the benefit of a religious organization. As referenced in Section 1 above, $404,191,000 in real estate was transferred as a charitable contribution to religious organizations under a trust form of ownership in the United States during tax year 2009. After adjusting this information to the state level and applying the deed recording fee pursuant to Section 12-24-10, this yields a reduction of an estimated $12,127 in deed recording fee revenue in FY 2014-15. Of this amount, General Fund deed recording fee revenue would be reduced by $9,095 and revenue designated for the Conservation Bank Trust Fund would be reduced by $3,032 in FY 2014-15.

Section 5: This section allows for property held by immediate family members in an irrevocable trust, limited partnership, limited liability company, or any combination thereof to qualify for the special assessment ratio for owner occupied property. The bill requires that the applicant must otherwise qualify for the four percent assessment ratio and no member of the applicant's household may claim the four percent assessment ratio on another residence. Currently, if a claimant owns less than 50% of a property, he/she may only claim the four percent assessment ratio on the portion of the property owned. This would exempt properties held by immediate family members in a trust, partnership, and/or limited liability company from the percentage reduction. Based upon discussions with county assessors, we expect very few properties will be impacted by this change due to the limited scope and the requirements included. The impact on local property tax revenue is expected to be minimal.

Section 6: This section amends Section 12-43-220(c)(1) to allow a person claiming the special four percent assessment ratio, who only rents a portion of the mobile home or single family residence, to retain the four percent assessment ratio on the entire home. The impact is expected to vary statewide. We received input from some counties that this would have a minimal impact. However, other counties expected this to have a broader impact because partial rentals are more prevalent, but we have not received any estimates on the anticipated overall impact. Therefore at this time, we anticipate that the impact will be limited to specific counties in which this situation is more prevalent, but the impact is undetermined.

Explanation of Amendment (May 27, 2014) – House of Representatives
The House adopted the amended version of the bill passed by the House Ways & Means Committee.

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 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 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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[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.