Bill Number:	S. 0076 Signed by Governor on May 26, 2020
Author:	Cromer
Subject:	Energy-Efficient Manufactured Homes Incentive Program; Extend the Program for Five Years
Requestor:	Senate
RFA Analyst(s):	Jolliff
Impact Date:	November 20, 2020

Fiscal Impact Summary

This bill is not expected to impact expenditures for the Department of Revenue (DOR) or the Secretary of State because it extends existing responsibilities that can be accomplished with existing staff and resources.

This bill will reduce General Fund individual income tax revenue by approximately $21,000 in FY 2020-21, $42,000 per year from FY 2021-22 through FY 2023-24, and $21,000 in FY 2024-25 by extending the Energy-Efficient Manufactured Homes Incentive Program income tax credit until July 1, 2024.

The bill will reduce General Fund sales tax revenue by approximately $40,000 and EIA revenue by $10,000 beginning in FY 2020-21 for five years through FY 2023-24 by extending the sales tax exemption for energy-efficient manufactured homes. Based upon discussions with DOR, any taxpayer who paid excess sales tax during FY 2019-20 would be eligible for a refund, which would potentially increase the initial impact in FY 2020-21. However, manufactured home sellers may or may not have been aware of the temporary change to the sales tax amount, and taxpayers may not be aware that they are eligible for a refund. As a result, we anticipate that refunds will be minimal.

The bill is expected to decrease General Fund individual income tax revenue by $5,000,000 annually in FY 2020-21 through FY 2025-26 by extending the High Growth in Small Business Job Creation Act. Extending the credit beyond the original expiration period means that the credit will continue to impact General Fund revenue longer than had been previously authorized. With the extension, we expect credits to continue to reach the $5,000,000 limit in each of the next six years and reduce General Fund revenues by a similar amount.

Explanation of Fiscal Impact

Signed by Governor on May 26, 2020
State Expenditure
Section 1 extends the Energy-Efficient Manufactured Homes Incentive Program income tax credit until July 1, 2024. The program provides an income tax credit of $750 for any person who purchases a qualifying energy-efficient manufactured home. The tax credit was set to expire July 1, 2019, but was extended through June 30, 2020, by Proviso 73.6 of the FY 2019-20 Appropriations Act. The bill further extends the credit to July 1, 2024. Since this is an extension

of an existing tax credit, the bill is not expected to impact DOR's expenditures for administration of the credits.

Section 2 reinstates the sales tax exemption for energy-efficient manufactured homes, which expired July 1, 2019, to July 1, 2024. Since this is a reinstatement of an exemption, the bill is not expected to impact DOR's expenditures for administration of the exemption.

Section 3 reinstates the High Growth in Small Business Job Creation Act of 2013, which expired on December 31, 2019, until December 31, 2025. The Act created a non-refundable income tax credit for angel investors contributing capital to a qualified business. Angel investors accredited by the U.S. Securities and Exchange Commission and required to pay taxes in this state are eligible for the tax credit for investments in qualified businesses. In order to become a qualified business, a company must meet certain requirements and register with the Secretary of State. Qualified businesses must meet organizational requirements and primarily engage in manufacturing, processing, warehousing, wholesaling, software development, information technology services, research and development, or similar services.

The Act directs DOR to administer the tax credit. Because the total amount of credits allowed may not exceed $5,000,000 for all taxpayers in a calendar year, investors are required to apply to DOR for preapproval of the credit. This provision ensures that the total amount of credits does not exceed the limitation. Each year DOR must notify taxpayers of the amount they may claim. If the total credits exceed the limitation, the tax credits must be allocated among the angel investors who filed a timely application on a pro-rata basis.

Additionally, DOR is required to report to the House Ways and Means Committee, the Senate Finance Committee, and the Governor by county the number of angel investor tax credit applications the department has received, the number of applications approved, and the tax credits approved each year. Extending the availability of the credit through 2025 is not expected to impact expenditures for DOR, as the department is currently administering the tax credit and will continue this process.

Businesses are required to register with the Secretary of State to ensure that they meet the requirements of the Act. Further, the Secretary is required to produce an annual report to the House Ways and Means Committee, the Senate Finance Committee, and the Governor listing the businesses that have registered with the Secretary as qualified businesses and other relevant statistics on the program. Based upon previous information from the Secretary of State's Office regarding similar legislation, extending the availability of the credit through 2025 is not expected to impact expenditures for the agency, as staff is currently performing these responsibilities and will continue this process.

State Revenue

Section 1. This section extends the Energy-Efficient Manufactured Homes Incentive Program income tax credit until July 1, 2024. The tax credit was extended through June 30, 2020, by Proviso 73.6 of the FY 2019-20 Appropriations Act. The program provides a non-refundable income tax credit of $750 for any person who purchases a qualifying manufactured home. In order to qualify, the manufactured home must meet either the energy-saving efficiency requirements set by the U.S. Environmental Protection Agency and the U.S. Department of Energy or ENERGY STAR requirements. The home also must be purchased from a retail dealership licensed by the S.C. Manufactured Housing Board for use in this state.

Based upon tax year 2014 to 2018 individual income tax returns, an average of 56 taxpayers claim this tax credit each year at $750 per return for a total of $42,000 per tax year. Credits are earned on a fiscal year basis but must be claimed on a tax year basis and may not be carried forward. We assume that purchases are evenly distributed throughout the year and that purchases for July through December 2020 will be claimed on tax returns filed in April 2021. Therefore, we estimate that this section of the bill will reduce General Fund individual income tax revenue by approximately $21,000 in FY 2020-21, $42,000 per year from FY 2021-22 through FY 2023-24, and $21,000 in FY 2024-25 when the credit expires.

Section 2. This section reinstates the sales tax exemption for energy-efficient manufactured homes, until July 1, 2024. The exemption expired July 1, 2019. In order to qualify for the credit, the home must meet either the energy saving efficiency requirements set by the U.S. Environmental Protection Agency and the U.S. Department of Energy or ENERGY STAR requirements.

The sales tax for manufactured homes is calculated based upon the home value discounted by 65 percent. For homes with a discounted value up to $6,000, the tax is 5 percent of the discounted value up to $300. For homes with a discounted value over $6,000, the sales tax is $300 plus 2 percent of the excess of the discounted value of the home above $6,000. Section 2 of the bill reinstates the exemption for the sales tax in excess of $300 until July 1, 2024.

According to 2018 data reported by the U.S. Commerce Department's Census Bureau, the average sales price for a new manufactured home in South Carolina was $78,000. Multiplying $78,000 by 65 percent yields a discounted value of $50,700 subject to the sales tax. Subtracting the $6,000 of value taxed at $300, $44,700 of home value is taxed at 2 percent, for an additional sales tax of $894. Therefore, the exemption reduces sales tax revenue by approximately $894 per qualifying manufactured home.

Based upon utilization of the Energy-Efficient Manufactured Home tax credit described in Section 1 above, we expect that 56 taxpayers will qualify for the exemption annually. Multiplying $894 by 56 taxpayers, the sales tax exemption is expected to total approximately $50,000 per year.

Therefore, this section of the bill will reduce General Fund sales tax revenue by $40,000 and EIA fund revenue by $10,000 annually beginning in FY 2020-21 for five years through FY 2023-24. Based upon discussions with DOR, any taxpayer who paid sales tax in excess of $300 during FY 2019-20 would be eligible for a refund, which would potentially increase the initial impact in FY 2020-21. However, manufactured home sellers may or may not have been aware of the temporary change to the sales tax amount, and taxpayers may not be aware that they are eligible for a refund. As a result, we anticipate that refunds will be minimal.

Section 3. This section extends the High Growth in Small Business Job Creation Act of 2013, which expired on December 31, 2019, until December 31, 2025. Under the Act, an angel investor is entitled to a non-refundable income tax credit of 35 percent of its qualified investment. Of the credit amount earned, 50 percent of the credit may be applied to the angel investor's net income tax liability in the tax year during which the qualified investment is made, and 50 percent of the credit may be applied to the angel investor's net income tax liability in the tax year after the investment is made. The credit may be carried forward for up to ten years.

The total amount of credits allowed may not exceed $5,000,000 for all taxpayers in a calendar year. The aggregate credit amount earned by an individual for one or more qualified investments in a tax year, either directly or allocated to a person by a pass-through entity, is limited to $100,000. The credit is transferrable and may be sold, exchanged, or otherwise transferred. However, a tax credit or increment thereof may only be transferred once.

The amount of tax credits approved by DOR has grown annually since the inception of the Act. DOR approved the maximum of $5,000,000 for 2017, $4,779,113 for 2018, and the maximum of $5,000,000 in 2019. Based upon this experience, we anticipate that tax credits will reach the maximum in future years as well. Extending the credit beyond the original expiration period means that the credit will continue to impact General Fund Revenue longer than had been previously authorized. With the extension, we expect credits to continue to reach the $5,000,000 limit in each of the next six years and reduce General Fund revenues by a similar amount. Therefore, extending the tax credit for tax years 2020 through 2025 is expected to decrease General Fund individual income tax revenue by $5,000,000 annually in FY 2020-21 through FY 2025-26.

Local Expenditure
N/A

Local Revenue
N/A

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