



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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Bill Number:	S. 0054	Introduced on January 10, 2017
Author:	Bennett	
Subject:	S.C. Infrastructure and Economic Development Reform Act	
Requestor:	Senate Finance	
RFA Analyst(s):	Wren, Jolliff, and Martin	
Impact Date:	March 27, 2017 - Updated for revised analysis and fiscal impact	

Estimate of Fiscal Impact

	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20- FY 2020-21
State Expenditure				
General Fund	\$0	\$140,000	See below	See below
Other and Federal	\$0	\$0	See below	See below
Full-Time Equivalent Position(s)	0.00	0.00	4.00	0.00
State Revenue				
General Fund	(\$9,540,000)	(\$233,037,000)	(\$271,142,000)	See below
Other and Federal	\$0	\$263,414,000	\$344,482,000	See below
Local Expenditure	\$0	\$0	\$0	\$0
Local Revenue	\$0	\$0	\$17,095,000	See below

Fiscal Impact Summary

This bill will increase non-recurring expenses for the Department of Motor Vehicles (DMV) by \$140,000 in FY 2017-18 and \$401,900 in FY 2018-19. Total recurring expenses for DMV for administration include \$157,500 for four new FTEs. DMV expects additional expenses for the administration of the motor carrier road use fee beyond the current estimates; however, the amount is undetermined.

This bill is expected to reduce General Fund revenue by a total of \$9,540,000 in FY 2016-17, \$233,037,000 in FY 2017-18, \$271,142,000 in FY 2018-19, \$314,131,000 in FY 2019-20, and \$370,976,000 in FY 2020-21.

This bill will increase Other Funds revenue to the State Highway Fund by \$263,506,000 in FY 2017-18, \$344,278,000 in FY 2018-19, and \$475,606,000 in FY 2019-20. Other Funds revenue of DMV is expected to increase by \$448,000 in FY 2018-19 and \$97,000 in FY 2019-20. The bill will reduce Other Funds revenue of the Department of Revenue (DOR) by \$48,000 in FY 2018-19 and \$97,000 in FY 2019-20. Other Funds revenue for environmental and inspection fees to the Department of Transportation (DOT), the Department of Health and Environmental Control (DHEC), and the Department of Agriculture is expected to be reduced by \$92,000 in FY 2017-18 and \$195,000 in FY 2018-19.

Four of forty-six counties surveyed responded that the bill is expected to have minimal to no impact on local expenditures to administer the hybrid and alternative fuel vehicle biennial fee. The bill is not expected to have significant impact on local expenditures for administering the property tax exemptions. If, however, counties are required to list the exemption separately on the property tax bill, this would result in expenditures for changing programming. One county indicated that the expense would be \$25,000 with recurring expenses to a lesser degree in subsequent years. Local revenue distributed to counties for motor carrier road use fees is expected to increase by \$17,095,000 in FY 2018-19 for a one-time acceleration of fee payments and \$834,000 in FY 2019-20.

This fiscal impact statement is revised to correct the revenue estimate of the earned income tax credits in Section 18 of the bill and to reflect the General Fund revenue estimates in total by fiscal year. The expenditure impact for the Department of Motor Vehicles is revised to reflect the latest estimates by the agency. The local expenditure impact is updated to reflect four county responses for implementing the new alternative fuel vehicle fee in Section 7.

Explanation of Fiscal Impact

Introduced on January 10, 2017

Updated for Revised Analysis and Fiscal Impact

State Expenditure

The following sections would affect state expenses as follows:

Section 5. This section increases the current fee for a five-year driver's license from \$12.50 to \$25.00 and from \$25.00 to \$50.00 for a ten-year driver's license. DMV indicates non-recurring expenditures for this section will total \$5,000 in FY 2017-18 for programming and system testing. This section is revised to reflect the department's latest estimate.

Section 6. This section increases current biennial registration fees by \$16. DMV indicates non-recurring expenditures for this section will total \$11,000 in FY 2017-18 for programming and system testing. This section is revised to reflect the department's latest estimate.

Section 7. This section adds a biennial road use fee of \$120 for alternative fuel vehicles and a \$60 biennial road use fee for hybrid vehicles. DMV indicates non-recurring expenditures for this section will total \$124,000 in FY 2017-18 for programming, system updates, and system testing. This section is revised to reflect the department's latest estimate.

Section 10. This section directs DMV to collect a road use fee on all large commercial motor vehicles beginning on January 1, 2019, in the same manner as the current motor carrier property tax. DOR currently administers the property tax for in-state carriers. This bill would add out-of-state carriers to the road use fee and transfer the program to DMV. Additionally, motor carriers pay a one-time fee of \$87 to register a trailer or semi-trailer. Currently, \$12 of the fee is retained by DOR for operating costs. This bill would change the distribution by sending the \$12 fee to DMV. This section is revised to reflect the department's latest estimate.

Department of Motor Vehicles. DMV indicates non-recurring expenditures for administration of the motor carrier fee program are expected to total at least \$401,900 in FY 2018-19 based upon the latest estimates for the required programming, testing, and project management to set up

this system within the agency. They also anticipate additional non-recurring expenditures above this amount for consulting with tax specialists with the knowledge of motor carrier property taxes and valuation to assist in designing and testing the system. Additional recurring expenditures for administering the program, producing forms and materials, processing fee submissions, and handling disputes are expected, but projected expenditures for conducting these functions are currently undetermined. The agency expects to hire four FTE's to administer the program with estimated personnel expenditures of \$157,500 per year including fringe benefits.

Department of Revenue. DOR does not anticipate a reduction in personnel expenditures from moving the administration of the motor carrier fee to DMV because the staff who administer this program have additional responsibilities for administration of other property tax assessments that remain with the agency.

Sections 13 and 14. These sections amend the individual income tax rates and brackets in Section 12-6-510 and the inflation bracket adjustment in Section 12-6-520. These changes are not expected to change DOR's current procedures for the annual revisions to individual income tax forms. Therefore, this change is not expected to impact expenditures for the General Fund, Federal Funds, or Other Funds.

The adjustments to the brackets for tax years 2018, 2019, and 2020 are dependent upon the growth in General Fund revenue as outlined in Section 12-6-510(F). The 2018 tax year will have started when the determination of the percentage growth in the forecast occurs on February 15, 2018. Based upon our current long-range assumptions, we anticipate that growth will be sufficient to meet the requirements of this section. However, based upon the timing of the determination of the growth, if conditions change, the Department of Revenue would incur additional expenses to revise the Individual Declaration of Estimated Tax forms. Individual income tax forms are finalized in September for the following tax year. Since the determination is not made until February 15, the tax year will have already started, and the department would need to revise the form for quarterly declarations should the bracket increase not go into effect.

The agency indicates that this change, if required, would involve additional staff time, but the expense for these changes is expected to be minimal. This uncertainty impacts taxpayers and could increase customer assistance calls to DOR depending upon how well taxpayers are notified of the change and the resulting implications. The department does not anticipate that this will have a material impact on expenses due to the small number of taxpayers impacted; however, the actual expense will depend upon taxpayer reactions.

Sections 15, 16, and 17. These sections make changes to the amounts or rates of existing tax credits. These changes can be accomplished as part of DOR's annual updates to tax forms and are expected to have a minimal impact on expenditures that can be absorbed.

Section 18. This section will require DOR to produce forms and instructions for the new Earned Income Tax credit. This is expected to have a minimal impact on expenditures that can be absorbed.

Section 19. DOR does not expect this section to impact expenditures. Changing programing to include the value exemptions can be handled during the construction of the new manufacturing property component of DOR's tax system. They also have a contract in place to require the vendor to make annual updates to the system for business personal property based upon legislative changes. Therefore, these changes to programming can be handled within the department's current operations.

State Revenue

The following sections would affect state revenue as follows:

Section 3. The \$0.16 per gallon motor fuel user fee would increase by \$0.04 per gallon per year for three years for a total increase of \$0.12 per gallon of fuel. The first increase will take effect July 1, 2017. Based on the latest information from the U.S. Department of Energy, increasing the current user fee from \$0.16 to \$0.20 would generate an additional \$137,468,000 in FY 2017-18. The increase begins in July, and revenue is first remitted in August. Therefore, the FY 2017-18 estimate represents eleven months of a full fiscal year. This bill adds language to provide that the scheduled July 1 user fee increases stated above shall take effect only if general fund revenues are projected to increase by at least one percent, beginning with the February 18, 2018, forecast provided by the BEA. The next scheduled increase shall not take effect until the February fifteenth forecast meets the requirement for an increase. The estimates provided assume that general fund revenues will increase by at least one percent. All of the funds raised by the increase in the motor fuel user fee imposed by this section must be credited to the State Highway Fund.

Beginning July 1, 2020, or the July 1st after the provisions of Section 12-28-310(D) are fully implemented, whichever occurs later, the user fee will increase by an inflation factor equal to the annual average percentage adjustment over the last ten completed calendar years of the Consumer Price Index for All-Urban Consumers as published by the U.S. Department of Labor, Bureau of Labor Statistics. The annual increase in the user fee shall be determined by March 31 of each year, and the increase shall take effect the following July 1. The user fee may not increase by more than \$0.02 in any given year. The increase in the motor fuel user fee shall be suspended by the Director of DOR if it results in the motor fuel user fee exceeding that of the North Carolina and the Georgia county with the highest cumulative motor fuel user fee. The motor fuel fee increase and corresponding revenue generated in FY 2020-21 and each year thereafter will depend on future inflation rates, which we estimate at two percent per year. The estimated annual revenue increase by fiscal year for FY 2017-18 to FY 2019-20 is provided in the table below.

Fiscal Year	Motor Fuel User Fee Increase	Total Motor Fuel User Fee	Total Additional Motor Fuel Increase	Net Impact on \$0.0075 Environmental and Inspection Fee Revenue
FY 2017-18	\$0.04	\$0.20	\$137,468,000	(\$92,000)
FY 2018-19	\$0.04	\$0.24	\$306,901,000	(\$196,000)
FY 2019-20	\$0.04	\$0.28	\$466,487,000	(\$283,000)

As the user fee is increased in the first three years, we expect the demand for motor fuel to decline due to an increase in the relative overall price of motor fuel, which reduces the estimated number of gallons. Based upon an analysis of several academic studies, the demand elasticity for gasoline averages -0.2 in the short-run for the United States. The studies suggest that the long-run demand changes will be slightly more sensitive to price changes in gasoline as consumers seek out alternatives. Therefore, we used an elasticity of -0.2 in this analysis, meaning that a one percent increase in the price of gasoline would reduce the amount purchased by 0.2 percent.

In addition to affecting the State Highway Fund, the demand reduction in total gallons will lower the \$0.0075 environmental and inspection fee anticipated revenue to the Department of Agriculture, DHEC, and DOT by \$92,000 in FY 2017-18 and \$195,000 in FY 2018-19. The increase begins in July, and revenue is first remitted in August. Therefore, the FY 2017-18 estimate represents eleven months of a full fiscal year. The estimated annual reduction in revenue by fiscal year for FY 2017-18 to FY 2019-20 by agency is provided in the table below.

Environmental and Inspection Fee (\$0.0075)			
Fiscal Year	\$0.0050	\$0.0025	
	Department of Health and Environmental Control	10% to the Department of Agriculture	90% to the Department of Transportation (State Non-Federal Aid Highway Fund)
FY 2017-18	(\$61,000)	(\$3,000)	(\$28,000)
FY 2018-19	(\$130,000)	(\$7,000)	(\$59,000)
FY 2019-20	(\$189,000)	(\$9,000)	(\$85,000)

Section 5. This section increases the driver's license fee for a 5-year driver's license from \$12.50 to \$25.00 and from \$25.00 to \$50.00 for a 10-year driver's license. Based upon the most recent data from DMV, the estimated additional revenue from the increased driver's license fees in FY 2017-18 is \$7,455,000. Since the increase begins January 1, 2018, this figure represents six months of a full fiscal year. We do not anticipate that the fee increase will be sufficient to prompt residents to renew licenses early to avoid the increase. However, the estimate may be marginally impacted if individuals renew early. Another timing issue impacts the FY 2017-18 estimate. Calendar year 2017 included a larger than normal number of expiring driver's licenses due to DMV procedural changes in 2006, and we do not expect this trend to continue. All of the fees collected pursuant to this section must be credited to the State Highway Fund. The estimated annual revenue increase for FY 2017-18 to FY 2018-19 is provided in the table below.

Fiscal Year	Driver's License Fee Increase Total Additional Revenue
FY 2017-18	\$7,455,000
FY 2018-19	\$9,834,000

Section 6. The biennial registration fee for every passenger vehicle and every property-carrying vehicle with a gross weight of 6,000 pounds or less, excluding trucks, is increased by \$16.00. The increase will apply to all individuals, including individuals 65 years of age or older and individuals who are handicapped pursuant to Section 56-3-620. Based upon DMV data, there will be approximately 3,179,000 vehicles subject to this additional fee in FY 2017-18. The increase begins January 1, 2018. Therefore, the FY 2017-18 estimate represents six months of a full fiscal year. The estimated additional revenue from this fee increase is \$12,731,000 for FY 2017-18. From each biennial registration fee collected pursuant to this section, \$16.00 must be credited to the State Highway Fund. The estimated annual revenue increase for FY 2017-18 to FY 2018-19 is provided in the table below.

Fiscal Year	Biennial Vehicle Registration Fee Increase Total Additional Revenue
FY 2017-18	\$12,731,000
FY 2018-19	\$26,090,000

Section 7. This section creates a new registration fee for alternative fuel vehicles that are powered by fuels other than those subject to the motor fuel user fee. For vehicles powered exclusively by electricity, hydrogen, or another fuel not subject to the user fee, a biennial road user fee of \$120.00 is added. Based upon data from DMV, we estimate 460 vehicles powered exclusively by alternate fuels will be subject to the \$120.00 fee. The increase begins January 1, 2018. Therefore, the FY 2017-18 estimate represents six months of a full fiscal year. For FY 2017-18, one-half of these biennial registration fees will be \$14,000. For vehicles that use a combination of a motor fuel subject to the motor fuel user fee and another fuel source, the biennial road user fee is \$60.00. We estimate that in FY 2017-18 there will be 44,000 vehicles that use a combination of fuels subject to the \$60.00 fee. Since the increase begins January 1, 2018, the FY 2017-18 estimate represents six months of a full fiscal year. For FY 2017-18, one-half of these biennial registration fees will be \$660,000. The proposed biennial alternative fuel and hybrid vehicle fees will total \$674,000 in FY 2017-18. All of the fees collected pursuant to this section must be credited to the State Highway Fund. The estimated annual revenue increase for FY 2017-18 to FY 2018-19 is provided in the table below.

Fiscal Year	Hybrid and Alternative Fuel Vehicle Fee Total Additional Revenue
FY 2017-18	\$674,000
FY 2018-19	\$1,453,000

Section 8. This section increases the maximum sales and use tax limitation on enumerated items from the current \$300 per item to \$600 per item. The revenue generated by increasing the maximum sales and use tax by an additional \$300 per item would not be credited to the state public school building fund or the EIA fund as directed by current statute, but would instead be redirected to the State Highway Fund. This transfer would include the four percent component of the sales and use tax in the General Fund as well as the one percent component of the sales and use tax in the EIA fund. There is no EIA hold harmless provision included in this statutory change. Below is a table that describes how the increase in the maximum sales and use tax cap to \$600 is distributed among the various items subject to the maximum sales and use tax cap.

Item	Current \$300 Max Cap	Proposed \$600 Max Cap	Estimated Revenue Increase
Aircraft	\$21,000	\$41,000	\$20,000
Motor vehicle	\$183,000,000	\$281,500,000	\$98,500,000
Motorcycle	\$2,208,000	\$3,312,000	\$1,104,000
Boat	\$3,846,000	\$5,769,000	\$1,923,000
Trailer or semitrailer and horse trailers	\$1,312,000	\$1,476,000	\$164,000
Heavy duty trucks (Class 8)	\$1,119,000	\$2,239,000	\$1,120,000
Recreational vehicle	\$1,684,000	\$3,369,000	\$1,685,000
Self-propelled light construction equipment	\$663,000	\$1,325,000	\$662,000
Total	\$193,853,000	\$299,031,000	\$105,178,000

Pursuant to Section 12-36-2110, the current maximum sales and use tax of \$300 per item generates sales and use tax revenue of an estimated \$193,853,000 annually. The majority of this revenue (94%) is accounted by sales of motor vehicles. If the maximum sales and use tax cap is increased by \$300 per item to \$600 per item, sales and use tax revenue would increase by an estimated \$105,178,000 to a total of \$299,031,000 in FY 2017-18. The increase in the sales and use tax cap by \$300 per item would increase revenue in the State Highway Fund by an estimated \$105,178,000 in FY 2017-18.

Section 10. This section directs DMV to collect a road use fee on all commercial motor vehicles beginning on January 1, 2019. The valuation of the large commercial motor vehicles for the road use fee is to be determined in the same manner as currently prescribed for motor carriers. This section adds out-of-state apportioned carriers that currently do not pay property taxes to the road use fee. The road use fee for in-state carriers would remain the same as the current property tax amount.

In order to estimate the road use fee on out-of-state carriers, we calculate full-time equivalent (FTE) vehicles based upon the average in-state registration fee of \$706 and the total out-of-state registration fees collected. This accounts for the apportionment of out-of-state vehicles based on mileage. For FY 2015-16, DMV reported total out-of-state vehicle registration collections of \$7,802,991. Dividing the total fees by the estimated average fee results in an estimated 11,047 FTE out-of-state vehicles in FY 2015-16. We estimate that this will increase to approximately 12,012 out-of-state vehicles by FY 2018-19 based upon recent growth in fee collections. Using an approximate new vehicle value of \$120,000 and multiplying this value by the estimated 12,012 vehicles results in a total value of \$1,441,416,000. Based upon an average vehicle age of 6 years, the average value at the depreciated rate of 0.25 would be \$360,354,000. As outlined in Section 12-43-220(g), this depreciated vehicle value is then assessed at 9.5 percent and multiplied by an equalization factor currently set at 80 percent by DOR.

Because the new fee is paid at the time of registration and may be paid quarterly, the actual distribution of the calendar year 2019 revenue may vary depending upon registration timing. Since the fee begins January 1, 2019, we assume for this analysis that the registrations will be evenly distributed across the year and that one-half of the full year's fees will be paid from January through June of FY 2018-19. Additionally, the change in timing will accelerate fee collections for in-state carriers by six months compared to the current fee timing. Using an estimated statewide millage of 338.4, we estimate that one-half of total collections for road use fees will be \$4,634,000 for out-of-state carriers. Based upon our latest analysis of collections for in-state motor carriers through the end of 2016, we estimate that total fees for in-state carriers will be approximately \$25,115,000 for 2019. One-half of these fees will total approximately \$12,558,000 in FY 2018-19. Total motor carrier fees for new collections and the one-time acceleration of in state fees will be approximately \$17,192,000 in FY 2018-19.

Additionally, motor carriers pay a one-time fee of \$87 to register a trailer or semi-trailer. Currently, \$75 of the fee is distributed to local jurisdictions under Section 12-27-2870, and \$12 is retained by DOR. This proposal would change the distribution by sending the \$12 fee currently retained by DOR to DMV. The remaining \$75 is to be combined with the revenue generated by the road use fee in Section 12-37-2850 and distributed based upon Sections 12-37-2865 and 12-37-2870. Based upon fee collections through 2016, we estimate total one-time registration fees will be approximately \$703,000 in 2019. One-half of one-time registration fees will total approximately \$352,000 in FY 2018-19. Of this amount, \$48,000 will be reallocated from DOR to DMV for operations and \$303,000 will be distributed based upon Sections 12-37-2865 as outlined below.

Combining the projected motor carrier road use fees and one-time registration fee revenue for FY 2018-19 yields total revenue of \$17,495,000 to be distributed under Section 12-37-2865. Section 12-37-2865 directs that the first \$26,500,000 of revenue per fiscal year is distributed to counties based upon the current distribution formula in Section 12-37-2870, and the remaining revenue is credited to the State Highway Fund to be used to finance expansion and improvements to existing mainline interstates. Additionally, Subitem L(2) of Section 10 directs DMV to retain \$400,000 in the first calendar year to offset programming costs. This leaves \$17,095,000 to be distributed to counties under Section 12-37-2870 in FY 2018-19. Based upon the change in timing, this will increase local funding to counties by \$17,095,000 in FY 2018-19. This amount may vary, however, depending upon registration timing.

Revenue for FY 2019-20 will comprise a full year of fees. Based upon collections through 2016, we estimate that total motor carrier road use fees will be \$25,343,000 for in-state carriers and \$9,670,000 for out-of-state carriers, for a total of \$35,013,000 in FY 2019-20. Fees for one-time registrations will yield an additional \$606,000 to be distributed, while \$97,000 will be retained by DMV. Adding the motor carrier fee amounts together yields total revenue of \$35,619,000 to be distributed based upon Section 12-37-2865. Counties will receive \$26,500,000 under the current distribution formula in Section 12-37-2870, and the remaining \$9,119,000 will be credited to the State Highway Fund. This will increase county revenue by approximately \$834,000 for FY 2019-20.

Sections 13 and 14. These sections amend the individual income tax rates and brackets in Section 12-6-510 and the inflation bracket adjustment in Section 12-6-520. Beginning in tax year 2017, the current 3 percent rate is reduced to 2.9 percent and the current 7 percent rate is reduced to 6.9 percent. Additionally, the tax bracket amount is increased from the \$2,930 under current law to \$3,610. For tax years 2018, 2019, and 2020, the brackets are increased to \$3,680 and \$3,750, and \$4,150, respectively. The Department of Revenue will begin adjusting the 2020 individual income tax brackets by the full amount of inflation as defined by Internal Revenue Code Section (1)(f) beginning in tax year 2021.

Increasing the bracket to \$3,610 and lowering the 3 percent and 7 percent marginal rates to 2.9 percent and 6.9 percent would reduce individual income tax in total by an estimated \$181,716,000 for tax year 2017. For tax year 2018, increasing the bracket to \$3,680 at the adjusted rates would reduce individual income tax revenue by a total of \$192,831,000 compared to our current tax structure. Again, adjusting the bracket for tax year 2019 to \$3,750 would reduce individual income tax revenue by a total of \$206,453,000 with the adjusted rates. For tax year 2020, increasing the bracket to \$4,150 with the previously imposed rate reduction would lower individual income tax by a total of \$280,828,000 compared to our current tax structure for 2020. The attached tables report the individual income tax reductions by taxable income range.

We anticipate that taxpayers who file estimated tax payments will reduce their quarterly declarations in response to the tax reduction. As such, 5.25 percent of the total tax year impact is recognized in the prior fiscal year for the first two calendar quarters of reduced estimated tax payments, and the remaining impact is reflected in next fiscal year through the remaining reduced payments and higher refunds. The projected General Fund impact on a fiscal year basis is provided in the table below based upon these assumptions.

Fiscal Year	General Fund Individual Income Tax Revenue	Annual Additional General Fund Individual Income Tax Revenue
FY 2016-17	(\$9,540,000)	(\$9,540,000)
FY 2017-18	(\$182,300,000)	(\$172,760,000)
FY 2018-19	(\$193,546,000)	(\$11,246,000)
FY 2019-20	(\$210,358,000)	(\$16,812,000)
FY 2020-21	(\$266,085,000)	(\$55,727,000)

The adjustments to the brackets for tax years 2018, 2019, and 2020 are dependent upon the growth in General Fund revenue as outlined in Section 12-6-510(F). This item states that the bracket increase shall occur only if forecasted growth exceeds one percent. Beginning with the forecast on February 15, 2018, the imposition of the new bracket is determined by the percentage increase in General Fund revenues less the amount distributed to the Trust Fund for Tax Relief, over the revenue expenditure base of recurring general fund appropriations authorized in the current act. Both the revenue growth and the expenditure base are to be adjusted to account for

the revenue reductions because of this section. The expenditure base is also adjusted to account for any reduced appropriations mandated by the General Assembly or Executive Budget Office due to a reduction in the current fiscal year's forecast under Section 11-9-890(B). Based upon our current long-range assumptions, we anticipate that growth will be sufficient to meet the requirements of this section.

Section 15. This section increases the individual income tax subsistence allowance from \$8 per day to \$9. Currently, police and all commissioned law enforcement officers, full-time firefighters, and full-time emergency medical service personnel are entitled to deduct a subsistence allowance of \$8 per regular workday from taxable income. From tax year 2011 to tax year 2014, the number of tax returns claiming this allowance has averaged 21,986 per year, moving up and down between years. Based upon the inconsistent pattern, we have assumed that the average number of returns over this four-year period is the best estimate for tax year 2017. The average total deduction claimed over the period was \$36,622,000, and we anticipate that approximately this same amount will be the total claimed for tax year 2017.

In order to determine the estimated impact of increasing the deduction from \$8 per day to \$9, we recalculated tax year 2014 returns with the increased deduction amount to determine the marginal tax rate for these tax returns. The resulting marginal rate was 6.01 percent. Increasing the allowance by one dollar will increase the estimated \$36,622,000 in deductions for tax year 2017 by \$4,578,000. At a marginal tax rate of 6.01 percent, this will reduce taxes for these taxpayers by \$275,000 in tax year 2017. Therefore, increasing the allowance to \$9 per day would decrease General Fund individual income tax revenue in FY 2017-18 by an estimated \$275,000.

Section 16. This section increases the income limit for the two wage earner credit from \$30,000 to \$45,000. Currently, the two wage earner credit in Section 12-6-3330(B)(1) is a non-refundable credit of 0.7 percent of earned income up to \$30,000. In order to qualify, taxpayers must file a married joint return, and both spouses must have earned income. Increasing the income limit to \$45,000 would increase the maximum credit from \$210 to \$315.

We estimate that approximately 387,973 returns will claim the credit in 2017. Because the credit is non-refundable, we estimated the revenue impact by re-calculating returns currently claiming the credit with the increased income limitation. Increasing the credit limit to \$45,000 of income, or \$315, would increase the estimated credits claimed from \$52,058,000 to \$65,454,000 in tax year 2017. This would lower General Fund individual income tax revenue by approximately \$13,396,000 in FY 2017-18.

Section 17. Section 12-6-3385(A)(1) establishes the tuition tax credit, which is a refundable credit for twenty-five percent of tuition paid. This amount is limited to a maximum of \$850 for four-year institutions and \$350 for two-year institutions. This bill would increase the credit to \$1,500 for tuition paid to any institution, two-year or four-year.

The Commission on Higher Education reports average tuition for two-year technical colleges is \$4,023 based upon 2015-16 tuition. Twenty-five percent of \$4,023 would reduce the maximum potential average credit claimed for two-year students to approximately \$1,005. Average tuition

at four-year institutions is sufficient to allow students attending a full year to claim the full \$1,500 credit. Based upon tax year 2014 returns, we project that approximately 7,429 returns will claim the credit in tax year 2017. The total credits claimed for 2017 is projected to be \$5,139,000 currently and increase to \$9,531,000 at the increased credit amount. This would decrease General Fund individual income tax revenue by \$4,392,000 in FY 2017-18.

Section 18. Beginning in tax year 2017, individual income tax filers are allowed a non-refundable state individual income tax credit equal to three and one-half percent of the federal earned income tax credit (EITC). For our analysis, we used a 2014 sample file from the Department of Revenue that contains federal income tax returns matched to the state returns for 87 percent of state filers. We recalculated the 2014 individual income tax returns to account for the credit per return that would not be taken for tax filers with insufficient tax liability to claim the full non-refundable credit amount. This figure was then inflated to estimate the remaining 13 percent of returns for which we do not have federal data.

For tax year 2014, total federal earned income tax credits for all South Carolina filers are estimated at \$1,366,205,000. Three and one-half percent of this amount would result in total South Carolina credits of \$47,817,000 for 2014. However, this is reduced to \$5,565,000 due to tax returns with insufficient tax liability to claim the full credit. Inflating these figures to 2017 based upon growth in earned income tax credits of 4.3 percent from 2013 to 2014, we estimate that this credit will reduce individual income tax by \$6,315,000 in tax year 2017. This analysis is revised to correct the estimated amount of credits that taxpayers are expected to claim.

Section 19. Currently manufacturing property is assessed at 10.5 percent of the value of the property. Subitem 52(a) of Section 12-37-220(B) would provide an exemption of 19.05 percent of the value of manufacturing property with respect to local property taxes to be reimbursed by the State. The exemption is implemented in equal installments in tax years 2018 and 2019.

We estimate that local property tax revenue for manufacturing property will be approximately \$263,888,000 for tax year 2018. Exempting 9.525 percent of the fair market value of manufacturing property would reduce local property tax revenue by \$25,135,000 in FY 2018-19. Exempting 19.05 percent of the value for tax year 2019 would reduce local revenue by a total of \$49,508,000 in FY 2019-20. Based upon the current trend, we anticipate these amounts will decline in upcoming years. These amounts will be reimbursed by the State and will increase the transfer of individual income tax and corporate income tax revenue to the Trust Fund for Tax Relief, reducing General Fund revenue by a total of \$25,135,000 in FY 2018-19 and \$49,508,000 in FY 2019-20.

As outlined in Subitem B(B) of Section 19, the percentage exemption occurs only if forecasted growth exceeds one percent. Beginning with the forecast on February 15, 2018, the percentage increase in General Fund revenues less the amount distributed to the Trust Fund for Tax Relief, over the revenue expenditure base of recurring general fund appropriations authorized in the current act must exceed one percent. Both the revenue growth and the expenditure base are to be adjusted to account for the revenue reductions because of this section. The expenditure base is also adjusted to account for any reduced appropriations mandated by the General Assembly or Executive Budget Office due to a reduction in the current fiscal year's forecast under Section 11-

9-890(B). Based upon our current long-range assumptions, we anticipate that growth will be sufficient to meet the requirements of this section.

Additionally, beginning in tax year 2017, this proposal would create a 9.5 percent value exemption for business personal property currently assessed at 10.5 percent of the value of the property. The exemption is to be reimbursed by the State.

We estimate that local revenue for business personal property taxes will total \$277,459,000 for tax year 2017. Exempting 9.5 percent of the value will reduce local property tax revenue by \$26,359,000 in FY 2017-18. This amount will be reimbursed by the State and will increase the transfer of individual income tax and corporate income tax revenue to the Trust Fund for Tax Relief, reducing General Fund revenue by a total of \$26,359,000 in FY 2017-18. This transfer will continue each year thereafter based upon the total business personal property reimbursement.

Local Expenditure

Section 7. This section adds a biennial road use fee for hybrid and alternative fuel vehicles. The Revenue and Fiscal Affairs Office contacted all forty-six county governments regarding the expenditure impact of this section of the bill. Florence and Horry Counties indicate that this bill will have no expenditure impact on their localities. Clarendon and Lancaster Counties indicate that this bill will have a minimal expenditure impact on their localities. This section has been updated to include these responses.

Section 19. This section would provide a value exemption for business personal property. Currently, the majority of business personal property is assessed by DOR while the remaining portion is assessed by local county auditors. This change may require additional one-time expenditures to change programs to allow the value exemption, but as it applies uniformly to all business personal property, we do not anticipate that administering this exemption would have a recurring impact on local expenditures. If, however, counties are required to include the exemption separately on the property tax bill, this would result in expenditures for changing programming. One county indicated that the expense would be \$25,000 with recurring expenses to a lesser degree in subsequent years.

Local Revenue

Section 10. This section creates the motor carrier road use fee to replace the current motor carrier property tax beginning January 1, 2019. Section 12-37-2865 directs that the first \$26,500,000 of revenue per fiscal year is distributed to counties based upon the current distribution formula in Section 12-37-2870, and the remaining revenue is credited to the State Highway Fund to be used to finance expansion and improvements to existing mainline interstates. Due to a change in timing for fee payments, this will increase local funding to counties by \$17,095,000 in FY 2018-19. This amount may vary, however, depending upon registration timing. For FY 2019-20 county revenue will increase by approximately \$834,000 for FY 2019-20 over the current estimate for motor carrier property tax revenue. For additional explanation of the revenue determination, see Section 10 under State Revenue. This section is updated to provide the summary for local revenue for this section previously included under State Revenue.

Section 19. Currently manufacturing property is assessed at 10.5 percent of the value of the property. The bill would provide an exemption of 19.05 percent of the value of manufacturing property with respect to local property taxes to be reimbursed by the State. The exemption is implemented in equal installments in tax years 2018 and 2019.

Exempting 9.525 percent of the fair market value of manufacturing property would reduce local property tax revenue by \$25,135,000 in FY 2018-19. Exempting 19.05 percent of the value for tax year 2019 would reduce local revenue by a total of \$49,508,000 in FY 2019-20. These amounts will be reimbursed by the State.

Additionally, beginning in tax year 2017, this bill would create a 9.5 percent value exemption for business personal property currently assessed at 10.5 percent of the value of the property. The exemption is to be reimbursed by the State.

We estimate that local revenue for business personal property taxes will total \$277,459,000 for tax year 2017. Exempting 9.5 percent of the value will reduce local property tax revenue by \$26,359,000 in FY 2017-18. This amount will be reimbursed by the State.

Introduced on January 10, 2017

State Expenditure

The following sections would affect state expenses as follows:

Sections 5, 6, and 7. These sections increase the current fees for five-year driver's licenses, ten-year driver's licenses, and biennial registrations and adds a new biennial road use fee for hybrid and alternative fuel vehicles. DMV expects non-recurring expenditures for these sections to total \$100,000 for the necessary programming and testing associated with the various combinations of plate classes and fee changes.

Section 10. This section directs DMV to collect a road use fee on all commercial motor vehicles beginning on January 1, 2019 in the same manner as the current motor carrier property tax. DOR currently administers the property tax for in-state carriers. This bill would add out-of-state carriers to the road use fee and transfer the program to DMV. Additionally, motor carriers pay a one-time fee of \$87 to register a trailer or semi-trailer. Currently, \$12 of the fee is retained by DOR for operating costs. This bill would change the distribution by sending the \$12 fee to DMV.

Department of Motor Vehicles. DMV expects non-recurring expenditures for administration of the motor carrier fee program to total \$348,050 in FY 2018-19 based upon an initial estimate for the required programming, testing, and project management to set up this system within the agency. They also anticipate additional non-recurring expenditures above this amount for consulting with tax specialists with the knowledge of motor carrier property taxes and valuation to assist in designing and testing the system. Additional recurring expenditures for administering the program, producing forms and materials, processing fee submissions, and handling disputes are expected, but projected expenditures for conducting these functions are currently undetermined. The agency expects to hire two FTE's to administer the program with estimated personnel expenditures of \$84,000 per year including fringe benefits.

Department of Revenue. DOR does not anticipate a reduction in personnel expenditures from moving the administration of the motor carrier fee to DMV because the staff who administer this program have additional responsibilities for administration of other property tax assessments that remain with the agency.

Sections 13 and 14. These sections amend the individual income tax rates and brackets in Section 12-6-510 and the inflation bracket adjustment in Section 12-6-520. These changes are not expected to change DOR's current procedures for the annual revisions to individual income tax forms. Therefore, this change is not expected to impact expenditures for the General Fund, Federal Funds, or Other Funds.

The adjustments to the brackets for tax years 2018, 2019, and 2020 are dependent upon the growth in General Fund revenue as outlined in Section 12-6-510(F). The 2018 tax year will have started when the determination of the percentage growth in the forecast occurs on February 15, 2018. Based upon our current long-range assumptions, we anticipate that growth will be sufficient to meet the requirements of this section. However, based upon the timing of the determination of the growth, if conditions change, the Department of Revenue would incur additional expenses to revise the Individual Declaration of Estimated Tax forms. Individual income tax forms are finalized in September for the following tax year. Since the determination is not made until February 15, the tax year will have already started, and the department would need to revise the form for quarterly declarations should the bracket increase not go into effect.

The agency indicates that this change, if required, would involve additional staff time, but the expense for these changes is expected to be minimal. This uncertainty impacts taxpayers and could increase customer assistance calls to DOR depending upon how well taxpayers are notified of the change and the resulting implications. The department does not anticipate that this will have a material impact on expenses due to the small number of taxpayers impacted; however, the actual expense will depend upon taxpayer reactions.

Sections 15, 16, and 17. These sections make changes to the amounts or rates of existing tax credits. These changes can be accomplished as part of DOR's annual updates to tax forms and are expected to have a minimal impact on expenditures that can be absorbed.

Section 18. This section will require DOR to produce forms and instructions for the new Earned Income Tax credit. This is expected to have a minimal impact on expenditures that can be absorbed.

Section 19. DOR does not expect this section to impact expenditures. Changing programming to include the value exemptions can be handled during the construction of the new manufacturing property component of DOR's tax system. They also have a contract in place to require the vendor to make annual updates to the system for business personal property based upon legislative changes. Therefore, these changes to programming can be handled within the department's current operations.

State Revenue

The following sections would affect state revenue as follows:

Section 3. The \$0.16 per gallon motor fuel user fee would increase by \$0.04 per gallon per year for three years for a total increase of \$0.12 per gallon of fuel. The first increase will take effect July 1, 2017. Based on the latest information from the U.S. Department of Energy, increasing the current user fee from \$0.16 to \$0.20 would generate an additional \$137,468,000 in FY 2017-18. The increase begins in July, and revenue is first remitted in August. Therefore, the FY 2017-18 estimate represents eleven months of a full fiscal year. This bill adds language to provide that the scheduled July 1 user fee increases stated above shall take effect only if general fund revenues are projected to increase by at least one percent, beginning with the February 18, 2018, forecast provided by the BEA. The next scheduled increase shall not take effect until the February fifteenth forecast meets the requirement for an increase. The estimates provided assume that general fund revenues will increase by at least one percent. All of the funds raised by the increase in the motor fuel user fee imposed by this section must be credited to the State Highway Fund.

Beginning July 1, 2020, or the July 1st after the provisions of Section 12-28-310(D) are fully implemented, whichever occurs later, the user fee will increase by an inflation factor equal to the annual average percentage adjustment over the last ten completed calendar years of the Consumer Price Index for All-Urban Consumers as published by the U.S. Department of Labor, Bureau of Labor Statistics. The annual increase in the user fee shall be determined by March 31 of each year, and the increase shall take effect the following July 1. The user fee may not increase by more than \$0.02 in any given year. The increase in the motor fuel user fee shall be suspended by the Director of DOR if it results in the motor fuel user fee exceeding that of the North Carolina and the Georgia county with the highest cumulative motor fuel user fee. The motor fuel fee increase and corresponding revenue generated in FY 2020-21 and each year thereafter will depend on future inflation rates, which we estimate at two percent per year. The estimated annual revenue increase by fiscal year for FY 2017-18 to FY 2019-20 is provided in the table below.

Fiscal Year	Motor Fuel User Fee Increase	Total Motor Fuel User Fee	Total Additional Motor Fuel Increase	Net Impact on \$0.0075 Environmental and Inspection Fee Revenue
FY 2017-18	\$0.04	\$0.20	\$137,468,000	(\$92,000)
FY 2018-19	\$0.04	\$0.24	\$306,901,000	(\$196,000)
FY 2019-20	\$0.04	\$0.28	\$466,487,000	(\$283,000)

As the user fee is increased in the first three years, we expect the demand for motor fuel to decline due to an increase in the relative overall price of motor fuel, which reduces the estimated number of gallons. Based upon an analysis of several academic studies, the demand elasticity for gasoline averages -0.2 in the short-run for the United States. The studies suggest that the long-run demand changes will be slightly more sensitive to price changes in gasoline as consumers seek out alternatives. Therefore, we used an elasticity of -0.2 in this analysis,

meaning that a one percent increase in the price of gasoline would reduce the amount purchased by 0.2 percent.

In addition to affecting the State Highway Fund, the demand reduction in total gallons will lower the \$0.0075 environmental and inspection fee anticipated revenue to the Department of Agriculture, DHEC, and DOT by \$92,000 in FY 2017-18 and \$195,000 in FY 2018-19. The increase begins in July, and revenue is first remitted in August. Therefore, the FY 2017-18 estimate represents eleven months of a full fiscal year. The estimated annual reduction in revenue by fiscal year for FY 2017-18 to FY 2019-20 by agency is provided in the table below.

Environmental and Inspection Fee (\$0.0075)			
Fiscal Year	\$0.0050	\$0.0025	
	Department of Health and Environmental Control	10% to the Department of Agriculture	90% to the Department of Transportation (State Non-Federal Aid Highway Fund)
FY 2017-18	(\$61,000)	(\$3,000)	(\$28,000)
FY 2018-19	(\$130,000)	(\$7,000)	(\$59,000)
FY 2019-20	(\$189,000)	(\$9,000)	(\$85,000)

Section 5. This section increases the driver's license fee for a 5-year driver's license from \$12.50 to \$25.00 and from \$25.00 to \$50.00 for a 10-year driver's license. Based upon the most recent data from DMV, the estimated additional revenue from the increased driver's license fees in FY 2017-18 is \$7,455,000. Since the increase begins January 1, 2018, this figure represents six months of a full fiscal year. We do not anticipate that the fee increase will be sufficient to prompt residents to renew licenses early to avoid the increase. However, the estimate may be marginally impacted if individuals renew early. Another timing issue impacts the FY 2017-18 estimate. Calendar year 2017 included a larger than normal number of expiring driver's licenses due to DMV procedural changes in 2006, and we do not expect this trend to continue. All of the fees collected pursuant to this section must be credited to the State Highway Fund. The estimated annual revenue increase for FY 2017-18 to FY 2018-19 is provided in the table below.

Fiscal Year	Driver's License Fee Increase Total Additional Revenue
FY 2017-18	\$7,455,000
FY 2018-19	\$9,834,000

Section 6. The biennial registration fee for every passenger vehicle and every property-carrying vehicle with a gross weight of 6,000 pounds or less, excluding trucks, is increased by \$16.00. The increase will apply to all individuals, including individuals 65 years of age or older and individuals who are handicapped pursuant to Section 56-3-620. Based upon DMV data, there will be approximately 3,179,000 vehicles subject to this additional fee in FY 2017-18. The increase begins January 1, 2018. Therefore, the FY 2017-18 estimate represents six months of a full fiscal year. The estimated additional revenue from this fee increase is \$12,731,000 for FY

2017-18. From each biennial registration fee collected pursuant to this section, \$16.00 must be credited to the State Highway Fund. The estimated annual revenue increase for FY 2017-18 to FY 2018-19 is provided in the table below.

Fiscal Year	Biennial Vehicle Registration Fee Increase Total Additional Revenue
FY 2017-18	\$12,731,000
FY 2018-19	\$26,090,000

Section 7. This section creates a new registration fee for alternative fuel vehicles that are powered by fuels other than those subject to the motor fuel user fee. For vehicles powered exclusively by electricity, hydrogen, or another fuel not subject to the user fee, a biennial road user fee of \$120.00 is added. Based upon data from DMV, we estimate 460 vehicles powered exclusively by alternate fuels will be subject to the \$120.00 fee. The increase begins January 1, 2018. Therefore, the FY 2017-18 estimate represents six months of a full fiscal year. For FY 2017-18, one-half of these biennial registration fees will be \$14,000. For vehicles that use a combination of a motor fuel subject to the motor fuel user fee and another fuel source, the biennial road user fee is \$60.00. We estimate that in FY 2017-18 there will be 44,000 vehicles that use a combination of fuels subject to the \$60.00 fee. Since the increase begins January 1, 2018, the FY 2017-18 estimate represents six months of a full fiscal year. For FY 2017-18, one-half of these biennial registration fees will be \$660,000. The proposed biennial alternative fuel and hybrid vehicle fees will total \$674,000 in FY 2017-18. All of the fees collected pursuant to this section must be credited to the State Highway Fund. The estimated annual revenue increase for FY 2017-18 to FY 2018-19 is provided in the table below.

Fiscal Year	Hybrid and Alternative Fuel Vehicle Fee Total Additional Revenue
FY 2017-18	\$674,000
FY 2018-19	\$1,453,000

Section 8. This section increases the maximum sales and use tax limitation on enumerated items from the current \$300 per item to \$600 per item. The revenue generated by increasing the maximum sales and use tax by an additional \$300 per item would not be credited to the state public school building fund or the EIA fund as directed by current statute, but would instead be redirected to the State Highway Fund. This transfer would include the four percent component of the sales and use tax in the General Fund as well as the one percent component of the sales and use tax in the EIA fund. There is no EIA hold harmless provision included in this statutory change. Below is a table that describes how the increase in the maximum sales and use tax cap to \$600 is distributed among the various items subject to the maximum sales and use tax cap.

Item	Current \$300 Max Cap	Proposed \$600 Max Cap	Estimated Revenue Increase
Aircraft	\$21,000	\$41,000	\$20,000
Motor vehicle	\$183,000,000	\$281,500,000	\$98,500,000
Motorcycle	\$2,208,000	\$3,312,000	\$1,104,000
Boat	\$3,846,000	\$5,769,000	\$1,923,000
Trailer or semitrailer and horse trailers	\$1,312,000	\$1,476,000	\$164,000
Heavy duty trucks (Class 8)	\$1,119,000	\$2,239,000	\$1,120,000
Recreational vehicle	\$1,684,000	\$3,369,000	\$1,685,000
Self-propelled light construction equipment	\$663,000	\$1,325,000	\$662,000
Total	\$193,853,000	\$299,031,000	\$105,178,000

Pursuant to Section 12-36-2110, the current maximum sales and use tax of \$300 per item generates sales and use tax revenue of an estimated \$193,853,000 annually. The majority of this revenue (94%) is accounted by sales of motor vehicles. If the maximum sales and use tax cap is increased by \$300 per item to \$600 per item, sales and use tax revenue would increase by an estimated \$105,178,000 to a total of \$299,031,000 in FY 2017-18. The increase in the sales and use tax cap by \$300 per item would increase revenue in the State Highway Fund by an estimated \$105,178,000 in FY 2017-18.

Section 10. This section directs DMV to collect a road use fee on all commercial motor vehicles beginning on January 1, 2019. The valuation of the large commercial motor vehicles for the road use fee is to be determined in the same manner as currently prescribed for motor carriers. This section adds out-of-state apportioned carriers that currently do not pay property taxes to the road use fee. The road use fee for in-state carriers would remain the same as the current property tax amount.

In order to estimate the road use fee on out-of-state carriers, we calculate full-time equivalent (FTE) vehicles based upon the average in-state registration fee of \$706 and the total out-of-state registration fees collected. This accounts for the apportionment of out-of-state vehicles based on mileage. For FY 2015-16, DMV reported total out-of-state vehicle registration collections of \$7,802,991. Dividing the total fees by the estimated average fee results in an estimated 11,047 FTE out-of-state vehicles in FY 2015-16. We estimate that this will increase to approximately 12,012 out-of-state vehicles by FY 2018-19 based upon recent growth in fee collections. Using an approximate new vehicle value of \$120,000 and multiplying this value by the estimated 12,012 vehicles results in a total value of \$1,441,416,000. Based upon an average vehicle age of 6 years, the average value at the depreciated rate of 0.25 would be \$360,354,000. As outlined in Section 12-43-220(g), this depreciated vehicle value is then assessed at 9.5 percent and multiplied by an equalization factor currently set at 80 percent by DOR.

Because the new fee is paid at the time of registration and may be paid quarterly, the actual distribution of the calendar year 2019 revenue may vary depending upon registration timing. Since the fee begins January 1, 2019, we assume for this analysis that the registrations will be evenly distributed across the year and that one-half of the full year's fees will be paid from January through June of FY 2018-19. Additionally, the change in timing will accelerate fee collections for in-state carriers by six months compared to the current fee timing. Using an estimated statewide millage of 338.4, we estimate that one-half of total collections for road use fees will be \$4,634,000 for out-of-state carriers. Based upon our latest analysis of collections for in-state motor carriers through the end of 2016, we estimate that total fees for in-state carriers will be approximately \$25,115,000 for 2019. One-half of these fees will total approximately \$12,558,000 in FY 2018-19. Total motor carrier fees for new collections and the one-time acceleration of in state fees will be approximately \$17,192,000 in FY 2018-19.

Additionally, motor carriers pay a one-time fee of \$87 to register a trailer or semi-trailer. Currently, \$75 of the fee is distributed to local jurisdictions under Section 12-27-2870, and \$12 is retained by DOR. This proposal would change the distribution by sending the \$12 fee currently retained by DOR to DMV. The remaining \$75 is to be combined with the revenue generated by the road use fee in Section 12-37-2850 and distributed based upon Sections 12-37-2865 and 12-37-2870. Based upon fee collections through 2016, we estimate total one-time registration fees will be approximately \$703,000 in 2019. One-half of one-time registration fees will total approximately \$352,000 in FY 2018-19. Of this amount, \$48,000 will be reallocated from DOR to DMV for operations and \$303,000 will be distributed based upon Sections 12-37-2865 as outlined below.

Combining the projected motor carrier road use fees and one-time registration fee revenue for FY 2018-19 yields total revenue of \$17,495,000 to be distributed under Section 12-37-2865. Section 12-37-2865 directs that the first \$26,500,000 of revenue per fiscal year is distributed to counties based upon the current distribution formula in Section 12-37-2870, and the remaining revenue is credited to the State Highway Fund to be used to finance expansion and improvements to existing mainline interstates. Additionally, Subitem L(2) of Section 10 directs DMV to retain \$400,000 in the first calendar year to offset programming costs. This leaves \$17,095,000 to be distributed to counties under Section 12-37-2870 in FY 2018-19. Based upon the change in timing, this will increase local funding to counties by \$17,095,000 in FY 2018-19. This amount may vary, however, depending upon registration timing.

Revenue for FY 2019-20 will comprise a full year of fees. Based upon collections through 2016, we estimate that total motor carrier road use fees will be \$25,343,000 for in-state carriers and \$9,670,000 for out-of-state carriers, for a total of \$35,013,000 in FY 2019-20. Fees for one-time registrations will yield an additional \$606,000 to be distributed, while \$97,000 will be retained by DMV. Adding the motor carrier fee amounts together yields total revenue of \$35,619,000 to be distributed based upon Section 12-37-2865. Counties will receive \$26,500,000 under the current distribution formula in Section 12-37-2870, and the remaining \$9,119,000 will be credited to the State Highway Fund. This will increase county revenue by approximately \$834,000 for FY 2019-20.

Sections 13 and 14. These sections amend the individual income tax rates and brackets in Section 12-6-510 and the inflation bracket adjustment in Section 12-6-520. Beginning in tax year 2017, the current 3 percent rate is reduced to 2.9 percent and the current 7 percent rate is reduced to 6.9 percent. Additionally, the tax bracket amount is increased from the \$2,930 under current law to \$3,610. For tax years 2018, 2019, and 2020, the brackets are increased to \$3,680 and \$3,750, and \$4,150, respectively. The Department of Revenue will begin adjusting the 2020 individual income tax brackets by the full amount of inflation as defined by Internal Revenue Code Section (1)(f) beginning in tax year 2021.

Increasing the bracket to \$3,610 and lowering the 3 percent and 7 percent marginal rates to 2.9 percent and 6.9 percent would reduce individual income tax in total by an estimated \$181,716,000 for tax year 2017. For tax year 2018, increasing the bracket to \$3,680 at the adjusted rates would reduce individual income tax revenue by a total of \$192,831,000 compared to our current tax structure. Again, adjusting the bracket for tax year 2019 to \$3,750 would reduce individual income tax revenue by a total of \$206,453,000 with the adjusted rates. For tax year 2020, increasing the bracket to \$4,150 with the previously imposed rate reduction would lower individual income tax by a total of \$280,828,000 compared to our current tax structure for 2020. The attached tables report the individual income tax reductions by taxable income range.

We anticipate that taxpayers who file estimated tax payments will reduce their quarterly declarations in response to the tax reduction. As such, 5.25 percent of the total tax year impact is recognized in the prior fiscal year for the first two calendar quarters of reduced estimated tax payments, and the remaining impact is reflected in next fiscal year through the remaining reduced payments and higher refunds. The projected General Fund impact on a fiscal year basis is provided in the table below based upon these assumptions.

Fiscal Year	General Fund Individual Income Tax Revenue	Annual Additional General Fund Individual Income Tax Revenue
FY 2016-17	(\$9,540,000)	(\$9,540,000)
FY 2017-18	(\$182,300,000)	(\$172,760,000)
FY 2018-19	(\$193,546,000)	(\$11,246,000)
FY 2019-20	(\$210,358,000)	(\$16,812,000)
FY 2020-21	(\$266,085,000)	(\$55,727,000)

The adjustments to the brackets for tax years 2018, 2019, and 2020 are dependent upon the growth in General Fund revenue as outlined in Section 12-6-510(F). This item states that the bracket increase shall occur only if forecasted growth exceeds one percent. Beginning with the forecast on February 15, 2018, the imposition of the new bracket is determined by the percentage increase in General Fund revenues less the amount distributed to the Trust Fund for Tax Relief, over the revenue expenditure base of recurring general fund appropriations authorized in the current act. Both the revenue growth and the expenditure base are to be adjusted to account for

the revenue reductions because of this section. The expenditure base is also adjusted to account for any reduced appropriations mandated by the General Assembly or Executive Budget Office due to a reduction in the current fiscal year's forecast under Section 11-9-890(B). Based upon our current long-range assumptions, we anticipate that growth will be sufficient to meet the requirements of this section.

Section 15. This section increases the individual income tax subsistence allowance from \$8 per day to \$9. Currently, police and all commissioned law enforcement officers, full-time firefighters, and full-time emergency medical service personnel are entitled to deduct a subsistence allowance of \$8 per regular workday from taxable income. From tax year 2011 to tax year 2014, the number of tax returns claiming this allowance has averaged 21,986 per year, moving up and down between years. Based upon the inconsistent pattern, we have assumed that the average number of returns over this four-year period is the best estimate for tax year 2017. The average total deduction claimed over the period was \$36,622,000, and we anticipate that approximately this same amount will be the total claimed for tax year 2017.

In order to determine the estimated impact of increasing the deduction from \$8 per day to \$9, we recalculated tax year 2014 returns with the increased deduction amount to determine the marginal tax rate for these tax returns. The resulting marginal rate was 6.01 percent. Increasing the allowance by one dollar will increase the estimated \$36,622,000 in deductions for tax year 2017 by \$4,578,000. At a marginal tax rate of 6.01 percent, this will reduce taxes for these taxpayers by \$275,000 in tax year 2017. Therefore, increasing the allowance to \$9 per day would decrease General Fund individual income tax revenue in FY 2017-18 by an estimated \$275,000.

Section 16. This section increases the income limit for the two wage earner credit from \$30,000 to \$45,000. Currently, the two wage earner credit in Section 12-6-3330(B)(1) is a non-refundable credit of 0.7 percent of earned income up to \$30,000. In order to qualify, taxpayers must file a married joint return, and both spouses must have earned income. Increasing the income limit to \$45,000 would increase the maximum credit from \$210 to \$315.

We estimate that approximately 387,973 returns will claim the credit in 2017. Because the credit is non-refundable, we estimated the revenue impact by re-calculating returns currently claiming the credit with the increased income limitation. Increasing the credit limit to \$45,000 of income, or \$315, would increase the estimated credits claimed from \$52,058,000 to \$65,454,000 in tax year 2017. This would lower General Fund individual income tax revenue by approximately \$13,396,000 in FY 2017-18.

Section 17. Section 12-6-3385(A)(1) establishes the tuition tax credit, which is a refundable credit for twenty-five percent of tuition paid. This amount is limited to a maximum of \$850 for four-year institutions and \$350 for two-year institutions. This bill would increase the credit to \$1,500 for tuition paid to any institution, two-year or four-year.

The Commission on Higher Education reports average tuition for two-year technical colleges is \$4,023 based upon 2015-16 tuition. Twenty-five percent of \$4,023 would reduce the maximum potential average credit claimed for two-year students to approximately \$1,005. Average tuition

at four-year institutions is sufficient to allow students attending a full year to claim the full \$1,500 credit. Based upon tax year 2014 returns, we project that approximately 7,429 returns will claim the credit in tax year 2017. The total credits claimed for 2017 is projected to be \$5,139,000 currently and increase to \$9,531,000 at the increased credit amount. This would decrease General Fund individual income tax revenue by \$4,392,000 in FY 2017-18.

Section 18. Beginning in tax year 2017, individual income tax filers are allowed a non-refundable state individual income tax credit equal to three and one-half percent of the federal earned income tax credit (EITC). For our analysis, we used a 2014 sample file from the Department of Revenue that contains federal income tax returns matched to the state returns for 87 percent of state filers. We recalculated the 2014 individual income tax returns to account for the credit per return that would not be taken for tax filers with insufficient tax liability to claim the full non-refundable credit amount. This figure was then inflated to estimate the remaining 13 percent of returns for which we do not have federal data.

For tax year 2014, total federal earned income tax credits for all South Carolina filers are estimated at \$1,366,205,000. Three and one-half percent of this amount would result in total South Carolina credits of \$47,817,000 for 2014. However, this is reduced to \$29,020,000 due to tax returns with insufficient tax liability to claim the full credit. Inflating these figures to 2017 based upon growth in earned income tax credits of 4.3 percent from 2013 to 2014, we estimate that this credit will reduce individual income tax by \$32,928,000 in tax year 2017.

Section 19. Currently manufacturing property is assessed at 10.5 percent of the value of the property. Subitem 52(a) of Section 12-37-220(B) would provide an exemption of 19.05 percent of the value of manufacturing property with respect to local property taxes to be reimbursed by the State. The exemption is implemented in equal installments in tax years 2018 and 2019.

We estimate that local property tax revenue for manufacturing property will be approximately \$263,888,000 for tax year 2018. Exempting 9.525 percent of the fair market value of manufacturing property would reduce local property tax revenue by \$25,135,000 in FY 2018-19. Exempting 19.05 percent of the value for tax year 2019 would reduce local revenue by a total of \$49,508,000 in FY 2019-20. Based upon the current trend, we anticipate these amounts will decline in upcoming years. These amounts will be reimbursed by the State and will increase the transfer of individual income tax and corporate income tax revenue to the Trust Fund for Tax Relief, reducing General Fund revenue by a total of \$25,135,000 in FY 2018-19 and \$49,508,000 in FY 2019-20.

As outlined in Subitem B(B) of Section 19, the percentage exemption occurs only if forecasted growth exceeds one percent. Beginning with the forecast on February 15, 2018, the percentage increase in General Fund revenues less the amount distributed to the Trust Fund for Tax Relief, over the revenue expenditure base of recurring general fund appropriations authorized in the current act must exceed one percent. Both the revenue growth and the expenditure base are to be adjusted to account for the revenue reductions because of this section. The expenditure base is also adjusted to account for any reduced appropriations mandated by the General Assembly or Executive Budget Office due to a reduction in the current fiscal year's forecast under Section 11-

9-890(B). Based upon our current long-range assumptions, we anticipate that growth will be sufficient to meet the requirements of this section.

Additionally, beginning in tax year 2017, this proposal would create a 9.5 percent value exemption for business personal property currently assessed at 10.5 percent of the value of the property. The exemption is to be reimbursed by the State.

We estimate that local revenue for business personal property taxes will total \$277,459,000 for tax year 2017. Exempting 9.5 percent of the value will reduce local property tax revenue by \$26,359,000 in FY 2017-18. This amount will be reimbursed by the State and will increase the transfer of individual income tax and corporate income tax revenue to the Trust Fund for Tax Relief, reducing General Fund revenue by a total of \$26,359,000 in FY 2017-18. This transfer will continue each year thereafter based upon the total business personal property reimbursement.

Local Expenditure

Section 19. This section would provide a value exemption for business personal property. Currently, the majority of business personal property is assessed by DOR while the remaining portion is assessed by local county auditors. This change may require additional one-time expenditures to change programs to allow the value exemption, but as it applies uniformly to all business personal property, we do not anticipate that administering this exemption would have a recurring impact on local expenditures. If, however, counties are required to include the exemption separately on the property tax bill, this would result in expenditures for changing programming. One county indicated that the expense would be \$25,000 with recurring expenses to a lesser degree in subsequent years.

Local Revenue

Section 19. Currently manufacturing property is assessed at 10.5 percent of the value of the property. The bill would provide an exemption of 19.05 percent of the value of manufacturing property with respect to local property taxes to be reimbursed by the State. The exemption is implemented in equal installments in tax years 2018 and 2019.

Exempting 9.525 percent of the fair market value of manufacturing property would reduce local property tax revenue by \$25,135,000 in FY 2018-19. Exempting 19.05 percent of the value for tax year 2019 would reduce local revenue by a total of \$49,508,000 in FY 2019-20. These amounts will be reimbursed by the State.

Additionally, beginning in tax year 2017, this bill would create a 9.5 percent value exemption for business personal property currently assessed at 10.5 percent of the value of the property. The exemption is to be reimbursed by the State.

We estimate that local revenue for business personal property taxes will total \$277,459,000 for tax year 2017. Exempting 9.5 percent of the value will reduce local property tax revenue by \$26,359,000 in FY 2017-18. This amount will be reimbursed by the State.



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