SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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Bill Number:	S.0404	Introduced on February 14, 2017
Author:	Campbell	
Subject:	Tax credits	
Requestor:	Senate Finance	
RFA Analyst(s):	Martin, Heineman, Wren	
Impact Date:	February 27, 2017	

Estimate of Fiscal Impact

	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21 and after
State Expenditure				
General Fund	$0	$0	$0	$0
Other and Federal	$0	$0	$0	$0
Full-Time Equivalent Position(s)	0.00	0.00	0.00	0.00
State Revenue				
General Fund	($500,000)	($2,500,000)	($3,000,000)	($3,500,000)
Other and Federal	$25,000	$25,000	$25,000	$25,000
Local Expenditure	$0	$0	$0	$0
Local Revenue	$0	$0	$0	$0

Fiscal Impact Summary
This bill would have the following impact on state General Fund and Other Fund revenue:

Section 1. This bill would reduce General Fund income tax revenue by $500,000 in FY2017-18, by $1,000,000 in FY2018-17, by $1,500,000 in FY2019-20, and by $2,000,000 in FY2020-21, and each fiscal year thereafter. This bill would also increase Other Fund revenue of the Coordinating Council for Economic Development (CCED) by an estimated $25,000 in application fees annually.

Section 2. This bill would reduce General Fund income tax, bank tax, or insurance premium tax revenue by an estimated $1,500,000 in FY2018-19, and each fiscal year thereafter.

Explanation of Fiscal Impact

Introduced on February 14, 2017
State Expenditure
The following state agencies have indicated the effect that this bill would have on agency expenditures.

Department of Revenue. The Department of Revenue indicates that there will be no expenditure impact to the General Fund, Federal Funds, or Other Funds from this bill. The Department can administer the legislative changes with existing resources.

Department of Commerce. The Department of Commerce indicates that any additional workload related to the Coordinating Council for Economic Development in administering the tax credits is not expected to require additional staffing or incur additional costs, and would have no expenditure impact on the General Fund, Federal Funds, or Other Funds.

State Revenue

The Certified South Carolina Program is coordinated through the South Carolina Department of Agriculture. Upon application and acceptance to the program, all farm producers, food manufacturers, specialty food producers, packing facilities and others engaged in the production or manufacture of agricultural products in South Carolina are eligible to place the Certified South Carolina Grown logo on all items and promotional efforts. To date, there are 1,840 registrants in the Certified South Carolina Program spread throughout all forty-six counties in the state.

Section 1. This section would add Section 12-6-3378 to allow an agribusiness operation or an agricultural packaging operation to claim a nonrefundable income tax credit or a tax credit against employee withholding tax. The taxpayer would be required to increase its purchases of agricultural products which have been certified as South Carolina grown by the South Carolina Department of Agriculture by a minimum of fifteen percent over its base year in a single calendar year. The “base year” is defined as the total dollar purchases of agricultural products certified as South Carolina grown in the immediately preceding calendar year. The base year total dollar purchases, however, must exceed $100,000 for a taxpayer to be eligible for the tax credits. If a taxpayer does not meet the $100,000 purchases requirement in the year ending December 31st of the previous year, including a taxpayer who locates to the State prior to December 31st of the previous year, the base year must be measured by the initial January 1st through December 31st calendar year in which the taxpayer meets the purchasing requirement. The $100,000 threshold should be easily met by a number of agricultural operations within the State. The maximum tax credits should be exhausted and fully allocated each year.

The Coordinating Council for Economic Development has the sole discretion in allocating the tax credits and must consider the amount of base year purchases of certified agricultural products, the total and percentage increase in purchases, and factors related to the economic benefit of the State or other factors. The taxpayer must submit an application to the Coordinating Council every year in which the taxpayer wishes to claim a tax credit. The CCED believes the agency could receive an estimated $25,000 in application fees annually.

The amount of the tax credits allocated to each applicant would be determined by the Coordinating Council for Economic Development within the Department of Commerce. The maximum amount of tax credits that may be allocated to all taxpayers in a calendar year is summarized in the table below.

Tax Credit Allocation Schedule

Calendar Year	Maximum Tax Credit Amount
2017	$500,000
2018	$1,000,000
2019	$1,500,000
After 2019	$2,000,000

If the income tax credit exceeds the taxpayer's income tax liability for the taxable year, the excess amount may be carried forward in the next five succeeding taxable years. If the credit against withholding taxes exceeds the taxpayer's withholding tax liability for the taxable quarter, the excess amount may be carried forward in the next twenty succeeding taxable quarters.

This bill, however, contains no compliance or enforcement mechanisms or audit measures in the proposed legislation to ensure that taxpayers have met the purchase requirement. The awarding of the tax credits is discretionary and subjective based upon the submission of unaudited applications by the taxpayers.

Section 2. This section would amend Section 12-10-80 to amend the definition of a "qualifying service-related facility" in order for a company to qualify under the jobs tax credit statute. This language adds subitem (K) to Section 12-6-3360 to allow a nonrefundable job tax credit to a business engaged in legal, accounting, or investment services operating at a single location if the single facility would otherwise qualify as a service-related facility. The proposed language also includes those establishments at a single facility of a business generally engaged in retail sales if that single facility would otherwise qualify as a service-related facility. This language would allow an establishment such as a securities brokerage establishment to qualify for a jobs tax credit. Without this language, a securities brokerage company would be ineligible for the job tax credit as it seeks approval for applying a job tax credit from the Coordinating Council for Economic Development for each new full-time employee hired.

The Department of Commerce recently announced the desire of a securities brokerage firm that would like to relocate from out-of-state to South Carolina. This company plans to consolidate three individual locations into one corporate campus becoming one corporate headquarters in Fort Mill, South Carolina. The announcement mentions the relocation of at least 1,000 employees to a newly constructed corporate campus site with an initial capital investment of $200,000,000 with plans for future expansion. Also, according to the Department of Revenue's annual ranking of county designations for a job tax credit, York County is a Tier I county with a $1,500 job tax credit per each new full-time eligible job. The job tax credit may be claimed for five years beginning in year two after the creation of the job for each new full-time job created if the maximum level of new jobs is maintained. Any unused job tax credits may be carried forward for a period of fifteen years from the taxable year in which the credit is earned by the taxpayer. Since the company cannot apply a job tax credit until the second year, multiplying 1,000 new full-time jobs by a nonrefundable job tax credit of $1,500 per eligible job yields a reduction in General Fund income tax, bank tax, or insurance premium tax revenue of an estimated $1,500,000 in FY2018-19, and each fiscal year thereafter.

The language also adds permissive language to give the Coordinating Council for Economic Development discretion in the approval of job development credits to qualifying businesses based upon the following criteria:

- At least seventy-five (75) percent of service or other income producing activity must be derived from gross receipts of customers outside of South Carolina
- The nature of the new jobs to be created at the project
- The wages of the new jobs to be created at the project
- The capital investment of the project
- The potential for expansion or growth of the business or industry

Section 3. This act takes effect upon approval by the Governor and applies for tax years beginning after 2016.

Local Expenditure
N/A

Local Revenue
N/A

Frank A. Rainwater

Frank A. Rainwater, Executive Director