

# South Carolina Board of Economic Advisors

## Statement of Estimated State Revenue Impact

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**Date:** May 19, 2009

**Bill Number:** H.B. 3953

**Author:** Hart

**Committee Requesting Impact:** House Ways and Means Committee

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### Bill Summary

A bill to amend the Code of Laws of South Carolina, 1976, by adding Section 12-6-3760, so as to allow a state tax credit for employers hiring an unemployed individual receiving unemployment compensation benefits, to provide the amount of the credit, those taxes against which the credit is allowed, and the eligibility requirements for creditable employees, to provide for the administration of the credit, and to provide that the credit is allowed for eligible individuals hired after June 30, 2009, and before July 1, 2010, and extends for fifty months for each creditable employee.

### REVENUE IMPACT <sup>1/</sup>

This bill would reduce General Fund income tax revenue by an estimated \$132,177,600 in FY2009-10, an estimated \$175,796,208 in FY2010-11, an estimated \$145,261,860 in FY2011-12, an estimated \$136,582,194 in FY2012-13, and an estimated \$21,838,058 in FY2013-14.

### Explanation

This bill would add Section 12-6-3760 to allow an employer that hires a "creditable employee" to claim a \$100 per month nonrefundable income tax credit for each unemployed creditable employee first hired by the employer after June 30, 2009 and before July 1, 2010. A "creditable employee" must also meet the remaining conditions – has filed a claim for unemployment compensation and is currently receiving weekly unemployment compensation benefits for a least four weeks (30 days); was unemployed immediately before becoming employed; has no return to work date or promise of future employment; remains employed by the employer for at least four consecutive work weeks and consists of at least a 35-hour work week; and the employee must be a U.S. citizen or a lawfully present alien confirmed through the federal employment verification system known as "E-Verify". According to the latest data from the Employment Security Commission, nearly 100,000 individuals received unemployment compensation checks during the first three months of 2009, of which an estimated 60,000 unemployed individuals would be hired and become creditable employees. Based upon data from the Bureau of Labor Statistics, it takes a typical unemployed person an average of 19 weeks (4.75 months) to find employment after a job separation. Since individuals are constantly added to and removed from the unemployment roles, the number of initial claimants for unemployment insurance turns over 2.74 times each year (52 weeks divided by 19 weeks equals 2.74). Multiplying the additional 60,000 unemployed claimants by an unemployment turnover rate of 2.74 yields an estimated 164,400 potential creditable employees. Applying an annual nonrefundable income tax credit of \$1,200 per claimant yields \$197,280,000 in tax credits. Adjusting for one-third of employers that would not have enough taxable liability to claim a credit yields an estimated \$132,177,600 of income tax credits. General Fund income tax revenue would thereby be reduced by an estimated \$132,177,600 in FY2009-10. Any unused credits may be carried forward to succeeding years and the tax credit remains in effect for twenty-four consecutive months for each creditable employee. Applying an estimated \$65,102,400 in credit carry forwards and adjusting for one-third of employers that would not have enough taxable liability to claim a credit yields an estimated \$43,618,608 of income tax credits in the second year. Combined with the original creditable employees from the previous year adds \$132,177,600 of income tax credits yielding a reduction of

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General Fund income tax revenue of \$175,796,208 in FY2010-11. Over time, the pool of creditable employees will decline as attrition occurs due to workers voluntarily leaving employment. After including an attrition rate of ten percent each year, General Fund income tax revenue would be reduced by an estimated \$145,261,860 in FY2011-12, an estimated \$136,582,194 in FY2012-13, and an estimated \$21,838,058 in FY2013-14, which includes two months of FY2013-14 for a total of fifty months.

/s/ WILLIAM C. GILLESPIE, PH.D.

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<sup>1/</sup> This statement meets the requirement of Section 2-7-71 for a state revenue impact by the BEA, or Section 2-7-76 for a local revenue impact or Section 6-1-85(B) for an estimate of the shift in local property tax incidence by the Office of Economic Research.