

# South Carolina Board of Economic Advisors

## Statement of Estimated State Revenue Impact

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**Date:** February 15, 2010

**Bill Number:** H.B. 4478

**Authors:** Harrell; Cato; Cooper; Duncan; Harrison, *et. al.*

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

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### Bill Summary

A BILL TO ENACT THE "SOUTH CAROLINA ECONOMIC DEVELOPMENT COMPETITIVENESS ACT OF 2010" INCLUDING PROVISIONS TO AMEND SECTION 2-75-30, AS AMENDED, RELATING TO RESEARCH CENTERS OF EXCELLENCE MATCHING ENDOWMENTS, SO AS TO FURTHER PROVIDE FOR THE PROCESS AND PROCEDURES FOR AWARDING ENDOWMENTS AND FOR THE APPLICABILITY OF MATCHING REQUIREMENTS; TO AMEND SECTION 2-75-50, AS AMENDED, RELATING TO APPLICATION REQUIREMENTS FOR AN AWARD FROM THE CENTERS OF EXCELLENCE MATCHING ENDOWMENT, SO AS TO CLARIFY WHAT THE CONTENTS OF AN APPLICATION TO THE REVIEW BOARD MUST CONTAIN; TO AMEND SECTION 4-12-30, AS AMENDED, RELATING TO FEES IN LIEU OF TAXES, SO AS TO INCREASE THE NUMBER OF YEARS A FEE IS AVAILABLE AND TO DELETE A PROVISION THAT REQUIRES THE FAIR MARKET VALUE OF THE PROPERTY ESTABLISHED FOR THE FIRST YEAR OF THE FEE TO REMAIN THE FAIR MARKET VALUE OF THE REAL PROPERTY FOR THE LIFE OF THE FEE; TO AMEND SECTION 4-29-67, AS AMENDED, RELATING TO INDUSTRIAL DEVELOPMENT PROJECTS REQUIRING A FEE IN LIEU OF PROPERTY TAXES AGREEMENT, SO AS TO ADD CERTAIN DEFINITIONS, TO FURTHER PROVIDE FOR THE MINIMUM LEVEL OF INVESTMENT FOR A QUALIFIED NUCLEAR PLANT FACILITY, TO PROVIDE FOR THE TIMELINE WHEN THE SPONSOR MUST ENTER INTO AN INITIAL LEASE AGREEMENT WITH THE COUNTY IN REGARD TO A QUALIFIED NUCLEAR PLANT FACILITY, AND THE TIMELINES WHEN THE SPONSOR MUST MEET MINIMUM INVESTMENT REQUIREMENTS IN THE CASE OF A QUALIFIED NUCLEAR PLANT FACILITY AND PLACE THE PROJECT INTO SERVICE, AND TO DELETE A PROVISION REQUIRING THE FAIR MARKET VALUE OF THE PROPERTY ESTABLISHED FOR THE FIRST YEAR OF THE FEE TO REMAIN THE FAIR MARKET VALUE OF THE PROPERTY FOR THE LIFE OF THE FEE; TO AMEND SECTION 4-29-68, AS AMENDED, RELATING TO SPECIAL SOURCE REVENUE BONDS WHICH MAY BE ISSUED BASED ON THE RECEIPT OF CERTAIN REVENUES, SO AS TO SPECIFY THAT ONE OF THE PURPOSES FOR THE ISSUANCE OF THESE BONDS IS TO PAY FOR THE COST OF PERSONAL PROPERTY INCLUDING MACHINERY AND EQUIPMENT; BY ADDING CHAPTER 18 TO TITLE 11 SO AS TO ESTABLISH MECHANISMS AND PROCEDURES FOR THE ALLOCATION, REALLOCATION, AND ISSUANCE OF FEDERAL RECOVERY ZONE BONDS; TO AMEND SECTION 4-29-10, AS AMENDED, RELATING TO DEFINITIONS IN REGARD TO INDUSTRIAL DEVELOPMENT PROJECTS, SO AS TO REVISE THE DEFINITION OF "PROJECT" TO INCLUDE RECOVERY ZONE PROPERTY AS DEFINED BY FEDERAL LAW; TO AMEND SECTION 12-6-530, RELATING TO THE CORPORATE INCOME TAX, SO AS TO REDUCE THE RATE OF THE CORPORATE INCOME TAX FROM FIVE PERCENT ANNUALLY TO ZERO BEGINNING IN 2011 OVER A TEN-YEAR PERIOD IN INTERVALS OF ONE-HALF PERCENT PER YEAR; TO AMEND SECTION 12-6-3360, AS AMENDED, RELATING TO JOB TAX CREDITS, SO AS TO REVISE THE DESIGNATION TERMINOLOGY FOR COUNTIES COMING WITHIN SPECIFIC CLASSIFICATIONS, TO FURTHER PROVIDE FOR THE CRITERIA FOR DETERMINING HOW COUNTIES FALL WITHIN CERTAIN TIERS, AND TO REVISE SPECIFIC TERMS OR DEFINITIONS USED FOR PURPOSES OF THIS SECTION; TO AMEND SECTION 12-6-3375, AS AMENDED, RELATING TO TAX CREDITS FOR PORT CARGO VOLUME INCREASES, SO AS TO REVISE THE MANNER IN WHICH TAX CREDIT ALLOCATIONS ARE DETERMINED AND THE AMOUNT OF THE CREDITS WHICH MAY BE ALLOCATED TO A QUALIFYING TAXPAYER; TO AMEND SECTION 12-10-30, AS AMENDED, RELATING TO DEFINITIONS UNDER THE ENTERPRISE ZONE ACT OF 1995, SO AS TO REVISE THE DEFINITIONS OF "EMPLOYEE" AND "PROJECT"; TO AMEND SECTION 12-10-50, AS AMENDED, RELATING TO QUALIFICATIONS FOR BENEFITS UNDER THE ENTERPRISE ZONE ACT OF 1995, SO AS TO REVISE THESE QUALIFICATIONS AND TO FURTHER PROVIDE FOR WHAT A BUSINESS MUST DO TO MEET THESE QUALIFICATIONS; TO

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AMEND SECTION 12-10-60, AS AMENDED, RELATING TO REVITALIZATION AGREEMENTS UNDER THE ENTERPRISE ZONE ACT OF 1995, SO AS TO FURTHER PROVIDE FOR THE TERMS, CONDITIONS, AND APPLICATION OF THESE REVITALIZATION AGREEMENTS, PROVIDE FOR WHEN SUCH AN AGREEMENT MUST BE EXECUTED, AND PERMIT THE ASSIGNMENT OF ENTERPRISE PROGRAM BENEFITS UNDER CERTAIN CONDITIONS; TO AMEND SECTION 12-10-80, AS AMENDED, RELATING TO JOB DEVELOPMENT CREDITS UNDER THE ENTERPRISE ZONE ACT OF 1995, SO AS TO EXPAND ELIGIBLE EXPENDITURES WHICH QUALIFY FOR THE CREDIT, TO CAP THE AMOUNT OF THE CREDITS PER JOB PER YEAR, TO REVISE CERTAIN TERMINOLOGY TO CONFORM TO EARLIER CHANGES HEREIN, TO FURTHER PROVIDE FOR THE CIRCUMSTANCES WHEN THESE CREDITS MAY BE CLAIMED AND THE MANNER OF THE DETERMINATION OF CERTAIN FACTORS NECESSARY TO QUALIFY FOR THE CREDITS, AND TO PROVIDE FOR THE SUSPENSION OF THE CREDITS UNDER CERTAIN CONDITIONS AND FOR WHEN THE CREDITS MAY BE CLAIMED; TO AMEND SECTION 12-10-85, AS AMENDED, RELATING TO THE PURPOSE AND USE OF STATE RURAL INFRASTRUCTURE FUNDS, SO AS TO REVISE THE PURPOSES FOR WHICH THESE FUNDS MAY BE USED AND THEIR AVAILABILITY; TO AMEND SECTION 12-14-20, RELATING TO THE PURPOSES OF THE ECONOMIC IMPACT ZONE COMMUNITY DEVELOPMENT ACT OF 1995, SO AS TO REVISE THESE PURPOSES; TO AMEND SECTION 12-14-60, AS AMENDED, RELATING TO INVESTMENT TAX CREDITS UNDER THE ECONOMIC IMPACT ZONE COMMUNITY DEVELOPMENT ACT OF 1995, SO AS TO REVISE THE AMOUNT OF THE CREDITS, THE QUALIFYING CRITERIA FOR THE CREDITS, AND FOR THE APPLICABILITY OF CERTAIN PROVISIONS TO THESE CREDITS; TO AMEND SECTION 12-15-10, RELATING TO THE CITATION OF THE SOUTH CAROLINA LIFE SCIENCES ACT, SO AS TO CHANGE THE CITATION; TO AMEND SECTION 12-15-20, RELATING TO DEFINITIONS UNDER THE RENAMED LIFE SCIENCES AND RENEWABLE ENERGY MANUFACTURING ACT, SO AS TO DEFINE THE TERM "RENEWABLE ENERGY MANUFACTURING FACILITY"; TO AMEND SECTION 12-15-30, RELATING TO QUALIFICATIONS OF CERTAIN EXPENSES UNDER THE ENTERPRISE ZONE ACT, PROCEDURES FOR WAIVERS, AND THE DURATION OF THESE PROVISIONS, SO AS TO EXPAND THE TYPES OF FACILITIES THAT QUALIFY AND THE DURATION OF THESE PROVISIONS; TO AMEND SECTION 12-15-40, RELATING TO INCOME TAX ALLOCATION AND APPORTIONMENT AGREEMENTS BETWEEN THE DEPARTMENT OF REVENUE AND TAXPAYERS ESTABLISHING A LIFE SCIENCES FACILITY, SO AS TO EXPAND THE TYPES OF FACILITIES TO WHICH THIS PROVISION APPLIES; TO AMEND SECTION 12-20-105, AS AMENDED, RELATING TO CREDITS AGAINST ITS CORPORATE LICENSE TAX LIABILITY FOR A COMPANY WHO PAYS CASH FOR INFRASTRUCTURE FOR AN ELIGIBLE PROJECT, SO AS TO FURTHER PROVIDE FOR THE ELIGIBILITY FOR THE CREDIT UNDER CERTAIN CIRCUMSTANCES OR THE CONTINUATION OF THE CREDIT; TO AMEND SECTION 12-28-2910, AS AMENDED, RELATING TO THE SOUTH CAROLINA COORDINATING COUNCIL FOR ECONOMIC DEVELOPMENT, SO AS TO AUTHORIZE THE COUNCIL TO EXPEND CERTAIN FUNDS FOR SPECIFIED PURPOSES UNDER SPECIFIED CONDITIONS; TO AMEND SECTION 12-37-930, RELATING TO VALUATION OF PROPERTY FOR PROPERTY TAX PURPOSES AND DEPRECIATION ALLOWANCES FOR MANUFACTURERS, MACHINERY, AND EQUIPMENT, SO AS TO INCLUDE MACHINERY AND EQUIPMENT OF A RENEWABLE ENERGY MANUFACTURING FACILITY WITHIN THE DEPRECIATION ALLOWANCES ALLOWED FOR MACHINERY AND EQUIPMENT OF A LIFE SCIENCES FACILITY, AND TO DEFINE WHAT IS A QUALIFYING FACILITY; TO AMEND SECTION 12-43-220, AS AMENDED, RELATING TO CLASSIFICATION OF REAL PROPERTY FOR AD VALOREM TAX PURPOSES, SO AS TO PROVIDE THAT REAL PROPERTY OWNED BY OR LEASED TO A MANUFACTURER AND USED PRIMARILY RATHER THAN EXCLUSIVELY FOR WAREHOUSING AND WHOLESALE DISTRIBUTION IS NOT CONSIDERED USED BY THE MANUFACTURER IN THE CONDUCT OF ITS BUSINESS FOR PROPERTY TAX CLASSIFICATION PURPOSES; TO AMEND SECTION 12-44-30, AS AMENDED, RELATING TO DEFINITIONS IN REGARD TO THE FEE IN LIEU OF TAX SIMPLIFICATION ACT, SO AS TO REVISE CERTAIN DEFINITIONS AND ADD CERTAIN DEFINITIONS; TO AMEND SECTION 12-44-40, AS AMENDED, RELATING TO THE REQUIRED FEE AGREEMENT BETWEEN THE SPONSOR AND THE COUNTY UNDER THE FEE IN LIEU OF TAX SIMPLIFICATION ACT, SO AS TO PROVIDE THE TIME WITHIN WHICH A SPONSOR HAS TO ENTER INTO A FEE AGREEMENT IN REGARD TO A QUALIFIED NUCLEAR PLANT FACILITY; TO AMEND SECTION 12-44-50, AS AMENDED, RELATING TO THE REQUIREMENT OF A FEE AGREEMENT UNDER THE FEE IN LIEU OF TAX SIMPLIFICATION ACT, SO AS TO DELETE A PROVISION

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THAT REQUIRES THE FAIR MARKET VALUE OF THE PROPERTY ESTABLISHED FOR THE FIRST YEAR OF THE FEE TO REMAIN THE FAIR MARKET VALUE OF THE PROPERTY FOR THE LIFE OF THE FEE; TO AMEND SECTION 12-44-130, AS AMENDED, RELATING TO MINIMUM INVESTMENTS TO QUALIFY FOR A FEE AND OTHER REQUIREMENTS, SO AS TO CORRECT A REFERENCE; AND TO REPEAL SECTION 12-6-3450 RELATING TO AN INCOME TAX CREDIT FOR PERSONS TERMINATED FROM EMPLOYMENT AS A RESULT OF THE CLOSING OR REALIGNMENT OF A FEDERAL MILITARY INSTALLATION, SECTION 12-10-88 RELATING TO REDEVELOPMENT FEES IN REGARD TO CLOSED OR REALIGNED MILITARY INSTALLATIONS, SECTIONS 12-14-30, 12-14-40, 12-14-50, AND 12-14-70 RELATING TO ECONOMIC IMPACT ZONES AND ALLOWABLE DEDUCTIONS AGAINST SOUTH CAROLINA TAXABLE INCOME IN REGARD TO THESE ECONOMIC IMPACT ZONES.

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

This bill would reduce state General Fund income tax withholding revenue by an estimated \$4,000,000 in FY2010-11, and the repeal of Section 12-10-88 would increase General Fund individual income tax withholding by an estimated \$4,324,492 in FY2010-11 for a net gain in individual income tax of \$324,492. This bill would also reduce General Fund corporate income tax revenue by an estimated \$16,789,372 in FY2011-12 and an additional \$16,789,372 each fiscal year thereafter until the corporation income tax is wholly eliminated in FY2020-21.

### Explanation

The following sections of H.B.4478 would affect state General Fund revenue.

**Section 9.** This section would amend Section 12-6-530 that beginning with the year 2011, the current corporate income tax rate of five percent is to be reduced by one-half percent per year until the rate reaches zero for the year 2020 and thereafter. The preliminary General Fund corporate income tax revenue estimate as of February 11, 2010 is \$167,893,717 for FY2010-11. This section would reduce General Fund corporation income tax revenue by an estimated \$16,789,372 in FY2011-12, and additional \$16,789,372 each fiscal year thereafter until the corporation income tax is wholly eliminated in FY2020-21.

**Section 10.** This section would amend Section 12-6-3360, as last amended by Act 116 of 2007, to delete all provisions that allow an increase in tier designations in ranking counties for the purpose of qualifying for job tax credits. Currently under law, counties may be ranked one or two tiers higher than they would otherwise qualify if, for example, less than five percent of a county's workforce is in manufacturing or a county has a population under twenty-five thousand. This section also amends Section 12-6-3360(A) by deleting retail and service-related businesses in least developed counties and under-developed counties that are not traversed by an interstate highway, general contractors, and banks as types of businesses that qualify for job tax credits and prevents the use of jobs tax credits among these taxpayers. Additionally, this section amend Section 12-6-3360(M) by deleting an provision that expanded the definition of a "new job" for purposes of job tax credits to include taxpayers that purchased, as of March 12, 2004, the assets of an existing company that is under Chapter 11 of the U.S. Bankruptcy Code and provided job tax credits to the taxpayer for the employees of the facility. Under the provisions of this bill, new jobs created by taxpayers operating the types of businesses deleted by this bill would no longer be entitled to job tax credits. Since this section changes the jobs tax credit county designations for companies in the future, this section, therefore, is not expected to affect current jobs tax credits and General Fund income tax revenues in FY10-11.

**Section 11.** This section would amend Section 12-6-3375 to allow a taxpayer which uses state port

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facilities and increases its port cargo volume at these facilities a minimum of five percent in a single calendar year over its base year port cargo volume to claim a credit against employee withholding. Currently, pursuant to Section 12-6-3375, a taxpayer engaged in manufacturing, warehousing, or distribution which uses port facilities in this State and which increases its port cargo volume at these facilities by a minimum of five percent in a single calendar year over its base year port cargo volume is eligible to claim a tax credit in the amount determined by the Coordinating Council for Economic Development. The maximum amount of tax credits allowed to all qualifying taxpayers may not exceed \$8,000,000. This amended language would allow an eligible taxpayer to claim a credit against withholdings of its employees not to exceed \$4,000,000. Because this amendment expands the scope of the credits for existing taxpayers, this credit would reduce state General Fund income tax withholding revenue by an estimated \$4,000,000 in FY2010-11.

**Section 20.** This section would amend Section 12-15-20 to allow a “renewable energy manufacturing facility” of solar and wind equipment and manufacturers of qualifying advanced lithium and ion batteries for alternative energy motor vehicles to become eligible for job tax credits after meeting minimum capital investment and job requirements and approval by the Coordinating Council for Economic Development. Since these types of companies are not presently located in South Carolina and are not included in the Board of Economic Advisors revenue estimate, this section is not expected to impact General Fund revenue in FY2010-11.

**Section 31.** The following code sections are repealed: Sections 12-6-3450 (individual income tax credit for closed or realigned military institutions), 12-10-88 (redevelopment fees – five percent of individual income tax withholdings by military employers), 12-14-30 (eligible military installations that experienced a loss of 3,000 federal military jobs after December 31, 1990), 12-14-40 (determination of economic impact zone by the Budget & Control Board), 12-14-50 (a 20 percent income tax deduction for economic impact zone stock), and 12-14-70 (definition of economic impact zone).

The repeal of Section 12-10-88 would reallocate job development fees from the Redevelopment Authorities located at the Charleston Naval Complex, the Savannah River Site, and the Myrtle Beach Air Force Base to the state General Fund. Based on information provided by the Department of Revenue, the state refunded \$4,324,492 to these Redevelopment Authorities in FY2008-09. Specifically, the Charleston Naval Complex received \$1,920,953, the Savannah River Site received \$2,052,640, and the Myrtle Beach Air Force Base received \$350,899. The repeal of Section 12-10-88 would increase General Fund individual income tax withholding by an estimated \$4,324,492 in FY2010-11.

**Section 32.** This act takes effect upon approval by the Governor.

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

William C. Gillespie, Ph.D.  
Chief Economist

**Analysts:** Ball / Martin

<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

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impact of Section 6-1-85(B) for an estimate of the shift in local property tax incidence by the Office of Economic Research.