South Carolina Board of Economic Advisors
Statement of Estimated State Revenue Impact

Date: March 3, 2009 **Bill Number:** S.B. 69

Author: Ford

Committee Requesting Impact: Senate Finance Committee

Bill Summary

A bill to amend the Code of Laws of South Carolina, 1976, by adding Section 12-6-3540 so as to enact the "South Carolina Low Income Housing Tax Credit Act" which provides an income or insurance premium tax credit for expenditures to develop rental housing units for low income tenants, to provide for the manner in which and conditions under which this income tax credit is authorized, and to permit the Housing Finance and Development Authority and the Department of Revenue to promulgate regulations to administer this program and the tax credits under the program.

REVENUE IMPACT [1/]

This bill is expected to reduce General Fund income tax or insurance premium tax revenue by an estimated $10,445,000 in FY2009-10 and $10,825,000 in FY2010-11.

Explanation

This bill would create the “South Carolina Low-Income Housing Tax Credit Act”, which would provide for matching the current federal low-income housing tax credit with a state low-income housing tax credit dollar for dollar. The Low-Income Tax Credit Program was established in 1986 to encourage private developers and non-profit entities to construct new low-income housing or rehabilitate affordable rental units. Internal Revenue Code Section 42 authorizes a nonrefundable federal income tax credit to a taxpayer of either 4 percent or 9 percent of the total investment, depending upon the type of project being developed and the source of financing. To qualify for the tax credit, owners of the property must meet general guidelines and strict program requirements with respect to the number of units rented to low-income occupants, the setting of maximum rental rates, area median income limits, and the length of time the property remains in use to rent to qualified tenants. Taxpayers receive the tax credits for a period of ten years, and the taxpayer may carry back three years and carry forward fifteen years any unused tax credits.

The IRS allocates credits among states based on a set rate for each person in its population. The U.S. Congress passed legislation in December 2000 that raised the per capita caps from $1.25 in 2000, to $1.50 in 2001, and to $1.75 in 2002. The credit cap was adjusted for inflation each year thereafter. According to the S.C. State Housing Authority the federal tax credits amounted to $8,618,570 in calendar year 2007. Investors claimed most of the tax credits in 2007. In 2008, the per capita cap was set at a rate of $2.20 for each person. Adjusting for inflation, the per capita caps are estimated to be $2.30 in 2009 and $2.35 in 2010, increasing the federal credit to $10,445,000. Matching the current federal low-income housing tax credit with a state low-income housing tax credit dollar-for-dollar is estimated to reduce General Fund income tax revenue by an estimated $10,445,000 in FY2009-10 and $10,825,000 in FY2010-11. This bill is effective for taxable years beginning after 2008.

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

William C. Gillespie, Ph.D. **Analyst:** Martin

Chief Economist

[1/] 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.