

Statement of Estimated State Revenue Impact

Date: January 24, 2012 (Amended January 17, 2012 by the Senate Finance Sales & Use Tax Subcommittee)
Bill Number: H.B. 3506
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Committee Requesting Impact: House Ways & Means Committee

Bill Summary

A bill to amend Section 12-6-3360, as amended, of the Code of Laws of South Carolina, 1976, relating to the job tax credit, so as to revise the definition of a "technology intensive facility"; to amend Section 12-20-105, as amended, relating to the tax credit for infrastructure improvements for water, wastewater, hydrogen fuel, sewer, gas, steam, electric energy, and communication services, so as to include certain site preparation costs within the definition of infrastructure improvements which give rise to the credit; and to amend Section 12-44-30, as amended, relating to fees in lieu of taxes, so as to revise the definition of "termination date".

REVENUE IMPACT ^{1'}

This amended bill is expected to reduce state corporate license tax revenue by an estimated \$800,000 in FY2012-13. This amended bill is also expected to reduce General Fund individual and corporate income tax revenue by an estimated \$330,500 in FY2012-13.

Explanation of Amendment (January 17, 2012) – By the Senate Finance Sales & Use Tax Subcommittee

This amendment would strike all after the enacting words and insert the following:

Section 1. This section would amend Section 12-6-3360(M)(14) to include data processing, hosting and related services facilities (NAICS code 518210) to the definition of "technology intensive facility", expanding the jobs tax credit to these sectors. Based upon data from the Quarterly Census of Employment and Wages, this qualifying sector added an average of 94 jobs each year over the latest four fiscal years even without the credit. It is expected that this pace of new jobs creation in this sector will continue in FY2012-13, but with this bill, these companies will receive the credit. Multiplying 94 new jobs by an average job tax credit of \$3,500 per new job created, it is estimated that this section of the bill would reduce General Fund individual and corporate income tax revenue by an estimated \$330,500 in FY2012-13.

Section 2. This section would amend Section 12-20-105(C) to allow a taxpayer that is subject to a corporate license tax to claim a credit against its license tax liability for amounts paid in cash to provide infrastructure for an eligible project. Currently, the maximum aggregate credit that may be claimed in any tax year by a single company is \$300,000. This section would increase the maximum aggregate credit that may be claimed to \$400,000 in any tax year. This section would allow a qualifying company to include site preparation costs, but are not limited to clearing, grubbing, grading, and stormwater retention. This section would limit the tax credits to projects used exclusively for economic development and

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is owned or constructed by a county, political subdivision, or agency of this State. The amendment also adds eligible items to include the "refurbishment of buildings that are owned or controlled by a county or municipality and are used exclusively for economic development purposes". We expect that two firms will meet the amended criterion each fiscal year. This section, therefore, is expected to reduce state corporate license tax revenue by an estimated \$800,000 in FY2011-12. This section would also require the Department of Revenue to issue a report by March 1st of each year to the Chairman of the Senate Finance Committee, the Chairman of the House Ways & Means Committee, and the Secretary of the Department of Commerce summarizing the history of the credit allowed pursuant to this section.

Section 3. This section would amend Section 12-44-30(21) to allow the sponsor of a fee-in-lieu of property tax agreement involving an enhanced investment to apply to the county before the termination date of the fee agreement for an extension of the termination date beyond the thirty-ninth year for up to an additional ten years. Because this decision is left to the county council and this bill does not affect any tax, fee, or license revenue, this section is not expected to affect state General Fund revenue in FY2011-12.

Section 4. This section would amend Section 4-12-30(O) to allow a county official at the direction of the governing body of the county to request and obtain financial records for a sponsor that supports the sponsor's fee-in-lieu of taxes return to verify the calculations of the sponsor's fee-in-lieu of taxes payment or the calculations of the sponsor's special source revenue credit. This section would not affect state General Fund revenue.

Section 5. This section would amend Section 4-29-67(S) to allow a county official at the direction of the governing body of the county to request and obtain financial records for a sponsor that supports the sponsor's fee-in-lieu of taxes return to verify the calculations of the sponsor's fee-in-lieu of taxes payment or the calculations of the sponsor's special source revenue credit. This section would not affect state General Fund revenue.

Section 6. This section would amend Section 12-44-90 to allow a county official at the direction of the governing body of the county to request and obtain financial records for a sponsor that supports the sponsor's fee-in-lieu of taxes return to verify the calculations of the sponsor's fee-in-lieu of taxes payment or the calculations of the sponsor's special source revenue credit. This section would not affect state General Fund revenue.

Section 7. This act takes effect upon the approval by the Governor.

Explanation of Revision (January 17, 2012)

This revision would amend Section 1 of the bill to account for changes made to the North American Industrial Classification System (NAICS) by the Office of Management and Budget (OMB), Executive Office of the President, to subdivide the Biotechnology Research and Development industry into two new sub-industries. Following a public comment period, the Economic Classification Policy Committee of the OMB recommended these changes which were subsequently adopted and published in the Federal Register. Because the subdivision

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of the industry into two sub-industries does not affect the composition of employment or wages of companies within the industry, and does not affect the number or amount of job tax credits applied for or received by eligible companies, this section is not expected to affect state General Fund revenue in FY2011-12.

Explanation of Amendment (March 31, 2011) – By the House Ways & Means Committee

This amendment would strike Section 2 of the bill in its entirety and insert language to allow a qualifying company to claim a credit against its license tax liability for amounts paid in cash to include site preparation costs, but not limited to clearing, grubbing, grading, and stormwater retention. The amendment also adds eligible items to include the “refurbishment of buildings that are owned or controlled by a county or municipality and are used exclusively for economic development purposes”. We expect that two firms will meet the amended criterion each fiscal year. This section, therefore, is expected to reduce state corporate license tax revenue by an estimated \$600,000 in FY2011-12.

Explanation of Bill filed January 27, 2011

Section 1. This bill would amend Section 12-6-3360(M)(14) to amend the definition of “technology intensive facility” to include companies engaged in research and development in biotechnology (NAICS code 541711) and research and development in physical, engineering, and life sciences (NAICS code 541712). These companies would be eligible to apply a jobs tax credit and a job development fee for each new job. According to the latest data available from the S.C. Department of Workforce and Employment, there are currently 218 companies employing 2,347 persons in these fields of research. Employment has increased by an annual compound rate of 9.4 percent over the past eight calendar years. It is expected that this pace of new jobs creation in these sectors will continue in FY2011-12, but with this bill, these companies will receive the credit. Multiplying an estimated 462 new jobs by an average job tax credit of \$3,500 per new job created, it is estimated that this section of the bill would reduce ongoing collections of taxes by an estimated \$1,617,000 in FY2012-13 as this credit is claimed one year after jobs are created. The taxpayer may obtain a credit for those new jobs for five years following the year in which the job is created.

Section 2. This bill would amend Section 12-20-105(C) to allow a taxpayer that is subject to a corporate license tax to claim a credit against its license tax liability for amounts paid in cash to provide infrastructure for an eligible project. The maximum aggregate credit that may be claimed in any tax year by a single company is \$300,000. This section would allow a qualifying company to include site preparation costs, but are not limited to clearing, grubbing, grading, and stormwater retention. This section would limit the tax credits to projects used exclusively for economic development and is owned or constructed by a county, political subdivision, or agency of this State. We expect that one firm will meet this criterion each fiscal year. This section, therefore, is expected to reduce state corporate license tax revenue by an estimated \$300,000 in FY2011-12.

Section 3. This bill would amend Section 12-44-30(21) to allow the sponsor of a fee-in-lieu of property tax agreement involving an enhanced investment to apply to the county before

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the termination date of the fee agreement for an extension of the termination date beyond the thirty-ninth year for up to an additional ten years. Because this decision is left to the county council and this bill does not affect any tax, fee, or license revenue, this section is not expected to affect state General Fund revenue in FY2011-12.

Section 4. This act takes effect upon approval by the Governor.



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¹¹ 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 of Section 6-1-85(B) for an estimate of the shift in local property tax incidence by the Office of Economic Research.