



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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Bill Number: H.3062 As amended by the House of Representatives on April 29, 2015
 Author: Goldfinch
 Requestor: House Ways and Means
 Date: May 26, 2015
 Subject: Sales and use tax exemptions
 RFA Analyst(s): Martin

Estimate of Fiscal Impact

| | FY 2015-16 | FY 2016-17 |
|----------------------------------|-------------------|-------------------|
| State Expenditure | | |
| General Fund | N/A | N/A |
| Other and Federal | N/A | N/A |
| Full-Time Equivalent Position(s) | 0.00 | 0.00 |
| State Revenue | | |
| General Fund | (\$941,932) | N/A |
| Other and Federal | (\$470,968) | N/A |
| Local Expenditure | N/A | N/A |
| Local Revenue | N/A | N/A |

Fiscal Impact Summary

This bill, as amended, would reduce sales and use tax revenue by an estimated \$1,412,900 in FY2015-16. Of this amount, General Fund sales and use tax revenue would be reduced by \$941,932, the EIA fund would be reduced by \$235,484, and the Homestead Exemption Fund would be reduced by \$235,484 in FY2015-16.

Explanation of Fiscal Impact

Explanation of Amendment (April 29, 2015) – By the House of Representatives

State Expenditure

Since this legislation makes no substantive changes to existing programs or resources, the Department of Revenue can administer the legislative changes with existing resources.

State Revenue

This amendment would exclude a sales and use tax exemption for children’s clothing sold to a private charitable organization that in turn donates the clothing to needy children that attend a private school. Based upon the latest data from the South Carolina Revenue and Fiscal Affairs Office, Division of Research, there are an estimated 50,796 private school children in South Carolina.

According to the latest data from the U.S. Department of Education, National Center for Education Statistics and the U.S. Department of Agriculture, Food and Nutrition Service, National School Lunch Program, nearly twenty-one percent of private school children in grades

K-12 are participating in the free lunch program in South Carolina. Multiplying 50,796 needy private school children by a nearly twenty-one percent participation rate and by an average clothing donation of \$50 and applying a six percent sales and use tax rate yields an increase in sales and use tax revenue of an estimated \$31,700 in FY2015-16 from the original bill. Of this amount, General Fund sales and use tax revenue would be increased by \$21,134, the EIA fund would be increased by \$5,283, and the Homestead Exemption Fund would be increased by \$5,283 in FY2015-16 from the original amendment. Also, an amendment was introduced and subsequently adopted that would allow the provisions of this act to expire on December 31, 2020.

Local Expenditure

N/A

Local Revenue

N/A

Explanation of Bill filed January 13, 2015

State Expenditure

Since this legislation makes no substantive changes to existing programs or resources, the Department of Revenue can administer the legislative changes with existing resources.

State Revenue

This bill would add a new item to Section 12-36-2120 to exempt the sales tax on the sale of children's clothing sold to a private charitable organization exempt from federal and state income tax for the sole purpose of distributing the clothing to needy children. The definition of "clothing" would be the same as that in Section 12-36-2120(57)(a)(i) and (iii) to include clothing and footwear only, and "needy children" would be defined as those children eligible for free meals under the National School Lunch Program of the United States Department of Agriculture.

The few states that have similar sales and use tax exemptions have done so to give low income parents of underprivileged children assistance with obtaining school uniforms where local school districts require mandatory dress codes for class attendance. Although the scope of this bill goes beyond required school uniforms, this bill seeks to create another avenue to assist underprivileged children in obtaining several articles of clean clothing to attend school.

The number of private charities with state and federal income tax exemption designations is very large. Essentially, any organization structured as a 501(c) for tax purposes could qualify. This could include any civic league, social welfare organizations, churches, homeowner associations, and others. Also, there is no clear definition of "sole purpose" for an organization. The generally accepted unwritten rule is that as long as 50.1 percent of an organization's efforts go toward promoting the common good and general welfare of the people it is acceptable. If these definitions, however, are interpreted more broadly, the fiscal impact could be significantly higher.

According to the latest data from the U.S. Department of Agriculture, Food and Nutrition Service, National School Lunch Program, there are 481,534 school age children participating in the free lunch program in South Carolina. Multiplying 481,534 needy children by an average

clothing donation of \$50 and applying a six percent sales and use tax rate yields a reduction in sales and use tax revenue of an estimated \$1,444,600 in FY2015-16. Of this amount, General Fund sales and use tax revenue would be reduced by \$963,066, the EIA fund would be reduced by \$240,767, and the Homestead Exemption Fund would be reduced by \$240,767 in FY2015-16.

Local Expenditure

N/A

Local Revenue

N/A



Frank A. Rainwater, Executive Director