Bill Number:	S.0058 Introduced on January 10, 2017
Author:	Matthews
Subject:	Port Enhancement Zone Act
Requestor:	Senate Finance
RFA Analyst(s):	Martin and Stein
Impact Date:	January 13, 2017

Estimate of Fiscal Impact

	FY 2017-18	FY 2018-19
State Expenditure		
General Fund	$0	$0
Other and Federal	$0	$0
Full-Time Equivalent Position(s)	0.00	0.00
State Revenue		
General Fund	$1,332,760	$2,112,760
Other and Federal	$560,000	$0
Local Expenditure	N/A	N/A
Local Revenue	N/A	N/A

Fiscal Impact Summary
This bill would reduce General Fund income tax revenue by an estimated $212,760 in FY2017-18, and by an estimated $2,112,760 in FY2018-19, and each fiscal year thereafter. This bill would also reduce sales and use tax revenue by an estimated $1,680,000 in FY2017-18. Of this amount, General Fund sales and use tax would be reduced by $1,120,000, the EIA fund would be reduced by $280,000, and the Homestead Exemption Fund would be reduced by $280,000 in FY2017-18.

Explanation of Fiscal Impact

State Expenditure
The Department of Commerce reports that this bill would have no expenditure impact on the General Fund, Federal Funds, and Other Funds.

State Revenue
This bill would create a port enhancement zone to serve as a distribution hub for cargo shipped from and to the Port of Charleston. This bill would allow a taxpayer that meets a minimum threshold of creating at least fifty new full-time jobs and investing at least $20,000,000 at a single site to claim a variety of state tax credits. According to the Department of Commerce, a distribution facility with an initial capital investment of $20,000,000 and employing fifty new full-time jobs to process a minimum of 5,000 TEU's (shipping containers) would be barely operable as a going concern. The analysis below uses an initial capital investment of $40,000,000 and employs 100 new full-time jobs to process a minimum of 5,000 TEU's at the facility. The following is a section-by-section analysis of the bill.

Section 1. This act may be cited as the "Port Enhancement Zone Act".

Section 2. This section would amend Section 12-6-3360(E)(1) to allow taxpayers that qualify for the job tax credit which are located in a port enhancement zone to be allowed an additional one thousand dollar credit for each new full-time job created.

This section would amend Section 12-6-3360(M) to define a "port enhancement zone". A port enhancement zone must meet the following criteria:

- Is comprised of one or more contiguous census tracts as defined by the U.S. Census Bureau's American Community Survey in 2014,

- All of the area is located within a twenty-three mile radius of the intersection of two interstate highways that is no more than sixty miles from the Port of Charleston and is capable of being used to enhance port operations,

- Every census tract that comprises the area has a least eighteen percent of households with income of $15,000 or less, and

- All of the area is in a county ranked as either Tier III or IV, provided that a census tract in a Tier I or II county with at least thirty-five percent of households with incomes of $15,000 or less also qualifies if it meets all of the other conditions of this subsection.

In addition, the area of a county that is included in one or more port enhancement zones must not exceed five percent of the total area of the county. Based upon the latest data from the Revenue and Fiscal Affairs Office, Office of Health and Demographics, Mapping Section, the following counties would have census tracts that would qualify as port enhancement zones – Bamberg, Clarendon, Colleton, Orangeburg, and Sumter.

Taxpayers that qualify for the job tax credit pursuant to Section 12-6-3360(C) and are located in a port enhancement zone are allowed an additional $1,000 credit for each new full-time job created. This additional credit is permitted for five years beginning in the taxable year following the creation of the job (the second year). Multiplying 100 new full-time jobs by an additional job tax credit of $1,000 per job, yields a reduction in General Fund income tax revenue of an estimated $100,000 in FY2018-19, and each fiscal year thereafter.

Taxpayers that qualify for the job tax credit pursuant to Section 12-6-3360(C) are allowed a job tax credit for each new full-time job created based upon the county in which the new job is located. Since most of the qualifying census tracts for the port enhancement zone are located in Orangeburg County, this county will be used for the analysis. According to the Department of Revenue, new qualified full-time jobs created in Orangeburg County are entitled to a Tier IV job tax credit of $8,000 per job. Multiplying 100 new full-time jobs by a job tax credit amount of $8,000 yields a reduction in General Fund income tax revenue of an estimated $800,000 in FY2018-19, and each fiscal year thereafter.

Section 3. Currently, a taxpayer must create and maintain at least one hundred new full-time jobs to petition for a moratorium on state corporate income and insurance premium taxes for ten taxable years. This section would amend Section 12-6-3367(A) by lowering the threshold to allow a taxpayer that creates and maintains at least fifty full-time new jobs in a port enhancement zone to petition for a moratorium on state corporate income taxes or insurance premium taxes for ten taxable years. If the number of full-time jobs falls below fifty full-time jobs in a port enhancement zone the tax moratorium shall cease.

According to the Department of Revenue, the following counties have been designated moratorium counties pursuant to Section 12-6-3367 based upon per capita income – Dillon, Jasper, and Marlboro. This section would also amend Section 12-6-3367(B) to add to the list of qualifications for a tax moratorium that the taxpayer must create fifty full-time new jobs in a port enhancement zone. This would lower the threshold for a taxpayer to qualify for a tax moratorium on corporate income and insurance premium taxes. Because a company in a port enhancement zone has never remitted tax payments to the state and is not included in the official revenue estimate of the Board of Economic Advisors, there would be no loss in revenue from granting a tax moratorium to a company in the future. This section, therefore, is not expected to affect General Fund revenue in FY2017-18.

Section 4. Currently, a taxpayer is allowed a tax credit if the taxpayer is engaged in manufacturing, warehousing, or distribution that uses South Carolina port facilities and increase its port cargo volume at these facilities by at least five percent in a calendar year over its base year port cargo volume. The amount of the credit is determined by the Coordinating Council for Economic Development of the Department of Commerce upon application by the taxpayer. Any unused credits may be carried forward for five years.

This section would amend Section 12-6-3375 to increase the maximum amount of tax credits allowed to all qualifying taxpayers from $8,000,000 to $9,000,000 for each calendar year for all taxpayers that export or import through port facilities in South Carolina. The credits may be claimed against corporate income tax, pass-through trade and business income, and against employee withholding. A taxpayer must invest a minimum of $20,000,000 in a port enhancement zone at a single site, create at least fifty new full-time jobs, and the base year cargo must be at least 5,000 TEU's or its non-containerized equivalent. To remain eligible for the port cargo volume tax credit each year, the facility would have to increase its base year cargo volume level of 5,000 TEU's by five percent, or 250 TEU's, in the second year. The Coordinating Council for Economic Development (Council) may award up to $1,000,000 of the $9,000,000 in credits annually to be used by the facility in a port enhancement zone. The Council would award a credit certificate to certify that the capital investment and job thresholds have been achieved. The certificate is good for three years from the date of issue and unused credits may be carried forward for twenty taxable quarters. The Council has discretion to award the credits pursuant to this section. Because the taxpayer would need to establish a base year port cargo volume level before any credits may be determined, the first year of operation would set the base year volume level. Any tax credits would be awarded in the second year. This section is expected to reduce General Fund income tax withholding revenue by up to $1,000,000 in FY2018-19, and each fiscal year thereafter if port cargo volume increases by at least five percent each year.

Section 5. This section would amend Section 12-10-80(D)(1) to allow eighty-five percent of the maximum job development credits may be claimed by businesses located in a port enhancement zone. This is the same reclamation rate as new full-time jobs in a Tier III county designation. A job development credit is based upon a percentage of individual income tax withholdings that may be withheld against an employee's gross hourly wage rate. Based on the port enhancement zone criteria in Section 2, the future site of a port distribution facility is most likely to locate in a Tier IV county. Pursuant to Section 12-10-80(D)(a), a taxpayer that creates new full-time jobs in a Tier IV county is allowed one hundred percent of the maximum job development fee claimed by the business. Since a Tier IV county credit reclamation rate is greater than a Tier III county reclamation rate, we believe the taxpayer will elect the one hundred percent job development credit option. Based upon the latest occupational data from the U.S. Department of Labor, Bureau of Labor Statistics, a warehouse worker earns an average annual salary of $26,380 in South Carolina. This gross wage amount would place a warehouse worker in the two percent job development fee bracket. Multiplying an average annual salary of $26,380 by a job development fee of two percent for one hundred workers yields a reduction of General Fund income tax revenue of an estimated $52,760 in FY2017-18, and each fiscal year thereafter.

Section 6. Currently, there is allowed an investment tax credit against a taxpayer's income tax equal to a sliding scale of one-half of one percent for all three-year property up to two and one-half percent for all fifteen-year property placed in service for a taxable year. This section would amend Section 12-14-60(A) to allow the amount of the credits to double for any qualified manufacturing and productive equipment property located in a port enhancement zone. Multiplying $40,000,000 of capital investment by an estimated twenty percent of productive equipment property and applying an average investment tax credit of two and one-half percent yields a reduction of General Fund income tax revenue of an estimated $160,000 in FY2017-18, and each fiscal year thereafter.

Section 7. This section would amend Section 12-36-2120(51) to lower the investment threshold from $35,000,000 to $20,000,000 in real or personal property in a port enhancement zone over a five-year period to qualify for a sales and use tax exemption on material handling systems and material handling equipment used in the operation of a distribution facility or a manufacturing facility. Dividing $20,000,000 in real or personal property over five years and multiplying by a six percent sales and use tax rate yields a reduction in sales and use tax revenue of an estimated $240,000 in FY2017-18. Of this amount, General Fund sales and use tax would be reduced by $160,000, the EIA fund would be reduced by $40,000, and the Homestead Exemption Fund would be reduced by $40,000 in FY2017-18.

This section would also amend Section 12-36-2120(67) to lower the investment threshold from $100,000,000 to at least $40,000,000 in real and personal property at a single site located in a port enhancement zone in the State over an eighteen month period to qualify for a sales and use tax exemption on construction materials used in the construction of a new or expanded single manufacturing or distribution facility. A typical construction project is generally split sixty percent for construction materials and forty percent for labor services. Multiplying $40,000,000 in real and personal property by sixty percent for construction materials and applying a six percent sales and use tax rate yields a reduction in sales and use tax revenue of an estimated

$1,440,000 in FY2017-18. Of this amount, General Fund sales and use tax would be reduced by $960,000, the EIA fund would be reduced by $240,000, and the Homestead Exemption Fund would be reduced by $240,000 in FY2017-18.

Section 8. This act takes effect upon approval by the Governor.

Local Expenditure
N/A

Local Revenue
N/A