



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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Bill Number: S. 0426 Introduced on February 16, 2017
Author: Hembree
Subject: Municipal Tax Relief Act
Requestor: Senate Finance
RFA Analyst(s): Shuford and Mitchell
Impact Date: March 15, 2018

Estimate of Fiscal Impact

	FY 2018-19	FY 2019-20
State Expenditure		
General Fund	\$0	\$0
Other and Federal	\$0	Undetermined
Full-Time Equivalent Position(s)	0.00	0.00
State Revenue		
General Fund	\$0	\$0
Other and Federal	\$0	\$0
Local Expenditure	\$0	See Below
Local Revenue	\$0	Undetermined

Fiscal Impact Summary

The Department of Revenue (DOR) will incur additional expenditures to create and administer the proposed municipal sales tax system. The expenditure impact will depend greatly on the number of municipalities that impose the tax and is therefore undetermined.

Other Funds revenue deducted by DOR from the municipal sales tax collections to offset the costs of administering the tax will depend greatly on the number of municipalities that impose the tax and is therefore undetermined.

If the city of Myrtle Beach imposes the proposed one percent tax, the city would be required to retain 20 percent of their tourism development fee collections to provide property tax relief. This will decrease local expenditures on tourism advertisement and promotion directed at non-South Carolina residents by \$5,800,000. Correspondingly, expenditures on local property tax relief will increase by the same \$5,800,000 in FY 2019-20.

If all municipalities statewide adopt this tax, we estimate that local revenue collections may total \$487,000,000 in FY 2019-20. Pursuant to the bill, DOR would be allowed to recoup the costs of administering this tax. Based on current local option sales tax cost recoupments, we anticipate that DOR would deduct up to \$3,900,000. Therefore, net municipal tax revenue collections would total \$483,100,000 in FY 2019-20 if all municipalities statewide adopt this tax. However, the revenue impact will depend greatly on the number of municipalities that impose the tax and is therefore undetermined.

Explanation of Fiscal Impact

Introduced on February 16, 2017

State Expenditure

This bill allows a municipality to impose a sales and use tax not to exceed one percent by ordinance, subject to a referendum. The revenues of the tax must be remitted to the Department of Revenue (DOR) and placed on deposit with the State Treasurer. DOR will incur additional expenditures to create and administer the proposed municipal sales tax system. DOR must furnish data to the State Treasurer to distribute and estimate each municipality's revenue. This may include gross receipts, net taxable sales, and tax liability by taxpayers for each municipality. The expenditure impact will depend greatly on the number of municipalities that impose the tax and is therefore undetermined.

State Revenue

This bill allows a municipality to impose a sales and use tax not to exceed one percent by ordinance, subject to a referendum. The revenues of the tax must be remitted to the Department of Revenue (DOR) and then placed on deposit with the State Treasurer. However, DOR may deduct the costs to the department of administering the tax not to exceed one percent of the revenues. DOR currently deducts approximately 0.8 percent of all local option sales taxes to recoup the costs to the department from these taxes.

If all municipalities statewide adopt this tax, we estimate that municipal sales tax revenue collections may total \$487,000,000 in FY 2019-20. This estimate is based on projected FY 2019-20 statewide sales and use tax collections adjusted for taxpayer behavior, the percentage of statewide sales tax collected in municipalities, and an exemption for the gross proceeds of the sale of items subject to the maximum tax in Chapter 36 of Title 12.

If all municipalities statewide impose this tax, we expect that DOR would deduct up to \$3,900,000 to recoup the costs of administering this tax. However, the Other Funds revenue deducted by DOR from the tax collections will depend greatly on the number of municipalities that impose the tax and is therefore undetermined.

Local Expenditure

If a municipality imposes a municipal sales tax pursuant to this bill and also imposes the Local Option Tourism Development Fee pursuant to Article 9, Chapter 10 of Title 4, then during each year of the implementation, the municipality shall retain 20 percent of revenues to provide a property tax credit. The remainder of the revenues from the tourism development fee must be used for tourism advertisement and promotion directed at non-South Carolina residents.

The city of Myrtle Beach is the only municipality imposing the Local Option Tourism Development Fee. If Myrtle Beach imposes the proposed one percent tax pursuant to this bill, the city will be required to retain 20 percent of the tourism development fee collections to provide property tax relief. Since Myrtle Beach collects approximately \$29,000,000 from this fee, they will have to retain \$5,800,000 to provide property tax relief. This will decrease expenditures on tourism advertisement and promotion directed at non-South Carolina residents

by \$5,800,000. Correspondingly, expenditures on property tax relief will increase by the same \$5,800,000 in FY 2019-20.

Local Revenue

This bill allows a municipality to impose a sales and use tax not to exceed one percent by ordinance, subject to a referendum. If all municipalities statewide adopt this tax, we estimate that local revenue collections may total \$487,000,000 in FY 2019-20. This estimate is based on projected FY 2019-20 sales and use tax collections adjusted for taxpayer behavior, the percentage of statewide sales tax collected in municipalities, and an exemption for the gross proceeds of the sale of items subject to the maximum tax in Chapter 36 of Title 12. If all municipalities impose this tax, we expect that DOR would be allowed to deduct up to \$3,900,000 to recoup the costs of administering this tax. Therefore, net municipal tax revenue collections would total \$483,100,000 in FY 2019-20 if all municipalities statewide adopt this tax. However, the revenue impact will depend greatly on the number of municipalities that impose the tax and is therefore undetermined.



Frank A. Rainwater, Executive Director