SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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Bill Number:	S.1093	Introduced on March 6, 2018
Author:	Reese	
Subject:	Sales Tax	
Requestor:	Senate Finance	
RFA Analyst(s):	R. Martin	
Impact Date:	March 28, 2018	

Estimate of Fiscal Impact

	FY 2018-19	FY 2019-20
State Expenditure		
General Fund	$0	$0
Other and Federal	$0	$0
Full-Time Equivalent Position(s)	0.00	0.00
State Revenue		
General Fund	($20,954,334)	$0
Other and Federal	($10,477,166)	$0
Local Expenditure	$0	$0
Local Revenue	$0	$0

Fiscal Impact Summary
This bill would reduce sales and use tax revenue by an estimated $31,431,500 in FY2018-19. Of this amount, General Fund revenue would be reduced by $20,954,334, the EIA Fund would be reduced by $5,238,583, and the Homestead Exemption Fund would be reduced by $5,238,583 in FY2018-19. This bill would not affect Federal Funds in FY2018-19.

Explanation of Fiscal Impact

Introduced on March 6, 2018
State Expenditure
The Department of Revenue has indicated that this bill would have no expenditure impact on the General Fund, Federal Funds, and Other Funds. The Department can administer the legislative changes with existing resources.

State Revenue
In South Carolina, tangible personal property is defined to include services and intangibles, including communications, which is subject to sales tax pursuant to Section 12-36-60. Also, telecommunication services are considered tangible personal property pursuant to Section 12-36-910(B)(3) and 12-36-1310(B)(3). According to the Department of Revenue, charges paid by a customer for streaming television programs, movies, music, and other similar content are charges for communication services, and are therefore subject to South Carolina sales and use tax, whether paid for as part of a subscription service, per item, or per event. Each of the above referenced sections imposes the tax on the gross proceeds accruing or proceeding from the

charges for the ways or means for the transmission of the voice or messages, i.e., communication services.

Section 1. This section would amend Section 12-36-910(B)(3)(a) to exclude from the sales and use tax video streaming services received by the customer over the internet. Video streaming services provide an alternative to traditional cable television and over-the-air broadcasts and have allowed customers to cut-the-cord over dissatisfaction with their cable television providers. There are hundreds of video streaming companies in existence today ranging from large established companies to very small start-ups trying to enter the market. Video streaming service providers include Netflix, Amazon Prime, Hulu, HBO Now, YouTube TV, Sony PlayStation Vue, Sling TV, and others.

According to industry reports, Netflix is the video streaming service leader commanding fifty percent of consumers who have a subscription to an on-demand video service in the United States. Amazon Prime is the next closest rival with a twenty-nine percent market share, followed by Hulu with fourteen percent, and all others comprising the remaining seven percent of the total video streaming market. Based upon the success of the industry leader, Netflix, the video streaming service industry is growing nearly twenty-one percent each year.

Most video streaming services offer monthly or annual subscriptions and allow subscribers to customize their video streaming experience with modest monthly upcharges or by subscribing to a premium package. Netflix offers a standard plan for $10.99 per month for high definition video streaming services. Amazon Prime charges $99 per year or $12.99 per month for those who are not sure if they wish to commit to an annual subscription. Hulu offers access to a video streaming library for $7.99 per month.

Based upon statistics from comScore, an American media measurement and analytics company providing marketing data, the majority of video streaming service clients subscribe to more than one video streaming service simultaneously. The majority of Netflix subscribers tend to be loyal to Netflix, while other video streaming subscribers tend to subscribe to multiple services. On average, a typical video streaming service customer subscribes to two video streaming services simultaneously.

Based on the most recent annual report filed with the United States Securities and Exchange Commission, Netflix reported 54,750,000 subscribed members in the United States at the end of 2017. Since Netflix commands fifty percent of the video streaming service market, the other fifty percent are accounted by other video streaming service providers. Doubling 54,750,000 domestic Netflix subscribers yields 109,500,000 unique video streaming subscribers that subscribe to only one video streaming service in the United States. Since the majority of video streaming subscribers join more than one video streaming service at a time, multiplying 109,500,000 unique video streaming service subscribers by an average of two video streaming subscription services, at an average annual subscription price of $108.92 per video streaming service, and adjusting for South Carolina subscribers, an annual growth of twenty-one percent in the industry, and a six percent sales and use tax rate, yields a reduction of sales and use tax revenue of an estimated $31,431,500 in FY2018-19. Of this amount, General Fund sales and use tax revenue would be reduced by $20,954,334, the EIA Fund would be reduced by $5,238,583, and the Homestead Exemption Fund would be reduced by $5,238,583 in FY2018-19.

Section 2. This act takes effect by approval by the Governor.

Local Expenditure
N/A

Local Revenue
N/A

Frank A. Rainwater, Executive Director