



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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Bill Number:	S. 0171	Introduced on January 8, 2019
Author:	Hembree	
Subject:	Municipal Tax Relief Act	
Requestor:	Senate Finance	
RFA Analyst(s):	Shuford	
Impact Date:	February 25, 2019	

Fiscal Impact Summary

This bill will increase Other Funds expenditures of the Department of Revenue (DOR) by an undetermined amount from the cost of administering the proposed optional municipal sales and use tax. If all municipalities statewide impose the tax at the maximum 1 percent tax rate, we estimate that DOR may retain up to \$5,758,700 in FY 2020-21 to offset administrative expenditures to administer the tax.

The local revenue impact of this bill is undetermined, since municipalities may choose to impose the tax. However, we estimate that local sales and use tax revenue could increase by \$570,111,300 in FY 2020-21 if all municipalities statewide impose the tax at the maximum 1 percent tax rate.

Explanation of Fiscal Impact

Introduced on January 8, 2019

State Expenditure

This bill allows a municipal governing body to impose a sales and use tax not to exceed 1 percent by ordinance, subject to a referendum, for property tax relief and to defray the cost of capital projects. The tax revenue must be remitted to DOR. The department shall administer the tax and furnish data on collections to the State Treasurer and the municipal treasurers. DOR's costs from administering the tax may be deducted from the collections and may not exceed 1 percent of the revenue. We anticipate that any additional expenditures from administering these municipal sales taxes can be managed by utilizing the up to 1 percent of the tax revenue that DOR may retain. The estimated amount of these retained collections to offset administrative expenditures could total up to \$5,758,700 in FY 2020-21 if all municipalities statewide impose the tax at the maximum 1 percent tax rate. The revenue estimate is discussed in the Local Revenue Section below.

State Revenue

N/A

Local Expenditure

N/A

Local Revenue

This bill allows a municipal governing body to impose a sales and use tax not to exceed 1 percent by ordinance, subject to a referendum, for property tax relief or to defray the cost of capital projects. Tax relief against existing municipal property tax liability must amount to at least twenty percent of the revenue collected. A referendum on the imposition of this tax must be held at the time of the general election. Upon approval of a referendum, the tax is imposed on the first of May following the date of the referendum. Since the next general election is November 2019, the earliest revenue collections from the municipal sales tax will begin in June 2020, or FY 2020-21. If all municipalities statewide imposed this tax at the maximum 1 percent rate, we estimate that municipalities would receive \$570,111,300 in FY 2020-21.

This estimate is based on the Board of Economic Advisors (BEA) revenue forecast for FY 2020-21 for the Homestead Exemption Fund (Fund). The Fund exempts tax items subject to a maximum tax in Chapter 36 of Title 12, which is similar to the proposed municipal sales tax. We adjust the Fund also to add back the tax collections on accommodations that are excluded from its collections, but are included in the proposed municipal sales tax. The estimated sales tax collections for these adjustments total \$606,179,000 in FY 2020-21.

Additionally, we estimate that sales in municipalities represent 71.29 percent of total sales based on net taxable sales data from DOR for FY 2017-18. We adjust the estimate further to reflect an expected 5 percent, or \$30,309,000, reduction in tax collections from consumer response to the increased price of goods from the additional municipal tax. Finally, DOR is allowed to retain up to 1 percent of revenue collections from the municipal tax to offset the additional administrative costs of the tax. We estimate the amount DOR may retain for administrative costs may total up to \$5,758,700 in FY 2020-21.

In summary, while the local revenue impact of this bill is undetermined since municipalities may choose to impose the tax, we estimate that local sales and use tax revenue could increase by \$570,111,300 in FY 2020-21 if all municipalities statewide impose the tax at the maximum 1 percent tax rate. Municipalities are restricted in Section 5-41-180 of the bill in that the cumulative rate of state and local sales and use taxes in any portion of a county may not exceed 9 percent. This may affect municipalities in Charleston County, Myrtle Beach in Horry County, and municipalities in Jasper County as the state and local combined sales tax rate in these areas are currently 9 percent. The table below details our estimate if all municipalities statewide impose the optional sales tax at the maximum 1 percent tax rate.

Statewide Optional One Percent Municipal Sales and Use Tax Act Estimate for FY 2020-21

	RFA Estimates	
1% BEA Statewide Sales and Use Tax Estimate a/	\$850,300,000	
1% Municipal Sales and Use Tax Estimate b/	\$606,179,000	
Adjustments to FY 2020-21 Municipal LOST Estimate		
Elasticity c/	(\$30,309,000)	5.0%
1% for DOR Costs to Administer the Local Tax	(\$5,758,700)	1.0%
FY 2020-21 Statewide Optional 1% Municipal Sales and Use Tax Estimate for FY 2020-21 (Adjusted)	\$ 570,111,300	

Notes:

a/ Statewide sales and use tax revenue estimate is from the BEA Long-range forecast for FY 2020-21 for the Homestead Exemption Fund adjusted to include accommodations tax.

b/ One percent Municipal estimate is 71.29 percent of statewide estimate. This percentage is derived from DOR net taxable sales data for FY 2017-18, which suggests that net sales in municipalities account for 71.29 percent of all sales statewide.

c/ Revenue from an additional municipal tax is expected to be 5 percent lower than collections from the statewide sales tax due to consumer response to higher prices from the additional tax.



Frank A. Rainwater, Executive Director