

REPORT OF THE SALES & USE TAX AND INCOME TAX SUBCOMMITTEE

(Long, Hosey, Stavrinakis, Taylor & Crawford - Staff Contact: Jane Leneave)

HOUSE BILL 5122 Service Provider Tax Exemptions

Summary of Bill:

This bill establishes sales and use tax exemptions for internet access service providers and communications service providers in South Carolina. It exempts purchases of all supplies, technical equipment, machinery, and electricity sold to produce, broadcast, or distribute these services and classifies such providers as manufacturers for tax purposes. Eligible providers must apply to the Department of Revenue for refunds of taxes paid on qualifying items by January 31st of the following year. The total amount of refunds is capped at \$10 million annually, with prorated reductions if claims exceed the cap.

Estimated Fiscal Impact:

This bill will result in a minimal expenditure impact to DOR for administrative costs. RFA anticipates that refunds will reach the cap of \$10 million per year. Therefore, state sales tax revenue will decrease by approximately \$7,920,000 beginning in FY26/27. Of this, \$5,280,000 of the General Fund, \$1,320,000 of the Education Improvement Act Fund, and \$1,320,000 of the Homestead Exemption Fund. In addition, local sales tax revenue will be reduced by approximately \$2,080,000. These amounts may vary if the local sales tax rates that are applicable to these sales vary from the state average (1.58%).

Subcommittee Action/Explanation:

Passed favorably with an amendment. The amendment tightens language by adding that refund claims shall not exceed ten million dollars "for any year".

Full Committee Action/Explanation:

N/A

Other Notes/Comments:

- No later than May 1st, the department shall calculate the total amount of qualifying refund claims. Refunds shall be paid no later than June 1st.
- Similar exemptions can be found in Section 12-36-2120, such as (26) all supplies, technical equipment, machinery, and electricity sold to radio and television stations, and cable television systems, for use in producing, broadcasting, or distributing programs. For the purpose of this exemption, radio stations, television stations, and cable television systems are deemed to be manufacturers.
- This applies to tax years beginning after 2025.

SOUTH CAROLINA
HOUSE AMENDMENT

AMENDMENT NO. _____

David Good
March 30, 2026

ADOPTED	REJECTED	TABLED	ADJOURN DEBATE	RECONSIDERED	ROO

Clerk of the House

ADOPTION NO. _____

BILL NO: H. 5122

(Reference is to the original version)

The Sales & Use Tax and Income Tax Subcommittee proposes the following amendment (LC-5122.DG0001H):

Amend the bill, as and if amended, SECTION 1, by striking Section 58-9-3100(B) and inserting:

(B) An internet access provider or communications service provider shall apply to the Department of Revenue for a refund of state and local sales and use taxes paid on items exempt under this section not later than January thirty-first for the prior calendar year. No later than May first, the department shall calculate the total amount of qualifying refund claims. If the total amount of refund claims exceeds ten million dollars for any year, the department shall issue pro-rata refunds such that the total amount of refund claims shall not exceed ten million dollars for any year. Refunds shall be paid no later than June first.

Renumber sections to conform.

Amend title to conform.



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE

STATEMENT OF ESTIMATED FISCAL IMPACT

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This fiscal impact statement is produced in compliance with the South Carolina Code of Laws and House and Senate rules. The focus of the analysis is on governmental expenditure and revenue impacts and may not provide a comprehensive summary of the legislation.

Bill Number: H. 5122 Amended by House Ways and Means Sales, Use and Income
Tax Legislative Subcommittee on March 31, 2026
Subject: Internet and Communications Service Providers Equipment
Requestor: House Ways and Means
RFA Analyst(s): Daigle
Impact Date: April 13, 2026

Fiscal Impact Summary

This bill as amended exempts all supplies, technical equipment, machinery, and electricity sold to internet access and communications services providers for use in producing, broadcasting, or distributing internet access service, communication services, or any combination thereof from sales tax. The total state and local sales tax exemption in this bill is capped at \$10,000,000 each year. This bill requires the Department of Revenue (DOR) to receive refund claims from and distribute refunds to internet access providers and communications service providers.

This bill will result in a minimal expenditure impact for DOR to update forms, the department website, and perform system changes. DOR indicates that the changes can be administered within existing staff and appropriations.

Based upon the estimated sales tax that will be exempted, the Revenue and Fiscal Affairs Office (RFA) anticipates that refunds will reach \$10,000,000 per year. Therefore, this bill will decrease state sales tax revenue by approximately \$7,920,000 beginning in FY 2026-27. Of this amount, the General Fund will be reduced by \$5,280,000, the Education Improvement Act Fund (EIA) will be reduced by \$1,320,000, and the Homestead Exemption Fund (HEX) will be reduced by \$1,320,000. In addition, local sales tax revenue will be reduced by approximately \$2,080,000 beginning in FY 2026-27. The impact on each local jurisdiction will depend on the local option sales taxes in effect for the various entities. These amounts are based on the state sales tax rate and the average local sales tax rate statewide of 1.58 percent. If the local sales tax rates that are applicable to these sales vary, the distribution of the \$10,000,000 in refunds will change.

Further, the manufacturer designation in the proposed exemption is only applicable for Section 58-9-3100, and thus we do not anticipate this designation to result in additional manufacturer sales and use tax exemptions for communications services providers and internet services providers. However, DOR has not issued a final determination on the designation pursuant to this bill, and therefore it is unclear whether communications service providers and internet services providers would be eligible for additional existing exemptions based on their manufacturer designation, including certain computer equipment and construction materials.

Explanation of Fiscal Impact

Amended by House Ways and Means Sales, Use and Income Tax Legislative Subcommittee on March 31, 2026

State Expenditure

This bill would exempt all supplies, technical equipment, machinery, and electricity sold to internet access and communications services providers for use in producing, broadcasting, or distributing internet access service, communication services, or any combination thereof from sales tax. In addition, the bill states that for the purpose of the exemption, the services providers are deemed to be manufacturers.

The total state and local sales tax exemption in this bill is capped at \$10,000,000 per year. Internet access providers and communications service providers must apply to DOR for a refund of state and local sales and use taxes paid on exempt items in this bill no later than January thirty-first for the prior calendar year. If the total amount of refund claims exceeds \$10,000,000, DOR must issue pro-rata refunds such that the total amount of refund claims do not exceed \$10,000,000. Refunds must be paid no later than June first.

DOR anticipates that this bill will result in a minimal expenditure impact in order to update forms, the department website, and perform system changes. DOR indicates that the changes can be administered within existing staff and appropriations.

State Revenue

This bill implements a new sales tax exemption for internet access and communications service providers. The total amount of state and local sales tax that may be refunded is capped at \$10,000,000 per year.

For information, RFA estimates that sales tax refunds to internet access and communications service providers will reach the maximum amount of \$10,000,000 beginning in FY 2026-27. In order to estimate whether the maximum refund amount would be reached, we reviewed experience from other states with similar exemptions and US Census Bureau data on expenditures in service industries to determine a potential range of the impact on state and local sales tax.^{1,2} The specific items included in the exemption vary from other states, and we also considered this in our analysis. Based on a combination of these data sources and resources, we estimate that, if not capped, the same exemption would reduce total state and local sales tax revenue by approximately \$32,300,000 beginning in FY 2026-27. Therefore, we anticipate that refunds to internet access and communications service providers pursuant to this bill will reach the maximum sales tax refund amount of \$10,000,000 beginning in FY 2026-27.

Based on the state sales tax rate and the statewide average local sales tax rate, this bill will decrease state sales tax revenue by approximately \$7,920,000 beginning in FY 2026-27. Of this

¹ US Census Bureau, *Service Annual Survey Latest Data (NAICS-basis): 2022 Table 5: Estimated Selected Expenses for Employer Firms 2020-2022*, October 2, 2024, <https://www.census.gov/data/tables/2022/econ/services/sas-naics.html>

² We reviewed actual expenditures reported from a similar sales tax exemption in Tennessee, which were reported to the Tennessee Department of Revenue. We also reviewed analyses and data from Ohio, New York, and Indiana.

amount, the General Fund will be reduced by \$5,280,000, the EIA will be reduced by \$1,320,000, and the HEX will be reduced by \$1,320,000. These amounts may vary if the local sales tax rates that are applicable to these sales vary from the state average.

Further, the manufacturer designation in the proposed exemption is only applicable for Section 58-9-3100, and thus we do not anticipate this designation to result in additional manufacturer sales and use tax exemptions for communications services providers and internet services providers. However, DOR has not issued a final determination on the designation pursuant to this bill, and therefore it is unclear whether communications service providers and internet services providers would be eligible for additional existing exemptions based on their manufacturer designation, including certain computer equipment and construction materials.

Local Expenditure

N/A

Local Revenue

This bill will reduce local sales and use tax revenue due to the sales tax exemption for internet access and communications services providers. Based upon the analysis included under the State Revenue section and applying an average local tax rate of 1.58 percent to the estimated total gross eligible sales, local sales tax revenue will be reduced by approximately \$2,080,000 beginning in FY 2026-27. However, this amount may vary if the local sales tax rates that are applicable to these sales vary. Further, the impact on each local jurisdiction will depend on the local option sales taxes in effect for the various entities.



Frank A. Rainwater, Executive Director

South Carolina General Assembly
126th Session, 2025-2026

H. 5122

STATUS INFORMATION

General Bill

Sponsors: Reps. B. Newton, Bannister, Herbkersman, Yow, C. Mitchell, Rose, Cobb-Hunter, Lawson, Brewer, Kirby, Ballentine, Rutherford, Hiott, Gagnon, Guest, M.M. Smith, Howard, Pope, Grant, Anderson, Schuessler and G.M. Smith
Document Path: LC-0277HA26.docx

Introduced in the House on February 5, 2026
Currently residing in the House

Summary: Internet and Communications Service Providers Equipment

HISTORY OF LEGISLATIVE ACTIONS

<u>Date</u>	<u>Body</u>	<u>Action Description with journal page number</u>
2/5/2026	House	Introduced and read first time (House Journal-page 18)
2/5/2026	House	Referred to Committee on Ways and Means (House Journal-page 18)
2/18/2026	House	Member(s) request name added as sponsor: Yow, C. Mitchell, Rose, Cobb-Hunter
2/19/2026	House	Member(s) request name added as sponsor: Lawson, Brewer, Kirby, Ballentine, Rutherford, Hiott, Gagnon, Guest, M.M. Smith, Howard, Pope
2/25/2026	House	Member(s) request name added as sponsor: Grant, Anderson, Schuessler, G.M. Smith

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VERSIONS OF THIS BILL

02/05/2026

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A BILL

TO AMEND THE SOUTH CAROLINA CODE OF LAWS BY ADDING ARTICLE 31 TO CHAPTER 9, TITLE 58 SO AS TO PERMIT CERTAIN ITEMS SOLD TO OR USED BY INTERNET ACCESS SERVICE PROVIDERS AND COMMUNICATIONS SERVICE PROVIDERS TO BE EXEMPT FROM SALES TAX.

Be it enacted by the General Assembly of the State of South Carolina:

SECTION 1. Chapter 9, Title 58 of the S.C. Code is amended by adding:

Article 31

Service Provider Tax Exemptions

Section 58-9-3100. (A) All supplies, technical equipment, machinery, and electricity sold to internet access service providers and communications service providers, for use in producing, broadcasting, or distributing internet access service, communications services, or any combination thereof are exempt from sales tax imposed by Chapter 36, Title 12 pursuant to the provisions of Section 12-36-2120. For purposes of this section, internet access service providers and communications service providers are deemed to be manufacturers.

(B) An internet access provider or communications service provider shall apply to the Department of Revenue for a refund of state and local sales and use taxes paid on items exempt under this section not later than January thirty-first for the prior calendar year. No later than May first, the department shall calculate the total amount of qualifying refund claims. If the total amount of refund claims exceeds ten million dollars, the department shall issue pro-rata refunds such that the total amount of refund claims shall not exceed ten million dollars. Refunds shall be paid no later than June first.

SECTION 2. This act takes effect upon approval by the Governor and applies to tax years beginning after 2025.

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