



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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Bill Number: H. 3906
Author: Toole
Subject: Four percent assessment ratio
Requestor: House Ways and Means
RFA Analyst(s): Jolliff
Impact Date: May 13, 2016

Estimate of Fiscal Impact

	FY 2016-17	FY 2017-18
State Expenditure		
General Fund	\$0	\$0
Other and Federal	\$0	\$0
Full-Time Equivalent Position(s)	0.00	0.00
State Revenue		
General Fund	Undetermined	\$0
Other and Federal	\$0	\$0
Local Expenditure	\$0	\$0
Local Revenue	Undetermined	\$0

Fiscal Impact Summary

The Department of Revenue indicates that the bill is not expected to impact expenditures for the General Fund, Federal Funds, or Other Funds.

Section 2 of the bill is expected to reduce General Fund revenue for enforced collections generated by Department of Revenue audits that extend past three years. The amount of the reduction in General Fund revenue is undetermined, contingent upon a response from the Department of Revenue.

Based upon responses from six counties, we estimate that Section 1 of the bill will reduce local property tax revenue statewide by approximately \$12,100,000 annually. Section 2 is expected to reduce local property tax revenue because it will prevent counties and the Department of Revenue from collecting unpaid taxes outside of three years, but the amount of the revenue impact is undetermined.

Explanation of Fiscal Impact

State Expenditure

The Department of Revenue indicates that the bill is not expected to impact expenditures for the General Fund, Federal Funds, or Other Funds.

State Revenue

Section 2 of the bill deletes Section 12-54-85(C), which currently allows for taxing entities to collect taxes outside of the thirty-six month limitation in the case of fraud or failure to file a tax

return. This section is expected to reduce General Fund revenue for enforced collections generated by Department of Revenue audits that extend past three years. The amount of the reduction in General Fund revenue is undetermined, contingent upon a response from the Department of Revenue.

Local Expenditure

N/A

Local Revenue

The bill amends Section 12-43-220(c)(2)(vii) Subitem A by changing the penalties for taxpayers who improperly receive the four percent assessment ratio. Currently, the penalty is equal to one hundred percent of the tax paid, plus interest on that amount at the rate of one-half of one percent a month. The bill changes this to require the taxpayer to pay the balance due for the difference in the four percent and six percent assessment and interest at one and one-half percent a year on the balance due. We contacted all county assessors and received responses from six counties. Abbeville County estimates that the bill will reduce revenue by approximately \$3,000 annually but also acknowledged that the actual impact may vary significantly. Anderson County expects the bill to have a significant impact on local property tax revenue of at least \$100,000 per year based upon current investigations in progress. Beaufort County reported that the bill will significantly impact local tax revenues by well over \$100,000, but the exact impact is undetermined. Calhoun County estimated that the bill will reduce tax revenue by approximately \$20,000 to \$25,000 per year but may be double or triple that estimate depending upon the properties. Charleston County reported that approximately three-quarters to one percent of homes fall into this category. Based upon average values, Charleston estimated that this change would reduce property tax revenue by \$2,725 per incidence and approximately \$2,000,000 per year. Horry County reported that based upon their recent audits they expect this change would impact approximately 390 properties and reduce local revenue by approximately \$820,000 per year. Based upon these responses and each county's percentage of total owner occupied assessed value, we estimate that this section of the bill will reduce local property tax revenue by approximately \$12,100,000 annually.

Additionally, the bill adds Subitem B to Section 12-43-220(c)(2)(vii) to specify that when a property has undergone an assessable transfer of interest and is also subject to penalties because the previous owner improperly received the reduced four percent assessment ratio, the penalties and additional property taxes due are the responsibility of the original owner of the property and do not constitute a lien on the property. Based upon responses received from three county assessors, counties do not typically levy penalties on the original property owner after a sale has occurred since collecting these would be unenforceable. Therefore, this section of the bill is not expected to impact local revenues.

Section 2 of the bill is also expected to reduce local property tax revenue since it prevents counties from assessing taxes and penalties outside of thirty-six months in the case of fraud. In some cases, counties reported that cases of taxpayers fraudulently receiving the four percent assessment extended past three years. However, based upon the responses we have received we are unable to determine the extent of these instances or the ultimate revenue impact.

This section is also expected to impact property tax revenues assessed by the Department of Revenue including manufacturing, business personal property and motor carrier property taxes. The department reports that assessments for manufacturing property taxes sometimes extend past three years, particularly in the case of taxpayers not filing returns. We are unable to determine the exact impact, which will depend upon future audits, but expect that this section will reduce local property taxes assessed by DOR.

A handwritten signature in blue ink, reading "Frank A. Rainwater". The signature is fluid and cursive, with a long horizontal stroke at the end.

Frank A. Rainwater, Executive Director