



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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Bill Number: H.3842 Introduced on February 23, 2017
Author: Simrill
Subject: Tax credits
Requestor: House Ways and Means
RFA Analyst(s): Martin and Heineman
Impact Date: March 20, 2017

Estimate of Fiscal Impact

	FY 2017-18	FY 2018-19
State Expenditure		
General Fund	\$0	\$0
Other and Federal	\$0	\$0
Full-Time Equivalent Position(s)	0.00	0.00
State Revenue		
General Fund	(\$26,170)	(\$26,170)
Other and Federal	\$0	\$0
Local Expenditure	\$0	\$0
Local Revenue	\$0	\$0

Fiscal Impact Summary

This bill would reduce General Fund income, bank, or insurance premium tax revenues by an additional estimated \$26,170 in FY2017-18, and each fiscal year thereafter, for the addition of two entities in which a taxpayer may invest and claim a tax credit. Based upon the average annual amount of tax credits over the most recent five years for which data is available, General Fund income, bank, and insurance premium tax revenues would decrease by approximately \$350,000 from tax year 2021 until tax year 2027.

Explanation of Fiscal Impact

Introduced on February 23, 2017

State Expenditure

The Department of Commerce indicates that any additional workload related to the department's certification, authorization, and monitoring process for administering tax credits is not expected to require additional staffing or incur additional costs, and would have no expenditure impact on the General Fund, Federal funds, or Other funds.

State Revenue

Section 1. A community development corporation is a nonprofit corporation which is tax exempt and has a primary mission of developing and improving low-income communities and neighborhoods through economic and related development. A community development financial institution is an organization that has a primary mission of promoting community development by providing credit, capital, or development services to small businesses or home mortgage assistance to individuals. Currently, pursuant to Section 12-6-3530, a taxpayer is allowed a

nonrefundable tax credit against South Carolina income tax, bank tax, or insurance premium tax equal to thirty-three (33) percent of the investment in a community development corporation or community development financial institution. The total credit that may be claimed by all taxpayers is \$1,000,000 in one calendar year and \$5,000,000 for all calendar years. Any unused credit may be carried forward and must be used before the taxable year that begins on or after ten (10) years from the date of the acquisition of stock or other equity interest that is the basis for the credit.

The table below describes the number of taxpayers and the amount of tax credits claimed against investments in community development corporations and community development financial institutions from tax year 2002 to tax year 2014, the latest year data is available. Over this period, 471 taxpayers have claimed \$1,835,614 in nonrefundable tax credits.

History of CDC / CDFI Tax Credits Claimed

Tax Year	No. of Taxpayers Filing Credits	Amount of Tax Credits
2002	12	\$2,957
2003	9	\$2,050
2004	12	\$22,539
2005	14	\$5,234
2006	16	\$14,001
2007	33	\$31,927
2008	41	\$113,354
2009	28	\$25,877
2010	32	\$275,545
2011	36	\$378,668
2012	38	\$173,263
2013	88	\$502,334
2014	112	\$287,865
2015	N/A	N/A
2016	N/A	N/A
Total	471	\$1,835,614

Note: N/A - Not Available.

Sources: Board of Economic Advisors; S.C. Department of Revenue

This bill makes several changes to current statutes and may be summarized as follows:

- Total credits may not exceed \$5,000,000 for all taxpayers in any calendar year
- The Department of Commerce must not authorize any tax credits after the annual \$5,000,000 limitation has been met
- The Department of Commerce shall authorize the tax credits each year on a first-come first-served basis
- The most significant change to the community development corporation and community development financial institution program is that twenty-five percent of annual tax credits must be held in a reserve account during the first three quarters of each tax year and made available exclusively to small, rural based community development corporations. During the first three quarters of any tax year, an individual community development corporation or a community development financial institution must not be authorized to receive more than fifteen percent of the statewide total annual credits. During the fourth quarter of each tax year, all remaining tax credits are available to all certified community development corporations or community development financial institutions.

As can be seen in the table above, the \$5,000,000 limitation has never been achieved in any tax year during the existence of the community development tax credit program. This section would change the allocation method of how the Department of Commerce awards tax credits for investments in community development corporations and community development financial institutions, but it does little to encourage additional investment over and above historical levels.

Section 2. This section would add unnumbered subitems to Section 12-6-3530 to allow taxpayers to claim nonrefundable tax credits against investments in an uncertified community development corporation and a community development financial institution. This section would allow the South Carolina Association for Community Economic Development to be recognized as a community development corporation, and the South Carolina Community Capital Alliance to be recognized as a community development financial institution. There are currently twenty-two certified community development corporations and community development financial institutions in South Carolina. The addition of two relatively small uncertified development corporations would reduce General Fund income, bank, or insurance premium tax revenues by an estimated \$26,170 in FY2017-18, and each fiscal year thereafter.

Section 3. This section would extend the sunset date of this tax credit by an additional seven years to June 30, 2027, unless the provisions are reauthorized by the General Assembly before June 30, 2020. After this date, all laws and regulations dealing with community development corporations and community development financial institutions would be repealed.

Section 4. This act takes effect January 1, 2018.

Local Expenditure

N/A

Local Revenue

N/A

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