



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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Bill Number: H. 3867 Amended by Senate Finance on May 2, 2017
Author: Herbkersman
Subject: Property Tax Exemption
Requestor: Senate Finance
RFA Analyst(s): Gable
Impact Date: May 2, 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	\$0	\$0
Other and Federal	\$0	\$0
Local Expenditure	\$0	\$0
Local Revenue	See Below	\$0

Fiscal Impact Summary

This amended bill's expected impact on local property tax revenue is undetermined, due to insufficient data on the potential for disallowance of portions of properties currently exempt and the potential increase of instrumentalities whose property may receive the exemption, as well as insufficient data for one of the specific counties impacted by the exemption for PSA conveyed leasehold interests. The impact for counties with PSA conveyed leasehold interests ranges from \$0 to \$141,000. To the extent allowable under the millage rate increase limitations, we expect the impacted counties to increase millage rates to offset any reduction.

Explanation of Fiscal Impact

State Expenditure

N/A

State Revenue

N/A

Local Expenditure

N/A

Local Revenue

This amended bill contracts the properties eligible for the property tax exemption under S.C. Code Section 12-37-220(B)(11)(e) to only those properties specifically devoted to providing housing to low or very low income residents and owned by a nonprofit housing corporation or an instrumentality of a nonprofit housing corporation. The amended bill also expands the potential

number of instrumentalities whose properties may be included in the exemption by expanding the definition of instrumentality to include partnerships, LLCs, and other corporations of which a nonprofit housing corporation is the controlling partner, member, or shareholder. The bill further defines a controlling partner, member, or shareholder as the one with the ability to exercise substantial and continuous control over the provision of the low and very low income housing. Currently, the section exempts all properties of a nonprofit housing corporations and solely owned instrumentalities of these corporations that are devoted to providing housing to low or very low income residents from local property taxes.

This section of the amended bill is expected to impact local property tax revenue. There are currently 1,251 exemptions granted under S.C. Code Section 12-37-220(B)(11)(e) by the Department of Revenue but data regarding the value of these exemptions is unavailable. We anticipate that allowing only those properties devoted to providing housing to low and very low income residents which are owned by a nonprofit housing corporation's instrumentality or nonprofit housing corporation, rather than all properties of a nonprofit housing corporation or a solely owned instrumentality, may disallow some portion of property exemptions that are currently allowed. Information is not available to estimate the exact number of the potential reduction in exemptions.

Furthermore, we anticipate that by expanding the definition of instrumentality this amended bill may result in new exemptions. Information is not available to estimate the exact number of potential new exemptions, but we anticipate that it is rare that an instrumentality would meet the definition under the bill, but not under current law, resulting in only a few new exemptions. Due to the limited information available and the difficulty of determining the prevalence of both the contraction of the exemption due to the change in property allowed, and the expansion of the exemption due to the change in the definition of instrumentality, the net impact to the local property tax is undetermined. However, as we expect the bill will create only a few new exemptions and disallow only a portion of current exemptions, the impact is likely to be minimal.

Additionally, Section 2 adds leasehold interests conveyed by the South Carolina Public Service Authority (PSA) that are used for residential purposes to the classes of property exempt from ad valorem taxation. The amended bill specifies that the exemption applies only to the land, not to any structures or other improvements situated on the land.

This section of the amended bill would specifically impact those counties bordering Lakes Marion and Moultrie as this is where PSA has conveyed leasehold interests. These counties are Berkeley, Calhoun, Clarendon, Orangeburg, and Sumter. Revenue and Fiscal Affairs (RFA) contacted each of the five counties and received a response from the counties of Berkeley, Calhoun, Orangeburg, and Sumter.

Calhoun County would experience the largest potential property tax revenue loss. There are 58 parcels of PSA conveyed lease interests used for residential purposes in Calhoun. Exempting these results in a maximum estimated revenue loss of \$141,000 in FY 2017-18. However, this estimate may include structures and improvements on the land leased. If structures and improvements are included in the estimate, the property tax revenue loss would be less than \$141,000.

Berkeley County has 42 parcels of property that are PSA conveyed lease interests, most of which are used for residential purposes. If all 42 properties qualify for the exemption, the resulting loss of property tax revenue for Berkeley County would be \$16,000 in FY 2017-18.

In Orangeburg County, approximately 85 parcels of property are PSA conveyed lease interests used for residential purposes. The county began collecting property taxes on these leasehold interests as of their last reassessment in 2014. However, the Orangeburg County Assessor’s office stated that most of the values were capped per §12-37-3140(B) and thereby the property tax revenue is minimal. Therefore, the impact to the property tax revenue for Orangeburg is minimal.

Sumter County stated it would have no loss of property tax revenue in FY 2017-18, as there is no property in the county that qualifies for the exemption.

We do not have sufficient information to estimate the potential property tax revenue loss for Clarendon County, as the property tax revenue loss is dependent upon county specific factors.

County	FY 2017-18 Estimated Maximum Revenue Reduction
Calhoun	Up to \$141,000
Berkeley	\$16,000
Orangeburg	Minimal
Sumter	\$0
Clarendon	Undetermined

Overall, the impact of adding an exemption for PSA conveyed leasehold interest to local property tax revenue would vary from county to county. However, the revenue loss to each county is expected to be less than 1 percent of the county’s total property tax revenue, per the Department of Revenue’s 2014 Tax Collection by County report. To the extent allowable under the millage rate increase limitations, we expect the impacted counties to increase millage rates to offset any reduction.

Amended by House Ways and Means on March 29, 2017

State Expenditure

N/A

State Revenue

N/A

Local Expenditure

N/A

Local Revenue

This amended bill contracts the properties eligible for the property tax exemption under S.C. Code Section 12-37-220(B)(11)(e) to only the properties specifically devoted to providing

housing to low or very low income residents and owned by a nonprofit housing corporation or an instrumentality of a nonprofit housing corporation. The amended bill also expands the potential number of instrumentalities whose properties may be included in the exemption by expanding the definition of instrumentality to include partnerships, LLCs, and other corporations of which a nonprofit housing corporation is the controlling partner, member, or shareholder. The bill further defines a controlling partner, member, or shareholder as the one with the ability to exercise substantial and continuous control over the provision of the low and very low income housing. Currently, the section exempts all properties of a nonprofit housing corporations and solely owned instrumentalities of these corporations which are devoted to providing housing to low or very low income residents from local property taxes. The amendment narrows the scope of exemptions allowed as compared to the original bill

The amended bill is expected to impact local property tax revenue. There are currently 1,251 exemptions granted under S.C. Code Section 12-37-220(B)(11)(e) by the Department of Revenue but data regarding the value of these exemptions is unavailable. We anticipate that allowing only those properties devoted to providing housing to low and very low income residents and owned by a nonprofit housing corporation's instrumentality or nonprofit housing corporation, rather than all properties of a nonprofit housing corporation or a solely owned instrumentality, may disallow some portion of property exemptions that are currently allowed. Information is not available to estimate the exact number of the potential reduction in exemptions.

Furthermore, we anticipate that by expanding the definition of instrumentality this amended bill may result in new exemptions. Information is not available to estimate the exact number of potential new exemptions, but we anticipate that it is rare that an instrumentality would meet the definition under the bill, but not under current law, resulting in only a few new exemptions. Due to the limited information available and the difficulty of determining the prevalence of both the contraction of the exemption due to the change in property allowed, and the expansion of the exemption due to the change in the definition of instrumentality, the net impact to the local property tax is undetermined. However, as we expect the bill will create only a few new exemptions and disallow only a portion of current exemptions, the impact is likely to be minimal.

Introduced on March 1, 2017

State Expenditure

N/A

State Revenue

N/A

Local Expenditure

N/A

Local Revenue

This bill expands the property tax exemption under S.C. Code Section 12-37-220(B)(11)(e) to include any nonprofit corporation's instrumentality devoted to providing housing to low or very low income residents and defines such instrumentalities to include partnerships, LLCs, and other

corporations of which the nonprofit housing corporation is a partner, member, or shareholder. Currently, the section exempts nonprofit housing corporations and solely owned instrumentalities of these corporations which are devoted to providing housing to low or very low income residents from local property taxes.

This bill is expected to impact local property tax revenue. There are currently 1,251 exemptions granted under S.C. Code Section 12-37-220(B)(11)(e) by the Department of Revenue but data regarding the value of these exemptions is unavailable. We anticipate that allowing any nonprofit corporation instrumentality devoted to providing housing to low and very low income residents, rather than just those that are solely owned, will add exemptions under this code section. Information is not available to estimate the exact number of potential new exemptions, but we anticipate that it is rare that an instrumentality would meet the definition under the bill, but not under current law, resulting in only a few new exemptions. Additionally, data is unavailable to estimate how much of a loss each additional exemption would cause to the local property tax revenue as the amount of property owned by each instrumentality may vary greatly. Due to the limited information available and the difficulty of determining both the prevalence of this situation occurring and the impact such an occurrence would have, the impact to the local property tax statewide is undetermined. However, as we expect the bill will create only a few new exemptions, the impact is likely to be minimal.



Frank A. Rainwater, Executive Director