



**SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE**  
**STATEMENT OF ESTIMATED FISCAL IMPACT**  
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**Bill Number:** S. 0729 Introduced on May 11, 2017  
**Author:** Reese  
**Subject:** Disabled Self-Employment Development Trust Fund  
**Requestor:** Senate Finance  
**RFA Analyst(s):** Jolliff and Mitchell  
**Impact Date:** March 12, 2018

**Estimate of Fiscal Impact**

	<b>FY 2018-19</b>	<b>FY 2019-20</b>
<b>State Expenditure</b>		
General Fund	\$150,000	\$0
Other and Federal	\$0	\$0
Full-Time Equivalent Position(s)	0.00	0.00
<b>State Revenue</b>		
General Fund	See Below	\$0
Other and Federal	See Below	\$0
<b>Local Expenditure</b>	\$0	\$0
<b>Local Revenue</b>	\$0	\$0

**Fiscal Impact Summary**

The bill will increase General Fund expenditures of the Department of Disabilities and Special Needs (DDSN) by \$150,000 for personnel and operating expenses to fund 2 vacant FTEs to administer the Disabled Self-employment Development Trust Fund grant program.

Given the lack of sufficient data to accurately predict how many taxpayers will claim the income tax credit for contributions to the fund, we expect that the revenue impact may total tens of millions of dollars, but the amount is unknown. General Fund income tax revenue will be reduced by the amount of credits claimed in FY 2018-19, and Other Funds revenue of the Disabled Self-Employment Development Trust Fund will increase by a corresponding amount. Other Funds revenue for the Disabled Self-Employment Development Trust Fund will increase by an estimated \$12,000 in FY 2018-19 for contributions to the fund on the individual income tax return.

**Explanation of Fiscal Impact**

**Introduced on May 11, 2017**

**State Expenditure**

The bill establishes the Disabled Self-employment Development Trust Fund to provide assistance to individuals with disabilities to pursue entrepreneurship and self-employment opportunities and provide business development grants for the startup, expansion, or acquisition of a business operated within the state. The fund will consist of appropriations and donations, contributions, bequests, or other gifts. Earnings and interest on this fund remain with the fund, and any balance at the end of the fiscal year carries forward in the succeeding fiscal year. The

Department of Disabilities and Special Needs shall establish and administer the program that awards grants to qualifying residents with physical or mental impairments who start, expand, or acquire an in-state business.

The bill creates an income tax credit for contributions to the fund equal to 100 percent of the taxpayer's contribution. This tax credit is nonrefundable, and if the amount of the credit exceeds the taxpayer's liability for the applicable taxable year, any unused credit may be carried forward and claimed in the five succeeding taxable years. Additionally, a taxpayer may contribute to the Disabled Self-employment Development Trust Fund through a new check-off on a state individual income tax return.

**Department of Disabilities and Special Needs.** This bill requires DDSN to establish and administer the program that awards grants to qualifying residents with physical or mental impairments who start, expand, or acquire an in-state business. The agency expects to fill 2 vacant FTEs at a recurring expenditure cost of \$150,000 for personnel and operating expenditures annually. Currently, DDSN does not have sufficient funds for these vacancies. Therefore, the bill will increase General Fund expenditures by \$150,000 beginning in FY 2018-19 to administer the program.

**Department of Revenue.** The Department of Revenue (DOR) is required to administer the income tax credit for contributions to the Disabled Self-employment Development Trust Fund. The necessary updates to forms and instructions for administration of the credit and the income tax return check-off will be completed during the annual revisions to income tax forms. Therefore, the bill will have no expenditure impact on the General Fund, Other Funds, or Federal Funds for DOR.

### **State Revenue**

The bill provides a non-refundable income tax credit for contributions to the Disabled Self-employment Development Trust Fund. The credit is for 100 percent of the taxpayer's contribution to the fund, and any unused credit may be carried forward for five tax years.

In order to estimate the potential impact of this credit, we reviewed similar credits for contributions to charitable organizations. Contributions to the S.C. Educational Credit for Exceptional Needs Children Fund have reached the maximum annually, currently set at a total of \$11,000,000 per year.

Arizona provides several individual income tax credits for 100 percent of the charitable donation. One is a non-refundable tax credit of up to \$400 per tax filer (\$800 for married joint filers) for contributions to qualifying charitable organizations. In tax year 2015, this credit totaled \$36,796,635 for the 130,419 Arizona taxpayers who claimed the tax credit. Arizona also offers a non-refundable credit for public school fees and contributions of up to \$200 for each tax filer (\$400 for married joint filers). This credit totaled \$45,973,712 for 168,752 taxpayers. Together these two credits totaled \$82,770,347 in tax year 2015.

For comparison, Arizona's Department of Revenue reports that it received 2,906,597 individual income tax returns with a total liability of approximately \$3,765,000,000 in 2014.

Comparatively, DOR reports that S.C. had 2,194,933 individual income tax returns filed with a total liability of approximately \$3,279,000,000 in tax year 2014. Based upon these figures, South Carolina has about 75.5 percent of the number of Arizona tax returns and 87.1 percent of the tax liability.

Because the tax credits for contributions to the Disabled Self-employment Development Trust Fund are unlimited, we expect contributions to be significant. Additionally, corporations, which are ineligible for the tax credits in Arizona, are eligible for this new tax credit. Given the experience in Arizona for tax credits that are limited in amount and only apply to individuals, contributions to the Disabled Self-employment Development Trust Fund and the commensurate tax credits may reach or exceed the \$82,770,347 claimed in Arizona, even if this is discounted for the lower number of tax filers in South Carolina.

Additionally, taxpayers may be able to claim the charitable contribution as a deduction on their federal return if they itemize. Charitable contributions are deductible to the extent that the taxpayer does not receive a benefit in return. The IRS Chief Counsel Advisory has in past instances considered a tax benefit to be a reduction or potential reduction in tax liability and not a quid pro quo for the purposes of determining if a charitable contribution is deductible. Therefore, contributions to the fund may be deductible. Further, since taxpayers are now limited to a total itemized deduction of \$10,000 in state and local taxes (SALT) paid based upon the federal Tax Cuts and Jobs Act of 2017, reducing their state tax liability through this credit will not reduce itemized deductions for those taxpayers exceeding the \$10,000 SALT limitation. This would incentivize further charitable donations that provide a tax credit since deductions for charitable contributions are not limited.

Given the lack of sufficient data, we are unable to accurately estimate how many taxpayers will claim the credit. However, we expect that the amount may total tens of millions of dollars. General Fund income tax revenue will be reduced by the amount of credits claimed in FY 2018-19, and Other Funds revenue for the Disabled Self-Employment Development Trust Fund will increase by a corresponding amount.

The bill also allows taxpayers to contribute to the fund through a check-off on the individual income tax return. From the Department of Revenue's FY 2015-16 Annual Report, the average amount contributed to each fund through individual income tax returns was approximately \$12,000. This will increase Other Funds revenue for the Disabled Self-Employment Development Trust Fund by \$12,000 in FY 2018-19.

**Local Expenditure**

N/A

**Local Revenue**

N/A



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