



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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Bill Number: H. 3136 Amended by House Ways and Means on January 29, 2019
Author: G. M. Smith
Subject: Maximum Contributions to the Educational Credit for Exceptional Needs Children's Fund
Requestor: House Ways and Means
RFA Analyst(s): Shuford
Impact Date: January 29, 2019

Fiscal Impact Summary

This bill will not have an expenditure impact on the General Fund, Other Funds, or Federal Funds of the Department of Revenue, the Education Oversight Committee, or the Revenue and Fiscal Affairs Office as the consultation requirements of Section 1 of the bill will not operationally or fiscally impact the agencies.

Section 1 of this bill will increase the cumulative credits for contributions to the Educational Credit for Exceptional Needs Children's Fund (Fund) authorized under Section 12-6-3970(D)(1) by \$220,000 in FY 2020-21. This is the estimated amount necessary to award any desirous exceptional needs child of an active duty member of the armed forces of the United States or a member killed in the line of duty a scholarship from the Fund. The increased credit amount will decrease General Fund individual and corporate income tax revenue by \$220,000 in FY 2020-21.

Section 2 of this bill will reduce General Fund individual and corporate income and bank taxes by \$8,000,000 in FY 2020-21 from the proposed increase in the contribution limit from \$12,000,000 to \$20,000,000.

In summary, this bill as amended will reduce General Fund individual and corporate income and bank taxes by \$8,220,000 in FY 2020-21 from the increased contribution limits in Sections 1 and 2 of the bill.

Explanation of Fiscal Impact

Amended by House Ways and Means on January 29, 2019

State Expenditure

This bill requires the Department of Revenue and Education Oversight Committee to consult with the Revenue and Fiscal Affairs Office in estimating the increased amount of the cumulative total credits for contributions to the Fund. We anticipate these consultation duties will not operationally or fiscally impact the agencies. Therefore, the bill will not have an expenditure impact on the General Fund, Other Funds, or Federal Funds.

State Revenue

Section 1. Section 1 of this bill requires the Revenue and Fiscal Affairs Office, in consultation with the Department of Revenue and the Education Oversight Committee, to estimate the amount necessary to increase the cumulative total credits for contributions to the Fund. The estimated

increase is the amount necessary to award any desirous exceptional needs child of an active duty member of the armed forces of the United States or a member killed in the line of duty a scholarship from the Fund. Presently, cumulative credits for contributions to the Fund authorized under Section 12-6-3970(D)(1) may not exceed a total of \$12,000,000 annually. The estimated increase in contributions to the Fund will reduce General Fund individual and corporate income tax revenue by a corresponding amount.

This bill does not modify requirements for eligible students and schools receiving scholarships from the Fund. Therefore, students qualifying for a scholarship must be exceptional needs children and residents of the State. In addition, the qualifying students must attend eligible schools located in this State. Pursuant to this existing statute, we anticipate that active duty military families stationed in South Carolina that are not residents of the State will not be eligible for these scholarship and will not increase the amount of cumulative total credits. The number of eligible students are estimated below.

Based on data from the Defense Manpower Data Center of the Department of Defense, approximately 40,085 active duty military personnel, as of September 30, 2018, are assigned a duty station in South Carolina. Of these, Department of Defense accession data indicate that on average 2.01 percent of these service members are South Carolina residents. Multiplying the 40,085 service members times the South Carolina resident percentage results in an estimated 842 service members whose children will be eligible for scholarships from the Fund.

The precise number of eligible children of South Carolina service members that meet the proposed criteria is not available. For this analysis, we make use of U.S. Census Bureau data to estimate the number of eligible students. The 2010 Census reports that of the 4,625,364 total population of South Carolina 3,661,409, or 79.16 percent, are in family households of one or more people related by birth, marriage, or adoption. Of these family members, 788,807, or 21.54 percent, are students enrolled in kindergarten through twelfth grade.

Utilizing these population percentages, we anticipate that of the estimated 842 South Carolina service members, approximately 666, or 79.16 percent, are part of a family household. Of these households, an estimated 144, or 21.54 percent, will be kindergarten through twelfth grade students. Further, we estimate that approximately 20 of these students, or 13.1 percent, will be exceptional needs students. This estimate is based on the percentage of students with exceptional weightings as indicated in the latest 45-day membership report of the South Carolina Department of Education.

At the maximum \$11,000 scholarship amount, the estimated additional 20 students will increase scholarships by \$220,000 in tax year 2020 or FY 2020-21. Increasing the cumulative credits for contributions to the Fund authorized under Section 12-6-3970(D)(1) by \$220,000 for these additional students will decrease General Fund individual and corporate income tax revenue by \$220,000 in FY 2020-21.

Section 2. Section 2 of this bill as amended increases the cumulative contribution limit for the exceptional needs child tax credits contained in Section 12-6-3790(D)(1)(a). At present, these credits may not exceed a total of \$12,000,000. The amended bill increases the tax credits to a

cumulative limit of \$20,000,000. The tax credits apply to individual and corporate income and bank taxes for contributions to a nonprofit scholarship funding organization. This credit is limited to 60 percent of the taxpayer's total tax liability for that year and is not refundable. The tax credits, with amendments, have been included in the annual appropriation act or similar bills since FY 2013-14 and were codified by Act 247 of 2018 for tax years beginning after 2017.

We estimate that the increase in allowable tax credits will reduce General Fund individual and corporate income and bank taxes by the proposed \$20,000,000 limit in FY 2020-21. This will decrease anticipated General Fund individual and corporate income and bank taxes by \$8,000,000 in FY 2020-21. When the Board of Economic Advisors (BEA) releases the initial forecast for FY 2020-21 in November 2019, the forecast will include the revenue impact of these existing tax credits as part of the income tax base since an identical budget provision has been in effect since FY 2013-14. Therefore, the proposed contribution limit of \$20,000,000 will decrease General Fund revenue by the \$8,000,000 increase in the contribution limit in FY 2020-21.

Local Expenditure

N/A

Local Revenue

N/A

Introduced on January 8, 2019

State Expenditure

This bill requires the Department of Revenue and Education Oversight Committee to consult with the Revenue and Fiscal Affairs Office in estimating the increased amount of the cumulative total credits for contributions to the Fund. We anticipate these consultation duties will not operationally or fiscally impact the agencies. Therefore, the bill will not have an expenditure impact on the General Fund, Other Funds, or Federal Funds.

State Revenue

This bill requires the Revenue and Fiscal Affairs Office, in consultation with the Department of Revenue and the Education Oversight Committee, to estimate the amount necessary to increase the cumulative total credits for contributions to the Fund. The estimated increase is the amount necessary to award any desirous exceptional needs child of an active duty member of the armed forces of the United States or a member killed in the line of duty a scholarship from the Fund. Presently, cumulative credits for contributions to the Fund authorized under Section 12-6-3970(D)(1) may not exceed a total of \$12,000,000 annually. The estimated increase in contributions to the Fund will reduce General Fund individual and corporate income tax revenue by a corresponding amount.

This bill does not modify requirements for eligible students and schools receiving scholarships from the Fund. Therefore, students qualifying for a scholarship must be exceptional needs children and residents of the State. In addition, the qualifying students must attend eligible schools located in this State. Pursuant to this existing statute, we anticipate that active duty military families stationed in South Carolina that are not residents of the State will not be eligible

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The precise number of eligible children of South Carolina service members that meet the proposed criteria is not available. For this analysis, we make use of U.S. Census Bureau data to estimate the number of eligible students. The 2010 Census reports that of the 4,625,364 total population of South Carolina 3,661,409, or 79.16 percent, are in family households of one or more people related by birth, marriage, or adoption. Of these family members, 788,807, or 21.54 percent, are students enrolled in Kindergarten through twelfth grade.

Utilizing these population percentages, we anticipate that of the estimated 842 South Carolina service members, approximately 666, or 79.16 percent, are part of a family household. Of these households, an estimated 144, or 21.54 percent, will be Kindergarten through twelfth grade students. Further, we estimate that approximately 20 of these students, or 13.1 percent, will be exceptional needs students. This estimate is based on the percentage of students with exceptional weightings as indicated in the latest 45-day membership report of the South Carolina Department of Education.

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Local Expenditure

N/A

Local Revenue

N/A



Frank A. Rainwater, Executive Director