SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
(803)734-0640 ▪ RFA.SC.GOV/IMPACTS

Bill Number:	S. 0076 Amended by the House of Representatives on May 8, 2019
Author:	Cromer
Subject:	Energy Efficient Manufactured Homes Incentive Program; Extend the Program for Five Years
Requestor:	Senate
RFA Analyst(s):	Jolliff and R. Martin
Impact Date:	May 23, 2019

Fiscal Impact Summary

This bill is not expected to impact expenditures for the Department of Revenue (DOR) or the Secretary of State because the bill extends existing responsibilities that can be accomplished with existing staff and resources.

This bill will reduce General Fund individual income tax revenue by approximately $17,000 in FY 2019-20, $34,000 per year from FY 2020-21 through FY 2023-24, and $17,000 in FY 2024-25 by extending the Energy Efficient Manufactured Homes Incentive Program tax credit until July 1, 2024. Further, the bill will reduce General Fund sales tax revenue by approximately $31,027 and EIA revenue by $7,757 beginning in FY 2019-20 for five years through FY 2023-24 by extending the sales tax exemption for energy efficient manufactured homes. The bill is expected to decrease General Fund individual income tax revenue by $5,000,000 annually in FY 2020-21 through FY 2025-26 by extending the High Growth in Small Business Job Creation Act.

Explanation of Fiscal Impact

Amended by the House of Representatives on May 8, 2019
State Expenditure
Section 1 extends the Energy Efficient Manufactured Homes Incentive Program tax credit for an additional five years. The program provides an income tax credit of $750 for any person who purchases a qualifying energy efficient manufactured home. The tax credit expires July 1, 2019, and the bill extends the credit to July 1, 2024. Since this is an extension of existing tax credit, the bill is not expected to impact expenditures for DOR for administration of the credits.

Section 2 extends the sales tax exemption for energy efficient manufactured homes, which expires July 1, 2019, to July 1, 2024. Since this is an extension of an existing exemption, the bill is not expected to impact expenditures for DOR for administration of the exemption.

Section 3 extends the High Growth in Small Business Job Creation Act of 2013, which expires on December 31, 2019, until December 31, 2025. The Act created a nonrefundable income tax credit for angel investors contributing capital to a qualified business. Angel investors accredited by the U.S. Securities and Exchange Commission and required to pay taxes in this state are eligible for the tax credit for investments in qualified businesses. In order to become a qualified business, a company must meet certain requirements and register with the Secretary of State. Qualified businesses must meet organizational requirements and primarily engage in manufacturing, processing, warehousing, wholesaling, software development, information technology services, research and development, or similar services.

The Act directs DOR to administer the tax credit. Because the total amount of credits allowed may not exceed $5,000,000 for all taxpayers in a calendar year, investors are required to apply to DOR for preapproval of the credit. This ensures that the total amount of credits does not exceed the limitation. Each year DOR must notify taxpayers of the amount they may claim. If the total credits exceed the limitation, the tax credits must be allocated among the angel investors who filed a timely application on a pro rata basis.

Additionally, DOR is required to report to the House Ways and Means Committee, the Senate Finance Committee, and the Governor by county the number of angel investor tax credit applications the department has received, the number of applications approved, and the tax credits approved each year. Extending the availability of the credit through 2025 is not expected to impact expenditures for DOR, as the department is currently administering the tax credit and will continue this process.

Businesses are required to register with the Secretary of State to ensure that they meet the requirements of the Act. Further, the Secretary is required to produce an annual report to the House Ways and Means Committee, the Senate Finance Committee, and the Governor listing the businesses that have registered with the Secretary as qualified businesses and other relevant statistics on the program. Based upon previous information from the Secretary of State's Office regarding similar legislation, extending the availability of the credit through 2025 is not expected to impact expenditures for the agency, as staff is currently performing these responsibilities and will continue this process.

State Revenue

Section 1. This section extends the Energy Efficient Manufactured Homes Incentive Program tax credit, which expires July 1, 2019, until July 1, 2024. The program provides a non-refundable income tax credit of $750 for any person who purchases a qualifying manufactured home. In order to qualify, the manufactured home must meet either the energy saving efficiency requirements set by the U.S. Environmental Protection Agency and the U.S. Department of Energy or ENERGY STAR requirements. The home also must be purchased from a retail dealership licensed by the S.C. Manufactured Housing Board for use in this state.

Based upon tax year 2014, 2015, and 2016 individual income tax returns, an average of 48 taxpayers claim this tax credit for a total of $34,000 per tax year. Credits are earned on a fiscal year basis but must be claimed on a tax year basis. To account for this, we assume credits are earned evenly throughout the year and that one-half of the FY 2019-20 credits earned from July 1, 2019, to December 31, 2019, will be claimed on tax year 2019 returns filed in April 2020. The remaining credits earned in FY 2019-20 will be claimed in the following tax year. Therefore, we estimate that this section of the bill will reduce General Fund individual income tax revenue by approximately in $17,000 in FY 2019-20, $34,000 per year from FY 2020-21 through FY 2023-24, and $17,000 in FY 2024-25.

Section 2. This section extends the sales tax exemption for energy efficient manufactured homes, which expires on July 1, 2019. The bill extends the exemption for an additional five years until July 1, 2024. In order to qualify, the home must meet either the energy saving efficiency requirements set by the U.S. Environmental Protection Agency and the U.S. Department of Energy or ENERGY STAR requirements.

Currently, the sales tax for manufactured homes is calculated based upon the home value discounted by 65 percent. For homes with a discounted value up to $6,000, the tax is 5 percent of the discounted value up to $300. For homes with a discounted value over $6,000, the sales tax is $300 plus 2 percent of the excess of the discounted value of the home above $6,000. Section 2 of the bill extends the exemption for the sales tax in excess of $300 for an additional five years until July 1, 2024.

According to 2017 data reported by the U.S. Commerce Department's Census Bureau, the average sales price for a new manufactured home in South Carolina is $71,400. Multiplying $71,400 by 65 percent yields a discounted value of $46,410 subject to the sales tax. Subtracting the $6,000 of value taxed at $300, $40,410 of home value is taxed at 2 percent, for an additional sales tax of $808. Therefore, the exemption reduces sales tax revenue by approximately $808 per qualifying manufactured home.

Based upon utilization of the Energy Efficient Manufactured Home tax credit described in Section 1 above, we expect that 48 taxpayers will qualify for the exemption annually. Multiplying $808 by 48 taxpayers, the exemption is expected to total approximately $38,784 per year. Therefore, this section of the bill will reduce General Fund sales tax revenue by $31,027 and EIA fund revenue by $7,757 annually beginning in FY 2019-20 for five years through FY 2023-24.

Section 3. This section extends the High Growth in Small Business Job Creation Act of 2013, which expires on December 31, 2019, until December 31, 2025. Under the Act, an angel investor is entitled to a nonrefundable income tax credit of 35 percent of its qualified investment. Of the credit amount earned, 50 percent of the credit may be applied to the angel investor's net income tax liability in the tax year during which the qualified investment is made, and 50 percent of the credit may be applied to the angel investor's net income tax liability in the tax years after the investment is made. The credit may be carried forward for up to ten years.

The total amount of credits allowed may not exceed $5,000,000 for all taxpayers in a calendar year. The aggregate credit amount earned by an individual for one or more qualified investments in a tax year, either directly or allocated to a person by a pass-through entity, is limited to $100,000. The credit is transferrable and may be sold, exchanged, or otherwise transferred. However, a tax credit or increment thereof may only be transferred once.

The amount of tax credits approved by DOR has grown annually since the inception of the Act. DOR approved $3,820,956 in tax credits for 2016 and the maximum of $5,000,000 for 2017. Based upon this experience, we anticipate that tax credits will reach the maximum in future years as well. Therefore, extending the tax credit for tax years 2020 through 2025 is expected to decrease General Fund individual income tax revenue by $5,000,000 annually in FY 2020-21 through FY 2025-26.

Local Expenditure
N/A

Local Revenue
N/A

Prefiled on December 12, 2018
State Expenditure
Section 1 of this bill extends the Energy Efficient Manufactured Homes Incentive Program tax credit for an additional five years. The program provides an income tax credit of $750 for any person who purchases a qualifying energy efficient manufactured home. The tax credit is set to expire July 1, 2019, and the bill extends the credit to July 1, 2024. Since this is an extension of existing tax credit, the bill is not expected to impact expenditures for the Department of Revenue for administration of the credits.

Section 2 of the bill extends the sales tax exemption for energy efficient manufactured homes currently set to expire July 1, 2019, to July 1, 2024. Since this is an extension of existing exemption, the bill is not expected to impact expenditures for the Department of Revenue for administration of the exemption.

State Revenue
Section 1. This section extends the Energy Efficient Manufactured Homes Incentive Program tax credit currently set to expire July 1, 2019, until July 1, 2024. The program provides a non-refundable income tax credit of $750 for any person who purchases a qualifying manufactured home. In order to qualify, the manufactured home must meet either the energy saving efficiency requirements set by the U.S. Environmental Protection Agency and the U.S. Department of Energy, or ENERGY STAR requirements. The home also must be purchased from a retail dealership licensed by the S.C. Manufactured Housing Board for use in this state.

Based upon tax year 2014, 2015, and 2016 individual income tax returns, an average of 48 taxpayers claim this tax credit for a total of $34,000 per tax year. Credits are earned on a fiscal year basis but must be claimed on a tax year basis. To account for this, we assume credits are earned evenly throughout the year and that one-half of the FY 2019-20 credits earned from July 1, 2019, to December 31, 2019, will be claimed on tax year 2019 returns filed in April 2020. The remaining credits earned in FY 2019-20 will be claimed in the following tax year. Therefore, we estimate that this section of the bill will reduce General Fund individual income tax revenue by approximately in $17,000 in FY 2019-20, $34,000 per year from FY 2020-21 through FY 2023-24, and $17,000 in FY 2024-25.

Section 2. This section extends the sales tax exemption for energy efficient manufactured homes currently set to expire on July 1, 2019. The bill extends the exemption for an additional five years until July 1, 2024. In order to qualify, the home must meet either the energy saving efficiency requirements set by the U.S. Environmental Protection Agency and the U.S. Department of Energy, or ENERGY STAR requirements.

Currently, the sales tax for manufactured homes is calculated based upon the home value discounted by 65 percent. For homes with a discounted value up to $6,000, the tax is 5 percent of the discounted value up to $300. For homes with a discounted value over $6,000, the sales tax is $300 plus 2 percent of the excess of the discounted value of the home above $6,000. Section 2 of the bill extends the exemption for the sales tax in excess of $300 for an additional five years until July 1, 2024.

According to 2017 data reported by the U.S. Commerce Department's Census Bureau, the average sales price for a new manufactured home in South Carolina is $71,400. Multiplying $71,400 by 65 percent yields a discounted value of $46,410 subject to the sales tax. Subtracting the $6,000 of value taxed at $300, $40,410 of home value is taxed at 2 percent, for an additional sales tax of $808. Therefore, the exemption reduces sales tax revenue by approximately $808 per qualifying manufactured home.

Based upon utilization of the Energy Efficient Manufactured Home tax credit described in Section 1 above, we expect that 48 taxpayers will qualify for the exemption annually. Multiplying $808 by 48 taxpayers, the exemption is expected to total approximately $38,784 per year. Therefore, this section of the bill will reduce General Fund sales tax by $31,027 and EIA fund revenue by $7,757 annually beginning in FY 2019-20 for five years through FY 2023-24.

Local Expenditure
N/A

Local Revenue
N/A

Frank A. Rainwater, Executive Director