SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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Bill Number:	S. 0545	Amended by the House of Representatives on September 16, 2020
Author:	Alexander	
Subject:	Property Assessment of Merchants and Other Businesses	
Requestor:	Senate Finance	
RFA Analyst(s):	Miller and Jolliff	
Impact Date:	September 21, 2020	

Fiscal Impact Summary

This bill will have no impact on State expenditures as it does not change the responsibilities of the Department of Revenue (DOR).

The impact of the bill as amended by the House of Representatives on General Fund Income tax revenue is undetermined. The Payroll Protection Program (PPP) loans are a unique event and are not a part of the current tax base. The CARES Act specifically exempts PPP loan forgiveness from income, and the Internal Revenue Service (IRS) guidance regarding expenses was not contemplated in the forecast. Therefore, exempting the loan forgiveness from South Carolina income taxes is not anticipated to affect the State revenue forecast. However, if taxpayers are not allowed to deduct expenses as directed by the current IRS guidance, this could potentially increase income tax revenue relative to the current forecast. The amount of increase is unknown and will depend on the amount of loans forgiven, any accounting decisions by taxpayers to minimize the tax impact as a result, and any adjustments that may be considered by Congress or the IRS. The bill specifies that South Carolina will follow the federal determination as to whether these expenses are allowed. Should the federal government not allow these expenses, General Fund Income tax revenue may increase, but the potential amount is undetermined given the number of uncertainties.

The bill will have no impact on local expenditures. Based upon a response from the South Carolina Association of Counties, this bill may require some updates to systems and processes for counties to use DOR's form for business personal property taxes, but counties are expected to be able to accomplish these tasks with existing resources.

Explanation of Fiscal Impact

Amended by the House of Representatives on September 16, 2020
State Expenditure
Section 1 of the bill requires county auditors to use DOR's Business Personal Property Return form, PT-100, when appraising and assessing business personal property (BPP). This provision does not affect DOR's current operations.

Section 2 of the bill as amended exempts any forgiveness of PPP loans from South Carolina income tax. While this provision will require updates to forms and guidance, DOR can accomplish these tasks with existing staff. Therefore, the bill will not impact DOR's expenditures.

State Revenue
Section 2 of the bill as amended specifies that for tax year 2020, to the extent that loans under PPP are forgiven and excluded from income for federal income tax purposes, those loans are excluded from South Carolina income tax as well. Additionally, to the extent that the federal government allows taxpayers to deduct expenses associated with the forgiven loans, those expenses are allowed for state income tax purposes.

The PPP was established by the federal CARES Act and implemented by the Small Business Administration (SBA). The program provides loans to small businesses, and the loan will be fully forgiven if the funds are used for payroll costs, interest on mortgages, rent, and utilities.

According to the SBA, forgiveness is based on the employer maintaining or quickly rehiring employees and maintaining salary levels. Forgiveness will be reduced if full-time headcount declines, or if salaries and wages decrease. Loan borrowers have ten months following the completion of the covered period to file for loan forgiveness. The covered period is either the 24-week period beginning on the PPP loan disbursement date or for loans received before June 5, 2020, the borrower may elect an eight-week covered period. All covered periods must end by December 31, 2020.

A total of $5,791,085,572 was issued to 67,176 South Carolina business. The amount of these loans that will be forgiven will depend on the number of business and their qualifying expenses and is currently unknown.

Typically, when a loan is forgiven, the forgiveness must be included as income for tax purposes. However, Section 1106(i) of the CARES Act states that the amount of loan forgiveness for a PPP loan is excluded from gross income. Following passage of the Act, the Internal Revenue Service (IRS) issued guidance that expenses that would otherwise be deductible may not be claimed if the expenses result in loan forgiveness. Currently, Congress has not taken any action to reverse the IRS decision, although legislation has been introduced to allow taxpayers to deduct these expenses.

The Payroll Protection Program (PPP) loans are a unique event and are not a part of the current tax base. The CARES Act specifically exempts this loan forgiveness from income, and the IRS guidance was not contemplated in the forecast. Therefore, exempting the PPP loan forgiveness from South Carolina income taxes is not anticipated to affect the State revenue forecast. However, if taxpayers are not allowed to deduct expenses as directed by the current IRS guidance, this could potentially increase income tax revenue relative to the current forecast. The amount of increase is unknown and will depend on the amount of loans forgiven and any accounting decisions by taxpayers to minimize the tax impact as a result. The bill specifies that South Carolina will follow the federal determination as to whether these expenses are allowed. Should the federal government not allow these expenses, General Fund Income tax revenue may increase, but the potential amount is undetermined given the number of uncertainties.

Local Expenditure
Section 1 of the bill as amended requires county auditors to use DOR's Business Personal Property Return form, PT-100, when appraising and assessing BPP. This bill takes effect after December 31, 2020. Currently, county auditors do not have to use this form when assessing and appraising BPP. Based upon a response from the South Carolina Association of Counties, this bill may require some updates to systems and processes but counties are expected to be able to accomplish these tasks with existing resources. Therefore, the bill is not expected to impact local expenditures.

Local Revenue
N/A

Amended by the Senate on March 4, 2020
State Expenditure
This bill as amended requires county auditors to use DOR's Business Personal Property Return form, PT-100, when appraising and assessing business personal property (BPP). This amended bill does not change the responsibilities of DOR and therefore will have no expenditure impact.

State Revenue
N/A

Local Expenditure
This bill as amended requires county auditors to use DOR's Business Personal Property Return form, PT-100, when appraising and assessing BPP. This bill takes effect after December 31, 2020. Currently, county auditors do not have to use this form when assessing and appraising BPP. The local fiscal impact is pending, contingent upon a response from the South Carolina Association of Counties.

Local Revenue
N/A

Introduced on February 20, 2019
State Expenditure
This bill classifies business personal property (BPP) as merchant's property for tax assessment purposes, which places it under the jurisdiction of DOR. Currently, the collection of BPP filings are split between DOR and the counties.

This bill will result in an increase in filings with DOR. DOR is able to manage the additional filings with existing staff and within existing appropriations. Therefore, this bill will have no expenditure impact for DOR.

State Revenue
N/A

Local Expenditure
This bill places all BPP assessment filings under the jurisdiction of DOR. Currently, jurisdiction is split between counties and DOR and five counties contract with DOR to handle all BPP filings.

As the counties would no longer be responsible for assessing this property, there would be an expenditure savings. Ten counties responded to our previous inquiry about this shift in responsibilities. Greenville County and Oconee County would not be impacted by this bill as they currently have the department assessing their business personal property. Anderson and Charleston anticipate savings of $15,000 and $10,000 respectively associated with postage, printing, and labor. Chester County, Dillon County, Lexington County, Richland County, Spartanburg County, and Williamsburg County, expected savings of less than $1,000, if any, stemming from savings on postage and mailings. Berkeley County would also experience minimal savings if the two BPP appraisers remain on staff to assist local businesses with the filings. Overall, the local expenditure savings statewide is undetermined as the impact varies from county to county.

Local Revenue
N/A

Frank A Rainwater

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