



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE

STATEMENT OF ESTIMATED FISCAL IMPACT

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This fiscal impact statement is produced in compliance with the South Carolina Code of Laws and House and Senate rules. The focus of the analysis is on governmental expenditure and revenue impacts and may not provide a comprehensive summary of the legislation.

Bill Number:	H. 3709	Amended by House Ways and Means on March 31, 2022
Author:	J.L. Johnson	
Subject:	Accommodation Tax	
Requestor:	House Ways and Means	
RFA Analyst(s):	Gallagher	
Impact Date:	April 6, 2022	

Fiscal Impact Summary

This bill lowers the age of individuals exempt from paying 1 percent of the total 7 percent tax on accommodations from age 85 or older to age 78 or older. Revenue and Fiscal Affairs (RFA) anticipates that the Department of Revenue (DOR) will be able to administer the amended exemption with existing staff and resources, as the department administers several sales tax exemptions as part of the department's regular duties. Therefore, this bill is not expected to impact expenditures for the agency.

This bill will increase the number of individuals exempt from 1 percent of the total tax on accommodations. This 1 percent tax is credited to the Education Improvement Act (EIA) Fund. As a result, this bill will reduce EIA Fund revenue by an estimated \$1,533,000 beginning in FY 2022-23.

Explanation of Fiscal Impact

Amended by House Ways and Means on March 31, 2022

State Expenditure

This bill lowers the age of individuals exempt from paying 1 percent of the total 7 percent tax on accommodations from age 85 or older to age 78 or older. RFA anticipates that DOR will be able to administer the amended exemption with existing staff and resources, as the department administers several sales tax exemptions as part of the department's regular duties. Therefore, this bill is not expected to impact expenditures for the agency.

State Revenue

The following taxes compose the 7 percent sales tax on accommodations:

- a 4 percent tax credited to the state General Fund,
- a 1 percent tax credited to the EIA Fund, and
- a 2 percent local accommodations tax credited to the political subdivisions of the State.

Currently, individuals aged 85 years or older are exempt from paying the 1 percent tax credited to the EIA Fund. This bill would amend Section 12-36-2630(2) to exempt individuals aged 78 or older from paying this tax. The table below provides the total accommodations tax revenue received in recent years and our current forecast for FY 2021-22.

Fiscal Year	Accommodations Tax Revenue (2%)
FY 2018-19	\$75,229,292
FY 2019-20	\$65,856,498
FY 2020-21	\$75,746,900
FY 2021-22 (estimate)	\$99,942,855
FY 2022-23 (estimate)	\$109,868,537

Based on the latest population estimates by the U.S. Census Bureau, approximately 2.4 percent of travel- aged individuals, defined as those age 18 and older, are currently exempt from the 1 percent EIA tax on accommodations¹. This legislation would increase this number to 8.6 percent, meaning 3.9 percent of individuals would be newly exempt from paying 1 percent of the total 7 percent tax on accommodations.

According to the S.C. Department of Parks, Recreation, and Tourism’s *Economic Contribution of Tourism in South Carolina: 2019 Tourism Satellite Account* report, 71.4 percent of gross tourism spending is by residents, out-of-state visitors, and international visitors, with the remaining 28.6 percent of spending by businesses and governmental entities². This analysis assumes that these values are proportional to spending on accommodations. Therefore, we have adjusted the impact downward by 28.6 percent, as travel related to government and business is unlikely to benefit from this 1 percent exemption.

Multiplying the FY 2022-23 local accommodations tax revenue estimate by 3.9 percent, adjusting down to discount this figure for business and government, and dividing by 2 to account for the 1 percent tax rate for the EIA yields an estimated reduction in EIA Fund revenue of \$1,533,000 beginning in FY 2022-23.

Local Expenditure

N/A

Local Revenue

N/A

Introduced on January 26, 2021

State Expenditure

This bill lowers the age of individuals exempt from paying 1 percent of the total 7 percent tax on accommodations from age 85 or older to age 70 or older. RFA anticipates that DOR will be able to administer the amended exemption with existing staff and resources, as the department administers several sales tax exemptions as part of the department’s regular duties. Therefore, this bill is not expected to impact expenditures for the agency.

¹ U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplement, 2019.

² South Carolina Department of Parks, Recreation and Tourism, *The Economic Contribution of Tourism in South Carolina: 2019 Tourism Satellite Account*, 2021.

State Revenue

The following taxes compose the 7 percent sales tax on accommodations:

- a 4 percent tax credited to the state General Fund,
- a 1 percent tax credited to the EIA Fund, and
- a 2 percent local accommodations tax credited to the political subdivisions of the State.

Currently, individuals aged 85 years or older are exempt from paying the 1 percent tax credited to the EIA Fund. This bill would amend Section 12-36-2630(2) to exempt individuals aged 70 or older from paying this tax. The table below provides the total accommodations tax revenue received in recent years and our current forecast for FY 2020-21.

Fiscal Year	Accommodations Tax Revenue (2%)
FY 2018-19	\$75,229,292
FY 2019-20	\$65,856,498
FY 2020-21 (estimate)	\$56,300,000

Based on estimates provided by the U.S. Census Bureau, approximately 2.4 percent of travel-aged individuals, defined as those age 18 and older, are currently exempt from the 1 percent EIA tax on accommodations³. This legislation would increase this number to 14.1 percent, meaning 11.7 percent of individuals would be newly exempt from paying 1 percent of the total 7 percent tax on accommodations.

Because business closures resulting from the COVID-19 pandemic significantly impacted collections in FY 2019-20 and FY 2020-21, for this analysis we use FY 2018-19 collections to estimate FY 2021-22, assuming a return to historical levels. If consumers do not return to historical travel patterns following the pandemic as quickly, this estimate would be affected. Further, according to the S.C. Department of Parks, Recreation, and Tourism's *Economic Contribution of Tourism in South Carolina: 2019 Tourism Satellite Account* report, 71.4 percent of gross tourism spending is by residents, out-of-state visitors, and international visitors, with the remaining 28.6 percent of spending by businesses and governmental entities⁴. This analysis assumes that these values are proportional to spending on accommodations. Therefore, we have adjusted the impact downward by 28.6 percent, as travel related to government and business is unlikely to benefit from this 1 percent exemption.

Multiplying the FY 2018-19 local accommodations tax revenue by 11.7 percent, adjusting down to discount this figure for business and government, and dividing by 2 to account for the 1 percent tax rate for the EIA yields an estimated reduction in EIA Fund revenue of \$3,142,000 beginning in FY 2021-22.

³ U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplement, 2019.

⁴ South Carolina Department of Parks, Recreation and Tourism, *The Economic Contribution of Tourism in South Carolina: 2019 Tourism Satellite Account*, 2021.

Local Expenditure

N/A

Local Revenue

N/A



Frank A. Rainwater, Executive Director