Bill Number:	S. 0901 Amended by the House of Representatives on May 11, 2022
Author:	Verdin
Subject:	Income Tax
Requestor:	House of Representatives
RFA Analyst(s):	Coomer, Gallagher, and Jolliff
Impact Date:	May 20, 2022

Fiscal Impact Summary

This bill makes several changes to tax provisions in Title 12 as follows:

Section 12-6-3775

The bill retroactively reinstates Section 12-6-3775, which provides a nonresidential solar energy tax credit. This bill amends the repeal date from December 31, 2021, to December 31, 2024, and increases the credit limit for each installation of solar energy property placed-in-service from $2,500,000 to $5,000,000. The credit must be claimed in five annual installments and is subject to an aggregate limit of $2,500,000 per tax year. Further, in the event the taxpayer is a partnership or a limited liability company taxed as a partnership, this section allows the credit and credit carry-forward to be passed through and allocated to the partners or members as long as the placed-in-service date is after 2019.

The Department of Revenue (DOR) indicates that any expenses related to the modification of tax forms from the reinstatement of the credit and increase in the credit limit can be administered with existing resources. Therefore, this section will not have an expenditure impact on the agency.

This section will decrease General Fund revenue by up to $2,500,000 a year beginning in FY 2022-23 through FY 2028-29, at which time all entities will have fully utilized their five annual credit installments. This results in a total decrease in General Fund income tax revenue by up to $17,500,000 from FY 2022-23 through FY 2028-29. Taxpayers are allowed to carry forward unused credits for five taxable years from the year the credit was able to be taken, which may extend the timing of the impact.

Section 12-36-2630(2)

This section 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 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 section is not expected to impact expenditures for the agency.

This section 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 section will reduce EIA Fund revenue by an estimated $1,533,000 beginning in FY 2022-23.

Section 12-36-922
This section requires each accommodations tax return filed with multiple locations to provide the address and amount of net taxable sales for each location. DOR indicates that any expenses related to the modification of forms from this additional requirement can be administered with existing resources. Therefore, this section will not have an expenditure impact on the agency.

Section 12-36-2110(A)
The bill also amends Section 12-36-2110(A)(1)(d) to limit the sales tax on watercraft motors to the maximum sales tax of $500 or 5 percent, whichever is less. This section will not impact expenditures for DOR, as providing guidance on tax law changes is part of their regular duties.

By subjecting watercraft motors to the maximum sales tax, this bill would reduce General Fund revenue by an estimated $57,446, EIA Fund revenue by $21,627, and Homestead Exemption (HEX) Fund revenue by $258,900, and increase Infrastructure Maintenance Fund (IMF) revenue by $19,367 beginning in FY 2022-23. This would result in a total net revenue decrease of $318,603 beginning in FY 2022-23 from subjecting watercraft motors to the maximum sales tax.

Sections 12-6-3710 and 12-6-3720
These sections provide an income tax credit for taxpayers that employ a formerly incarcerated individual or a veteran of the Armed Forces of the United States in an apprenticeship program validated by the United States Department of Labor (USDOL).

DOR and the Department of Commerce (Commerce) both indicated that these sections will not affect their expenditures. These agencies indicate that they will be able to implement the new tax credit with existing staff and resources. Apprenticeship Carolina, a division of the S.C. Technical College System, assists employers with registering an apprenticeship with the USDOL. They currently anticipate that they can assist with these responsibilities with existing staff, but because the staff are grant funded, they indicated that they may require funding in future years depending on available grant funding.

Sections 12-10-30 and 12-10-80
These sections make changes to the legislative intent of the Enterprise Zone Act of 1995, including allowing for two related persons to be included in the determination of whether a qualifying business has met and maintained the minimum job requirement and minimum capital investments requirements for job development tax credits. Commerce indicates that these sections will have no expenditure impact on the agency because the sections adopt current practices.

These sections will reduce General Fund individual income tax, corporate income or license taxes, bank tax, savings and loan association tax, and insurance premium taxes, or some combination thereof, by approximately $959,000 in in FY 2023-24, $2,101,000 in FY 2024-25, $2,531,000 in FY 2025-26, $2,605,000 in FY 2026-27, $2,468,000 in FY 2027-28, $896,000 in FY 2028-29, and $163,000 in FY 2029-30.

Please note, these estimates are based upon limited data and may be impacted if the number of active apprentices differs significantly from recent years. Apprenticeship Carolina noted that due to COVID-19, many programs were extended or suspended. However, data are unavailable to determine how this has affected the number of participants. Therefore, our estimates assume that programs return to a normal level in 2022. Further, the USDOL is currently reviewing and revising data on apprenticeship programs. Our estimates are based upon the latest published information from the USDOL and limited additional data provided for 2021, but may be impacted if the number of apprentices differs significantly from recent years after revisions.

Summary of Revenue Impact

The following table provides a summary of the revenue impact for the bill through FY 2024-25. For the impact in future years, please see the details provided above.

Revenue Impacts (Select Years)

	FY 2022-23	**FY 2023-24**	**FY 2024-25**
General Fund			
Section 12-6-3775	($2,500,000)	($2,500,000)	($2,500,000)
Section 12-36-2110(A)	($57,446)	($57,446)	($57,446)
Sections 12-36-3710 and 3720	$0	($959,000)	($2,101,000)
Total	**($2,557,446)**	**($3,516,446)**	**($4,658,446)**
EIA			
Section 12-36-2630	($1,533,000)	($1,533,000)	($1,533,000)
Section 12-36-2110(A)	($21,627)	($21,627)	($21,627)
Total	**($1,554,627)**	**($1,554,627)**	**($1,554,627)**
HEX			
Section 12-36-2110(A)	($258,900)	($258,900)	($258,900)
IMF			
Section 12-36-2110(A)	$19,367	$19,367	$19,367
Local Revenue			
Section 12-36-2110(A)	($370,227)	($370,227)	($370,227)

Figures in future years may not include growth

Explanation of Fiscal Impact

Amended by the House of Representatives on May 11, 2022

State Expenditure
Section 12-6-3775
The bill retroactively reinstates Section 12-6-3775, which provides a nonresidential solar energy tax credit. This bill amends the repeal date from December 31, 2021, to December 31, 2024, and increases the credit limit for each installation of solar energy property placed-in-service from $2,500,000 to $5,000,000. DOR indicates that any expenses related to the modification of tax forms from the reinstatement of the credit and increase in the credit limit can be administered with existing resources. Therefore, this bill will not have an expenditure impact on the agency.

Section 12-36-2630(2)
This section 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 section is not expected to impact expenditures for the agency.

Section 12-36-922
This section requires each accommodations tax return filed with multiple locations to provide the address and amount of net taxable sales for each location. DOR indicates that any expenses related to the modification of forms from this additional requirement can be administered with existing resources. Therefore, this section will not have an expenditure impact on the agency.

Sections 12-6-3710 and 12-6-3720
These sections provide an income tax credit for taxpayers that employ a formerly incarcerated individual or a veteran of the Armed Forces of the United States in an apprenticeship program. The bill specifies that DOR must administer the credit and shall consult with Commerce, Apprenticeship Carolina of the S.C. Technical College System, and any other agency or entity necessary to establish a process by which employers are aware of an individual's eligibility for the credits.

DOR and Commerce both indicated that the responsibilities will not affect their expenditures. These agencies indicate that they will be able to implement the new tax credit with existing staff and resources. Therefore, these sections will have no expenditure impact for DOR or Commerce.

Currently, Apprenticeship Carolina, a division of the S.C. Technical College System, assists employers with registering an apprenticeship with the USDOL. They currently anticipate that they can assist with these responsibilities with existing staff, but because the staff are grant funded, they indicated that they may require funding in future years depending on available grant funding.

Sections 12-10-30 and 12-10-80
These sections make changes to the legislative intent of the Enterprise Zone Act of 1995, including allowing for two related persons to be included in the determination of whether a qualifying business has met and maintained the minimum job requirement and minimum capital

investments requirements for job development tax credits. Commerce indicates that these sections will have no expenditure impact on the agency because it adopts current practices.

State Revenue

Section 12-6-3775

The bill retroactively reinstates Section12-6-3775, which provides a nonresidential solar energy tax credit. This bill amends the repeal date from December 31, 2021, to December 31, 2024. This section allows for an income tax credit equal to 25 percent of the cost, including installation, of nonresidential solar energy property as long as the property is located within one of the following sites within South Carolina:

- the Environmental Protection Agency’s (EPA) National Priority List,
- the EPA’s National Priority List Equivalent Sites,
- a list of related removal actions as certified by DHEC,
- land that is subject to a Voluntary Cleanup Contract with DHEC as of December 31, 2017,
- land that is subject to corrective action under the Federal Resource Conservation and Recovery Act of 1976, or
- land that is owned by the Pinewood Site Custodial Trust.

The credit is earned in the tax year that the solar energy property is placed-in-service and must be taken in five equal annual installments. The credit must be claimed within three years of the year it was earned. Unused credits may be carried forward for five years from the year the credit was able to be taken. Further, if a taxpayer is a partnership or a limited liability company taxed as a partnership, the credit and credit carry forward may be passed through and allocated to the partners or members as long as the placed-in-service date is after 2019.

This section increases the credit limit for each installation of solar energy property placed-in-service from $2,500,000 to $5,000,000. The credit is allowed on a first-come, first-served basis, and the total amount of credits may not exceed $2,500,000 for all taxpayers in a taxable year. If a credit is earned and any portion taken pursuant to Section 12-6-3775 before tax year 2022, then the individual is beholden to Section 12-6-3775 as it existed on December 31, 2021. Without the extension of the repeal date from December 31, 2021, to December 31, 2024, all credits would effectively be claimed by tax year 2025.

This analysis assumes taxpayers claim the first annual installment of the credit in the year it is earned and then every consecutive year until the total five annual installments are fully utilized. Based on discussions with DOR, income tax data attributed to the Solar Energy Property Credit reported on form TC-58 is inaccurate due to misreporting by individuals claiming the Solar Energy Credit, which should be reported on form TC-38. Based upon information from DOR, only one taxpayer is currently expected to apply for the credit in tax year 2022 if reinstated. However, others may apply for the credit if it is reestablished. As such, this analysis assumes taxpayers will claim the full $2,500,000 aggregate credit limit per year in FY 2022-23 through FY 2028-29, at which time all credits are assumed to be effectively claimed. This results in a total decrease in General Fund income tax revenue of up to $17,500,000 from FY 2022-23 to FY

2028-29. Taxpayers are allowed to carry forward unused credits for five taxable years from the year the credit was able to be taken, which may extend the timing of the impact.

Section 12-36-2630(2)
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 forecasts for FY 2021-22 and FY 2022-23.

Total Accommodations Tax Revenue

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 accommodations.[1] This legislation would increase this number to 6.3 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 entities.[2] 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.

[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.

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 two 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.

<u>Section 12-36-2110(A)</u>
This bill exempts boat motors from the 6 percent sales tax and subjects them to the maximum sales tax. Currently, a boat sold with a permanently attached motor is taxed at 5 percent of the purchase price of the boat and motor or $500, whichever is less. This amendment would also exempt non-permanently attached motors, also known as outboard motors. Based on data provided by the Department of Natural Resources, an average of 7,479 boat motors are purchased from a permitted marine dealer (PMD) and 2,355 from nonretailers per year in South Carolina. This analysis separates the data into two categories to more accurately account for the revenue impact: those motors with a sales price of less than $10,000 and those with a price equal to or greater than $10,000. This yields the following descriptive statistics:

Boat Motor Sales Data

Statistic	Boat Motors Purchased from PMD	Boat Motors Purchased from Nonretailers
Number of boat motors with a sale price less than $10,000	7,448	2,289
Average cost per motor sold if sale price less than $10,000	$2,812	$1,215
Number of boat motors with a sale price equal to or greater than $10,000	31	66
Average cost per motor sold if sale price equal to or greater than $10,000	$37,294	$15,341

These motors are currently taxed at the 6 percent sales tax rate, with 4 percent remitted to the General Fund, 1 percent to the EIA Fund, and 1 percent to the HEX Fund. Multiplying the average number of boats purchased per year by the average sales price, accounting for prices in excess of $10,000 and type of seller, and applying the current 6 percent sales tax rate yields the following:

Revenue Impact from Subjecting Watercraft Motors to the Maximum Sales Tax

Fund	Watercraft Motors		
	Current Sales Tax	Anticipated Sales Tax ($500 maximum)	Difference
General Fund (4%)	$1,035,601	$978,155	($57,446)
EIA Fund (1%)	$258,900	$237,276	($21,624)
HEX Fund (1%)	$258,900	$0	($258,900)
IMF	$0	$19,367	$19,367
Total	$1,553,401	$1,234,798	($318,603)

This section would limit sales tax on watercraft motors to $500 or 5 percent of the purchase price of the motor, whichever is less. For the sale of a watercraft motor to be limited by the $500 maximum tax, the purchase price must be greater than $10,000. As shown in Table 4, the majority of motors would be subject to the 5 percent tax as the average cost of a watercraft motor sold by both PMDs and nonretailers is less than $10,000. However, an estimated 97 total motors would be limited to the $500 maximum sales tax per year as their price is greater than $10,000. Pursuant to Section 12-36-2110(A)(4), revenue generated from maximum sales tax items in excess of $300 is credited to the IMF. Furthermore, items subject to the maximum sales tax are exempt from the 1 percent sales tax remitted to the HEX Fund.

Therefore, by subjecting watercraft motors to the maximum sales tax, this section would reduce General Fund revenue by an estimated $57,446, EIA Fund revenue by $21,627, and HEX Fund revenue by $258,900, and increase IMF revenue by $19,367 beginning in FY 2022-23. This would result in a total net revenue decrease of $318,603 beginning in FY 2022-23 from subjecting watercraft motors to the maximum sales tax.

Sections 12-6-3710 and 12-6-3720

These sections create a tax credit for taxpayers that employ a formerly incarcerated individual or a veteran of the Armed Forces of the United States in an apprenticeship program that has been validated by the USDOL beginning in tax year 2022. The taxpayer is eligible for a credit for each eligible employee in the amount of $3,000 in year one, $2,500 in year two, and $1,000 in year three if the eligible employee continues to meet the requirements. The credit may be taken against individual income tax, corporate income or license taxes, bank tax, savings and loan association tax, or insurance premium taxes. The credit amount may not exceed the taxpayer's liability and may not be carried forward. The credits are allowed for any qualifying individual employed in the registered apprenticeship program after the enactment of the bill and before 2027. Any apprentice employed in 2026 would be eligible for a tax credit after twelve months of employment, at which time the credits would end.

Please note, Apprenticeship Carolina noted that due to COVID-19, many programs were extended or suspended. However, data are unavailable to determine how this has affected the number of participants. Therefore, our estimates assume that programs return to a normal level in 2022 and are based upon federal fiscal year 2019-20 published figures. Further, the USDOL is currently reviewing and revising data on apprenticeship programs. Our estimates are based upon the latest published information from the USDOL, detailed below, but may be impacted if the number of apprentices differs significantly from recent years after revisions.

Apprenticeship Statistics for South Carolina

Federal Fiscal Year	Active Apprentices	New Apprentices	Completers	Active Programs	New Programs
2015	5,367	2,383	736	524	97
2016	5,297	2,004	611	569	63
2017	17,609	12,012	1,095	964	137
2018	20,763	7,042	2,158	1,054	148
2019	22,186	7,642	2,690	968	60
2020	20,715	5,987	2,079	1,183	93
Projected 2021	23,482	6,890	2,309	1,068	100
Projected 2022	23,482	6,890	2,309	1,068	108

Data Source: United States Department of Labor, Federal Fiscal Year reports; retrieved February 15, 2022
https://www.dol.gov/agencies/eta/apprenticeship/about/statistics/2020
Projections by S.C. Revenue and Fiscal Affairs

Based on the data shown above and preliminary data provided by the USDOL for 2021, we anticipate that there will be approximately 23,482 active apprentices in South Carolina in 2022. Under this amendment, existing apprentices would not qualify for tax credits. Only the newly added apprentices each year would be eligible for tax credits. An average of approximately 6,890 new apprentices were added in South Carolina per year over the last three reported years through 2020. Using historical data reported through 2021, 50.1 percent of all apprentices were in a non-government apprenticeship or about 3,454 new apprentices per year.

Data reported by the USDOL in 2021 indicate that approximately 42.8 percent of apprenticeships are for one year, 24.7 percent are for two years, and the remaining 32.5 percent are for three or more years. We used these percentages to estimate the number of apprentices that will qualify for the credit by year.

The table below provides estimates of the number of apprentices we anticipate will qualify for the tax credits over a 12-month period.

Estimate of Apprentices Eligible for Tax Credits

	Estimated New Apprentices Per Year
Total Apprentices	6,890
Estimated Apprentices Employed by a Non-government Entity	3,454
Percentage of Formerly Incarcerated [1]	5.1%
Estimated Formerly Incarcerated Apprentices	176
Percentage of Veterans [2]	10.77%
Estimated Veteran Apprentices	372
Total Estimated Eligible Apprentices	548

[1]Source: U.S. Department of Justice, Office of Justice Programs, Bureau of Justice Statistics Special Report, Lifetime Likelihood of Going to State of Federal Prison, March 1997

[2]Source: US Department of Labor, Employment and Training Administration, Registered Apprenticeship Sponsor Information Database (RAPIDS); through FY 2022 Q1; analysis by S.C. Revenue and Fiscal Affairs of apprentices reporting veteran status in a non-government apprenticeship

To further account for the timing, the impact is estimated by fiscal year based upon the new apprentices expected to qualify in a year and assuming that the hires are evenly distributed throughout the year. Because the apprentice must be hired after the enactment of the bill and the credit is earned in the year in which the apprentice completes twelve months of employment, the impact would be first applicable for apprentices hired after the bill passes in 2022. For the purposes of this analysis, we assume that the bill will be enacted July 1, 2022. Those apprentices newly hired from July 2022 to January 2023 would be eligible for the credit in tax year 2023, or FY 2023-24, following their first twelve-month employment. For the subsequent year, employees hired from February 2023 to January 2024 would be eligible in tax year 2024, or FY 2024-25.

Additionally, the tax credits only apply to apprenticeships before 2027. Therefore, beginning in FY 2027-28, the annual General Fund impact will decline as no new apprentices will be eligible for tax credits. Please note, these estimates do not anticipate a change in behavior or increase in the number of registered apprentices as a result of the tax credit, which would further increase the revenue impact. Under these assumptions, the estimated tax credits and resulting General Fund revenue impact are detailed below.

Estimate of Apprenticeship Tax Credit Impact by Fiscal Year

	New 2022 Employees (After Enactment)	New 2023	New 2024	New 2025	New 2026	Total by Year
Formerly Incarcerated	$264,000	$44,000	$0	$0	$0	$308,000
Veterans	$558,000	$93,000	$0	$0	$0	$651,000
FY 2023-24						**$959,000**
Formerly Incarcerated	$126,000	$505,000	$44,000	$0	$0	$675,000
Veterans	$266,000	$1,067,000	$93,000	$0	$0	$1,426,000
FY 2024-25						**$2,101,000**
Formerly Incarcerated	$29,000	$235,000	$505,000	$44,000	$0	$813,000
Veterans	$60,000	$498,000	$1,067,000	$93,000	$0	$1,718,000
FY 2025-26						**$2,531,000**
Formerly Incarcerated	$0	$52,000	$235,000	$505,000	$44,000	$836,000
Veterans	$0	$111,000	$498,000	$1,067,000	$93,000	$1,769,000
FY 2026-27						**$2,605,000**
Formerly Incarcerated	$0	$0	$52,000	$235,000	$505,000	$792,000
Veterans	$0	$0	$111,000	$498,000	$1,067,000	$1,676,000
FY 2027-28						**$2,468,000**
Formerly Incarcerated	$0	$0	$0	$52,000	$235,000	$287,000
Veterans	$0	$0	$0	$111,000	$498,000	$609,000
FY 2028-29						**$896,000**
Formerly Incarcerated	$0	$0	$0	$0	$52,000	$52,000
Veterans	$0	$0	$0	$0	$111,000	$111,000
FY 2029-30						**$163,000**

Assumes even distribution of hires by month; actual timing of the impact may vary depending on hiring patterns.

In summary, these sections will reduce General Fund individual income tax, corporate income or license taxes, bank tax, savings and loan association tax, and insurance premium taxes, or some combination thereof, by approximately $959,000 in in FY 2023-24, $2,101,000 in FY 2024-25, $2,531,000 in FY 2025-26, $2,605,000 in FY 2026-27, $2,468,000 in FY 2027-28, $896,000 in FY 2028-29, and $163,000 in FY 2029-30. These estimates are based upon limited data and may be impacted if the number of active apprentices differs significantly from recent years.

Local Expenditure
N/A

Local Revenue
Section 12-36-2110(A)
This section limits the sales tax on watercraft motors to the maximum sales tax of $500 or 5 percent, whichever is less. Currently, watercraft motors are subject to the 6 percent sales tax and any local taxes imposed. Items subject to the maximum sales tax are not subject to local taxes. Local sales taxes in South Carolina average an additional 1.43 percent. Based upon the analysis outlined in Section 12-36-2110(A) in the State Revenue section, this bill would therefore reduce local sales taxes by an estimated $370,227 beginning in FY 2022-23 from the exemption of watercraft motors.

Amended by House Ways and Means on April 28, 2022
State Expenditure
Section 12-6-3775
The bill retroactively reinstates Section 12-6-3775, which provides a nonresidential solar energy tax credit. This bill amends the repeal date from December 31, 2021, to December 31, 2024, and increases the credit limit for each installation of solar energy property placed-in-service from $2,500,000 to $5,000,000. DOR indicates that any expenses related to the modification of tax forms from the reinstatement of the credit and increase in the credit limit can be administered with existing resources. Therefore, this bill will not have an expenditure impact on the agency.

Section 12-36-2630(2)
This section 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 section is not expected to impact expenditures for the agency.

Section 12-36-922
This section requires each accommodations tax return filed with multiple locations to provide the address and amount of net taxable sales for each location. DOR indicates that any expenses related to the modification of forms from this additional requirement can be administered with existing resources. Therefore, this section will not have an expenditure impact on the agency.

Sections 12-6-3710 and 12-6-3720

These sections provide an income tax credit for taxpayers that employ a formerly incarcerated individual or a veteran of the Armed Forces of the United States in an apprenticeship program. The bill specifies that DOR must administer the credit and shall consult with Commerce, Apprenticeship Carolina of the S.C. Technical College System, and any other agency or entity necessary to establish a process by which employers are aware of an individual's eligibility for the credits.

DOR and Commerce both indicated that the responsibilities will not affect their expenditures. These agencies indicate that they will be able to implement the new tax credit with existing staff and resources. Therefore, these sections will have no expenditure impact for DOR or Commerce.

Currently, Apprenticeship Carolina, a division of the S.C. Technical College System, assists employers with registering an apprenticeship with the USDOL. They currently anticipate that they can assist with these responsibilities with existing staff, but because the staff are grant funded, they indicated that they may require funding in future years depending on available grant funding.

State Revenue

Section 12-6-3775

The bill retroactively reinstates Section12-6-3775, which provides a nonresidential solar energy tax credit. This bill amends the repeal date from December 31, 2021, to December 31, 2024. This section allows for an income tax credit equal to 25 percent of the cost, including installation, of nonresidential solar energy property as long as the property is located within one of the following sites within South Carolina:

- the Environmental Protection Agency's (EPA) National Priority List,
- the EPA's National Priority List Equivalent Sites,
- a list of related removal actions as certified by DHEC,
- land that is subject to a Voluntary Cleanup Contract with DHEC as of December 31, 2017,
- land that is subject to corrective action under the Federal Resource Conservation and Recovery Act of 1976, or
- land that is owned by the Pinewood Site Custodial Trust.

The credit is earned in the tax year that the solar energy property is placed-in-service and must be taken in five equal annual installments. The credit must be claimed within three years of the year it was earned. Unused credits may be carried forward for five years from the year the credit was able to be taken. Further, if a taxpayer is a partnership or a limited liability company taxed as a partnership, the credit and credit carry forward may be passed through and allocated to the partners or members as long as the placed-in-service date is after 2019.

This section increases the credit limit for each installation of solar energy property placed-in-service from $2,500,000 to $5,000,000. The credit is allowed on a first-come, first-served basis, and the total amount of credits may not exceed $2,500,000 for all taxpayers in a taxable year. If a credit is earned and any portion taken pursuant to Section 12-6-3775 before tax year 2022, then the individual is beholden to Section 12-6-3775 as it existed on December 31, 2021. Without the extension of the repeal date from December 31, 2021, to December 31, 2024, all credits would effectively be claimed by tax year 2025.

This analysis assumes taxpayers claim the first annual installment of the credit in the year it is earned and then every consecutive year until the total five annual installments are fully utilized. Based on discussions with DOR, income tax data attributed to the Solar Energy Property Credit reported on form TC-58 is inaccurate due to misreporting by individuals claiming the Solar Energy Credit, which should be reported on form TC-38. Based upon information from DOR, only one taxpayer is currently expected to apply for the credit in tax year 2022 if reinstated. However, others may apply for the credit if it is reestablished. As such, this analysis assumes taxpayers will claim the full $2,500,000 aggregate credit limit per year in FY 2022-23 through FY 2028-29, at which time all credits are assumed to be effectively claimed. This results in a total decrease in General Fund income tax revenue of up to $17,500,000 from FY 2022-23 to FY 2028-29. Taxpayers are allowed to carry forward unused credits for five taxable years from the year the credit was able to be taken, which may extend the timing of the impact.

Section 12-36-2630(2)

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 forecasts for FY 2021-22 and FY 2022-23.

Total Accommodations Tax Revenue

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 accommodations.[3] This legislation would increase this number to 6.3 percent, meaning 3.9 percent of individuals would be newly exempt from paying 1 percent of the total 7 percent tax on accommodations.

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

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 entities.[4] 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 two 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.

<u>Section 12-36-2110(A)</u>
This bill exempts boat motors from the 6 percent sales tax and subjects them to the maximum sales tax. Currently, a boat sold with a permanently attached motor is taxed at 5 percent of the purchase price of the boat and motor or $500, whichever is less. This amendment would also exempt non-permanently attached motors, also known as outboard motors. Based on data provided by the Department of Natural Resources, an average of 7,479 boat motors are purchased from a permitted marine dealer (PMD) and 2,355 from nonretailers per year in South Carolina. This analysis separates the data into two categories to more accurately account for the revenue impact: those motors with a sales price of less than $10,000 and those with a price equal to or greater than $10,000. This yields the following descriptive statistics:

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

Boat Motor Sales Data

Statistic	Boat Motors Purchased from PMD	Boat Motors Purchased from Nonretailers
Number of boat motors with a sale price less than $10,000	7,448	2,289
Average cost per motor sold if sale price less than $10,000	$2,812	$1,215
Number of boat motors with a sale price equal to or greater than $10,000	31	66
Average cost per motor sold if sale price equal to or greater than $10,000	$37,294	$15,341

These motors are currently taxed at the 6 percent sales tax rate, with 4 percent remitted to the General Fund, 1 percent to the EIA Fund, and 1 percent to the HEX Fund. Multiplying the average number of boats purchased per year by the average sales price, accounting for prices in excess of $10,000 and type of seller, and applying the current 6 percent sales tax rate yields the following:

Revenue Impact from Subjecting Watercraft Motors to the Maximum Sales Tax

Fund	Watercraft Motors		
	Current Sales Tax	Anticipated Sales Tax ($500 maximum)	Difference
General Fund (4%)	$1,035,601	$978,155	($57,446)
EIA Fund (1%)	$258,900	$237,276	($21,624)
HEX Fund (1%)	$258,900	$0	($258,900)
IMF	$0	$19,367	$19,367
Total	$1,553,401	$1,234,798	($318,603)

This section would limit sales tax on watercraft motors to $500 or 5 percent of the purchase price of the motor, whichever is less. For the sale of a watercraft motor to be limited by the $500 maximum tax, the purchase price must be greater than $10,000. As shown in Table 4, the majority of motors would be subject to the 5 percent tax as the average cost of a watercraft motor sold by both PMDs and nonretailers is less than $10,000. However, an estimated 97 total motors would be limited to the $500 maximum sales tax per year as their price is greater than $10,000. Pursuant to Section 12-36-2110(A)(4), revenue generated from maximum sales tax items in excess of $300 is credited to the IMF. Furthermore, items subject to the maximum sales tax are exempt from the 1 percent sales tax remitted to the HEX Fund.

Therefore, by subjecting watercraft motors to the maximum sales tax, this section would reduce General Fund revenue by an estimated $57,446, EIA Fund revenue by $21,627, and HEX Fund revenue by $258,900, and increase IMF revenue by $19,367 beginning in FY 2022-23. This would result in a total net revenue decrease of $318,603 beginning in FY 2022-23 from subjecting watercraft motors to the maximum sales tax.

Sections 12-6-3710 and 12-6-3720

These sections create a tax credit for taxpayers that employ a formerly incarcerated individual or a veteran of the Armed Forces of the United States in an apprenticeship program that has been validated by the USDOL beginning in tax year 2022. The taxpayer is eligible for a credit for each eligible employee in the amount of $3,000 in year one, $2,500 in year two, and $1,000 in year three if the eligible employee continues to meet the requirements. The credit may be taken against individual income tax, corporate income or license taxes, bank tax, savings and loan association tax, or insurance premium taxes. The credit amount may not exceed the taxpayer's liability and may not be carried forward. The credits are allowed for any qualifying individual employed in the registered apprenticeship program after the enactment of the bill and before 2027. Any apprentice employed in 2026 would be eligible for a tax credit after twelve months of employment, at which time the credits would end.

Please note, Apprenticeship Carolina noted that due to COVID-19, many programs were extended or suspended. However, data are unavailable to determine how this has affected the number of participants. Therefore, our estimates assume that programs return to a normal level in 2022 and are based upon federal fiscal year 2019-20 published figures. Further, the USDOL is currently reviewing and revising data on apprenticeship programs. Our estimates are based upon the latest published information from the USDOL, detailed below, but may be impacted if the number of apprentices differs significantly from recent years after revisions.

Apprenticeship Statistics for South Carolina

Federal Fiscal Year	Active Apprentices	New Apprentices	Completers	Active Programs	New Programs
2015	5,367	2,383	736	524	97
2016	5,297	2,004	611	569	63
2017	17,609	12,012	1,095	964	137
2018	20,763	7,042	2,158	1,054	148
2019	22,186	7,642	2,690	968	60
2020	20,715	5,987	2,079	1,183	93
Projected 2021	23,482	6,890	2,309	1,068	100
Projected 2022	23,482	6,890	2,309	1,068	108

Data Source: United States Department of Labor, Federal Fiscal Year reports; retrieved February 15, 2022
https://www.dol.gov/agencies/eta/apprenticeship/about/statistics/2020
Projections by S.C. Revenue and Fiscal Affairs

Based on the data shown above and preliminary data provided by the USDOL for 2021, we anticipate that there will be approximately 23,482 active apprentices in South Carolina in 2022. Under this amendment, existing apprentices would not qualify for tax credits. Only the newly added apprentices each year would be eligible for tax credits. An average of approximately 6,890 new apprentices were added in South Carolina per year over the last three reported years through 2020. Using historical data reported through 2021, 50.1 percent of all apprentices were in a non-government apprenticeship or about 3,454 new apprentices per year.

Data reported by the USDOL in 2021 indicate that approximately 42.8 percent of apprenticeships are for one year, 24.7 percent are for two years, and the remaining 32.5 percent are for three or more years. We used these percentages to estimate the number of apprentices that will qualify for the credit by year.

The table below provides estimates of the number of apprentices we anticipate will qualify for the tax credits over a 12-month period.

Estimate of Apprentices Eligible for Tax Credits

	Estimated New Apprentices Per Year
Total Apprentices	6,890
Estimated Apprentices Employed by a Non-government Entity	3,454
Percentage of Formerly Incarcerated [1]	5.1%
Estimated Formerly Incarcerated Apprentices	176
Percentage of Veterans [2]	10.77%
Estimated Veteran Apprentices	372
Total Estimated Eligible Apprentices	548

[1]Source: U.S. Department of Justice, Office of Justice Programs, Bureau of Justice Statistics Special Report, Lifetime Likelihood of Going to State of Federal Prison, March 1997

[2]Source: US Department of Labor, Employment and Training Administration, Registered Apprenticeship Sponsor Information Database (RAPIDS); through FY 2022 Q1; analysis by S.C. Revenue and Fiscal Affairs of apprentices reporting veteran status in a non-government apprenticeship

To further account for the timing, the impact is estimated by fiscal year based upon the new apprentices expected to qualify in a year and assuming that the hires are evenly distributed throughout the year. Because the apprentice must be hired after the enactment of the bill and the credit is earned in the year in which the apprentice completes twelve months of employment, the impact would be first applicable for apprentices hired after the bill passes in 2022. For the purposes of this analysis, we assume that the bill will be enacted July 1, 2022. Those apprentices newly hired from July 2022 to January 2023 would be eligible for the credit in tax year 2023, or FY 2023-24, following their first twelve-month employment. For the subsequent year, employees hired from February 2023 to January 2024 would be eligible in tax year 2024, or FY 2024-25.

Additionally, the tax credits only apply to apprenticeships before 2027. Therefore, beginning in FY 2027-28, the annual General Fund impact will decline as no new apprentices will be eligible for tax credits. Please note, these estimates do not anticipate a change in behavior or increase in the number of registered apprentices as a result of the tax credit, which would further increase the revenue impact. Under these assumptions, the estimated tax credits and resulting General Fund revenue impact are detailed below.

Estimate of Apprenticeship Tax Credit Impact by Fiscal Year

	New 2022 Employees (After Enactment)	New 2023	New 2024	New 2025	New 2026	Total by Year
Formerly Incarcerated	$264,000	$44,000	$0	$0	$0	$308,000
Veterans	$558,000	$93,000	$0	$0	$0	$651,000
FY 2023-24						**$959,000**
Formerly Incarcerated	$126,000	$505,000	$44,000	$0	$0	$675,000
Veterans	$266,000	$1,067,000	$93,000	$0	$0	$1,426,000
FY 2024-25						**$2,101,000**
Formerly Incarcerated	$29,000	$235,000	$505,000	$44,000	$0	$813,000
Veterans	$60,000	$498,000	$1,067,000	$93,000	$0	$1,718,000
FY 2025-26						**$2,531,000**
Formerly Incarcerated	$0	$52,000	$235,000	$505,000	$44,000	$836,000
Veterans	$0	$111,000	$498,000	$1,067,000	$93,000	$1,769,000
FY 2026-27						**$2,605,000**
Formerly Incarcerated	$0	$0	$52,000	$235,000	$505,000	$792,000
Veterans	$0	$0	$111,000	$498,000	$1,067,000	$1,676,000
FY 2027-28						**$2,468,000**
Formerly Incarcerated	$0	$0	$0	$52,000	$235,000	$287,000
Veterans	$0	$0	$0	$111,000	$498,000	$609,000
FY 2028-29						**$896,000**
Formerly Incarcerated	$0	$0	$0	$0	$52,000	$52,000
Veterans	$0	$0	$0	$0	$111,000	$111,000
FY 2029-30						**$163,000**

Assumes even distribution of hires by month; actual timing of the impact may vary depending on hiring patterns.

In summary, these sections will reduce General Fund individual income tax, corporate income or license taxes, bank tax, savings and loan association tax, and insurance premium taxes, or some combination thereof, by approximately $959,000 in in FY 2023-24, $2,101,000 in FY 2024-25, $2,531,000 in FY 2025-26, $2,605,000 in FY 2026-27, $2,468,000 in FY 2027-28, $896,000 in FY 2028-29, and $163,000 in FY 2029-30. These estimates are based upon limited data and may be impacted if the number of active apprentices differs significantly from recent years.

Local Expenditure
N/A

Local Revenue
Section 12-36-2110(A)
This section limits the sales tax on watercraft motors to the maximum sales tax of $500 or 5 percent, whichever is less. Currently, watercraft motors are subject to the 6 percent sales tax and any local taxes imposed. Items subject to the maximum sales tax are not subject to local taxes. Local sales taxes in South Carolina average an additional 1.43 percent. Based upon the analysis outlined in Section 12-36-2110(A) in the State Revenue section, this bill would therefore reduce local sales taxes by an estimated $370,227 beginning in FY 2022-23 from the exemption of watercraft motors.

Introduced on January 6, 2022
State Expenditure
This bill reinstates §12-6-3775, which provides a nonresidential solar energy tax credit. This bill amends the repeal date from December 31, 2021, to December 31, 2024, and increases the credit limit for each installation of solar energy property placed-in-service from $2,500,000 to $5,000,000. DOR indicates that any expenses related to the modification of tax forms from the reinstatement of the credit and increase in the credit limit can be administered with existing resources. Therefore, this bill will not have an expenditure impact on the agency.

State Revenue
This bill reinstates §12-6-3775, which provides a nonresidential solar energy tax credit. This bill amends the repeal date from December 31, 2021 to December 31, 2024. This section allows for an income tax credit equal to 25 percent of the cost, including installation, of nonresidential solar energy property as long as the property is located within one of the following sites within South Carolina:

- the EPA’s National Priority List,
- the EPA’s National Priority List Equivalent Sites,
- a list of related removal actions as certified by DHEC,
- land that is subject to a Voluntary Cleanup Contract with DHEC as of December 31, 2017,
- land that is subject to corrective action under the Federal Resource Conservation and Recovery Act of 1976, or
- land that is owned by the Pinewood Site Custodial Trust.

The credit is earned in the tax year that the solar energy property is placed-in-service and must be taken in five equal annual installments. The credit must be claimed within three years of the year it was earned. Unused credits may be carried forward for five years from the year the credit was able to be taken. Further, if a taxpayer is a partnership or a limited liability company taxed as a partnership, the credit and credit carry forward may be passed through and allocated to the partners or members as long as the placed-in-service date is after 2019.

This bill increases the credit limit for each installation of solar energy property placed-in-service from $2,500,000 to $5,000,000. The credit is allowed on a first-come, first-served basis, and the total amount of credits may not exceed $2,500,000 for all taxpayers in a taxable year. If a credit is earned and any portion taken pursuant to §12-6-3775 before tax year 2022, then the individual is beholden to §12-6-3775 as it existed on December 31, 2021. Without the extension of the repeal date from December 31, 2021 to December 31, 2024, all credits would effectively be claimed by tax year 2025.

This analysis assumes taxpayers claim the first annual installment of the credit in the year it is earned and then every consecutive year until the total five annual installments are fully utilized. Based on discussions with DOR, income tax data attributed to the Solar Energy Property Credit reported on form TC-58 is inaccurate due to misreporting by individuals claiming the Solar Energy Credit, which should be reported on form TC-38. Based upon information from DOR, only one taxpayer is currently expected to apply for the credit in tax year 2022 if reinstated. However, others may apply for the credit if it is reestablished. As such, this analysis assumes taxpayers will claim the full $2,500,000 aggregate credit limit per year in FY 2022-23 through FY 2028-29, at which time all credits are assumed to be effectively claimed. This results in a total decrease in General Fund income tax revenue of up to $17,500,000 from FY 2022-23 to FY 2028-29. Taxpayers are allowed to carry forward unused credits for five taxable years from the year the credit was able to be taken, which may extend the timing of the impact.

Local Expenditure and Local Revenue
N/A

Frank A. Rainwater, Executive Director