



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. 3773	Introduced on January 16, 2025
Subject:	License Fee on Corporations	
Requestor:	House Ways and Means	
RFA Analyst(s):	Jolliff	
Impact Date:	March 31, 2025	

Fiscal Impact Summary

This bill provides a corporate license fee exemption for the first \$50,000,000 of capital stock and paid-in or capital surplus of a qualifying corporation whose corporate headquarters and principal place of business is in this state if the investment is from a qualifying venture capital, angel or accredited investor, or private investment firm. The exemption is first applicable in the tax year beginning after July 1, 2025.

This bill is not expected to impact expenditures for the Department of Revenue (DOR) as we anticipate the agency will administer the provisions of the bill with existing staff and resources based on responses for similar legislation in previous years.

The bill will reduce General Fund corporate license fee revenue by approximately \$869,000 in FY 2025-26 for one half of the annual estimate, and \$1,737,000 in FY 2026-27 and thereafter for the full tax year. Based upon the current forecast for FY 2025-26, the annual impact for a full year is less than 1 percent of total corporate license fee revenue.

Explanation of Fiscal Impact

Introduced on January 16, 2025

State Expenditure

This bill provides a corporate license fee exemption for the first \$50,000,000 of capital stock and paid-in or capital surplus of a qualifying corporation. The bill requires the corporation to obtain a certificate from the South Carolina Research Authority certifying that the excluded investments are from a qualifying entity that meets the definitions provided of a venture capital fund, angel or accredited investor, or a private investment firm. Further, the corporation must submit an annual report to DOR that contains the name of each qualifying entity, the date of the contribution, the manner in which the entity meets one of the qualifications, the amount of the contribution for each year attributable to each entity, and any other information that DOR may require. Based on previous responses for similar legislation, we anticipate that DOR will be able to administer the new exemption with existing staff and resources and that the bill will not impact expenditures.

State Revenue

This bill exempts the first \$50,000,000 of capital stock and paid-in capital surplus from the corporate license fee for companies with their principal place of business and headquarters in

South Carolina if the contribution is from a qualifying investment entity. Under current law, companies are assessed a corporate license fee of \$15 plus \$1 for each \$1,000 of capital stock and paid-in or capital surplus. The minimum fee is \$25.

In order to qualify for the corporate license fee exemption, the equity contribution must be from a qualifying entity defined as:

- A venture capital fund defined in 17 CFR § 275.203(l) 1,
- An angel or accredited investor as defined in 17 CFR § 230.501, and
- A private investment firm that does not solicit capital from investors, excluding another qualifying entity, or the general public and meets one of the exemptions outlined in the Investment Company Act of 1940.

The South Carolina Research Authority provided data from PitchBook, a financial data and software company, regarding the number of qualifying capital investments and the amount of capital invested in South Carolina companies each year from 2010 to 2023 and data for 2024 through October. The table below provides these figures and the estimated new corporate license fees generated annually by the investments.

Estimated Annual Qualifying Investments and Applicable Corporate License Fees

Calendar Year	Number of Companies	New Capital Invested Per Year - (\$ Millions)	Estimated Current Corporate License Fee for New Investments
2010	26	\$113.0	\$113,000
2011	20	\$46.6	\$47,000
2012	28	\$80.9	\$81,000
2013	32	\$95.9	\$96,000
2014	55	\$182.3	\$183,000
2015	53	\$137.1	\$138,000
2016	48	\$75.0	\$76,000
2017	51	\$164.4	\$165,000
2018	54	\$177.0	\$178,000
2019	28	\$169.3	\$170,000
2020	46	\$118.1	\$119,000
2021	91	\$340.0	\$341,000
2022	107	\$627.0	\$629,000
2023	68	\$137.0	\$138,000
2024 (est.)	54	\$154.8	\$156,000
Total	761	\$2,618.5	\$2,630,000
Annual Average	51	\$176.0	\$175,000

Source: PitchBook via S.C. Research Authority; 2024 estimated by Revenue and Fiscal Affairs based on data through October; Figures may not add to totals due to rounding

Based on historical figures, the amount of each investment ranges in value widely, but few reach \$50,000,000. As shown in the table above, new investments totaled approximately \$176 million annually for 51 companies on average. The annual additional fee revenue for these investments totals approximately \$175,000 per year. These data suggest that almost all the qualifying investments reported would be fully exempt from the corporate license fee under this bill.

The qualifying investments since 2010 include companies that are no longer in business. Estimates for the percentage of venture capital investments that are not successful vary widely depending on how success is measured. An article published by the Wall Street Journal in 2012 reported that the National Venture Capital Association estimates a failure range of 20 to 30 percent. Comparatively, on the high end, a Harvard Business School lecturer, Shikar Ghosh, estimates that 75 percent of U.S. venture capital investment start-ups do not return investors' capital. The article also states: "the common rule of thumb is that of ten start-ups, only three or four fail completely. Another three or four return the original investment, and one or two produce substantial returns."

Based upon this range, we would estimate that approximately 50 percent of total investments over the last 20 years are no longer active due to failures, buy-outs, or other events. If we assume that approximately \$176 million has been invested annually for 20 years by an average of 51 companies, original investments total approximately \$3.52 billion for 1,020 companies. If 50 percent of those investments are no longer a part of an active corporation's capital, approximately \$1.76 billion remains in active capital investments for 510 companies.

We assume that the full \$1.76 billion in investments will be exempt from the corporate license fee under this bill for a fee reduction of \$1,750,000. However, we expect that these 510 companies would still pay the \$25 minimum fee, for a total of approximately \$13,000. Under these assumptions, this bill would reduce General Fund corporate license fee revenue by a net of approximately \$1,737,000 annually.

The exemption is applicable for the tax year beginning after July 1, 2025. For most corporations, we anticipate that this exemption will first apply beginning with tax year 2026 and will largely affect filings in FY 2026-27, assuming most corporations have a January 1 tax year start date. However, some corporations may claim the exemption earlier if they have a different tax year. Under this assumption, the bill will reduce General Fund corporate license fee revenue by approximately \$869,000 in FY 2025-26 for one half of the annual estimate, and \$1,737,000 in FY 2026-27 and thereafter for the full tax year. Based upon the current forecast for FY 2025-26, the annual impact for a full year is less than 1 percent of total corporate license fee revenue.

Local Expenditure and Local Revenue

N/A



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