



# 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.*

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<b>Bill Number:</b>	H. 3876	Introduced on January 30, 2025
<b>Subject:</b>	Accommodations	
<b>Requestor:</b>	House Ways and Means	
<b>RFA Analyst(s):</b>	Daigle	
<b>Impact Date:</b>	April 28, 2025	

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### Fiscal Impact Summary

This bill specifies the process for collecting and remitting the statewide accommodations tax, local accommodations taxes, and the beach preservation fees for transactions involving accommodations intermediaries. This bill defines accommodations intermediary, accommodations provider, professional property management company, and merchant of record, among other definitions. Additionally, this bill requires every accommodations intermediary and accommodations provider to submit an annual confidential report, details the report requirements, and states that the Department of Revenue (DOR) will prescribe the form of the report. DOR must annually publish applicable tax rates, fees, and surtaxes imposed on accommodations by the state or any local governing body. Further, local governing bodies have sixty days before the imposition of a local accommodations tax, beach preservation fee, any other taxes or uniform service charges on the rental of accommodations, taxes on real and personal property, a business license tax, or surtax for parking spaces takes effect to notify DOR and the State Treasurer's Office (STO) through delivery of a certified copy of the ordinance adopted by the local governing body. Additionally, this bill shifts the responsibility to collect and administer local accommodations taxes, any other taxes or uniform service charges imposed on the rental of accommodations, and the beach preservation fee from local governments to DOR. This act takes effect upon approval by the Governor.

STO indicates that this bill will have no material expenditure impact on the department as the requirements of this bill can be met with existing resources.

DOR indicates that this bill will increase expenses for the department by at least approximately \$200,000 beginning in FY 2025-26 in order to collect and administer local accommodations taxes and beach preservation fees, including \$145,000 of recurring and \$55,000 of non-recurring expenses. DOR reports that it will require approximately \$145,000 beginning in FY 2025-26 for salary and fringe to hire 2.0 FTE Tax Examiners. In addition, DOR indicates that this bill will increase non-recurring expenses by approximately \$55,000 in FY 2025-26 to undergo system changes and updates to facilitate the collection and administration of local accommodations taxes and beach preservation fees. DOR will request General Fund appropriations to fund the expenses due to this bill.

This bill may increase voluntary compliance in remitting statewide and local accommodations taxes and beach preservation fees collected by accommodations intermediaries. Based on

guidance and discussion with DOR, we believe that persons, firms, or corporations newly defined as accommodations intermediaries are currently required to collect and remit statewide and local accommodations taxes. This bill clarifies the process and requirements for collection and remittance of the taxes and fees. To the extent that the clarification of the process improves voluntary compliance in collecting and remitting the taxes by clearly outlining the responsibilities of each party, this bill could potentially increase General Fund, EIA, and local revenue or improve the timing of revenue remittance. However, the potential change is undetermined, as there are no data to estimate the amount of revenue that may be impacted.

Further, the bill removes the current provision that excludes an individual furnishing accommodations of less than six sleeping rooms on the same premises, which is the individual's place of abode, from the definition of "retailer" and "seller." Removing this exemption would mean that these people are retailers or sellers and must collect appropriate accommodations taxes. However, these individuals are excluded from collecting accommodations taxes under Section 12-36-920. As such, this change will have no impact on revenue.

Overall, this bill may result in an undetermined increase in General Fund, EIA, and local revenue or timing of the receipt of the revenue generated from the statewide and local accommodations taxes and beach preservation fees due to the clarification of responsibilities for accommodations intermediaries and merchants of record.

The Revenue and Fiscal Affairs Office (RFA) anticipates that this bill will have an undetermined impact on counties and municipalities. RFA contacted all counties, the Municipal Association of South Carolina (MASC) on behalf of municipalities, regarding the impact of this bill and received a response from Florence County, Colleton County, and MASC. Both counties indicate that this bill will result in no impact on their respective counties. However, MASC indicates that municipal governments that assess local accommodations taxes will be required to update local protocols and undergo training due to this bill, specifically related to the merchant of record designation defined by this bill. Although we did not receive responses that indicated cost savings, we anticipate that shifting the responsibility for collecting these taxes and fees from local governments to DOR may reduce local expenses. MASC also expressed concern that shifting the responsibility for collecting these taxes and fees to DOR may change the timing of local revenues depending on the process for how the funds are disbursed by DOR to local governments and that local governments have made significant investments in geocoded software that has improved collections, which may be impacted by the change in responsibility.

## **Explanation of Fiscal Impact**

### **Introduced on January 30, 2025**

#### **State Expenditure**

This bill specifies the process for collecting and remitting the statewide accommodations tax, local accommodations taxes, and beach preservation fees for transactions involving accommodations intermediaries. This bill requires accommodations intermediaries to collect and remit the statewide tax on accommodations, any other applicable accommodations taxes or fees, local accommodations taxes, and beach preservation fees, unless the accommodations provider

has contracted a professional property management company to manage or oversee rental of a property. If an accommodations provider has contracted or engaged with a professional property management company to manage or oversee rental of the property, then the professional property management company is the merchant of record for such transactions and is responsible for the collection and remittance of the aforementioned taxes and fees. This bill also defines accommodations intermediary, accommodations provider, professional property management company, and merchant of record, among other definitions.

In addition, this bill requires every accommodations intermediary and accommodations provider to submit an annual confidential report, specifies the report requirements, and states that DOR will prescribe the form of the report. This bill also states that DOR must annually publish applicable tax rates, fees, and surtaxes imposed on accommodations by the state or any local governing body, including those imposed pursuant to Chapter 1 of Title 6 and Chapter 7 of Title 5. Moreover, this bill states that local governing bodies have sixty days before the imposition of a local accommodations tax, beach preservation fee, any other taxes or uniform service charges on the rental of accommodations, taxes on real and personal property, a business license tax, or surtax for parking spaces takes effect to notify DOR and STO through delivery of a certified copy of the ordinance adopted by the local governing body. This bill also requires that local accommodations taxes, any other taxes or uniform service charges imposed on the rental of accommodations, and beach preservation fees must be collected and administered by DOR.

Currently, local governments are not required to notify DOR or STO prior to the imposition of a local accommodations tax, a beach preservation fee, real and personal property taxes, business license taxes, or parking surtaxes levied on business taxes through delivery of a certified copy of the ordinance adopted by the local governing body. Local accommodations taxes and beach preservation fees may currently be imposed by local governments in addition to the statewide sales and accommodations taxes and the local sales taxes administered by DOR. The local accommodations tax and the beach preservation fee are currently collected by the local government imposing the tax or fee.<sup>1</sup>

**Department of Revenue.** DOR indicates that this bill will increase expenses for the department by approximately \$200,000 beginning in FY 2025-26 in order to collect and administer local accommodations taxes and beach preservation fees, including \$145,000 of recurring and \$55,000 of non-recurring expenses. DOR reports that they will require approximately \$145,000 for salary and fringe to hire 2.0 FTE Tax Examiners to accomplish the new collection and administration requirements of this bill beginning in FY 2025-26. In addition, DOR indicates that this bill will also increase non-recurring expenses by approximately \$55,000 to undergo system changes and updates to facilitate the collection and administration of local accommodations taxes and beach preservation fees. Furthermore, this bill requires DOR to prescribe the form for the required annual report that must be submitted by accommodations intermediaries and accommodations providers, to receive tax or fee imposition notifications from local governments, and to publish and notify accommodations intermediaries of applicable tax rates, fees, and surcharges imposed

<sup>1</sup> South Carolina Department of Revenue, *Sales and Use Tax Manual*, November 2022, <https://dor.sc.gov/resources-site/lawandpolicy/Documents/Chapter%2011%20-%20Accommodations.pdf>

on accommodations by the state or any local governing body. DOR anticipates that the impact due to these additional responsibilities will be minimal and can be managed with existing staff and resources. Therefore, DOR will request approximately \$200,000 in General Fund appropriations to fund the expenses due to this bill in FY 2025-26.

**State Treasurer's Office.** STO indicates that this bill will have no material expenditure impact on the department due to the requirement for local governments to notify STO and DOR when implementing specific taxes and fees. STO anticipates that the requirements of this bill can be met with existing resources.

### **State Revenue**

This bill specifies the process for collecting and remitting the statewide accommodations tax, local accommodations taxes, and the beach preservation fees, based on whether a person is acting as a merchant of record when providing or facilitating accommodations to transients. This bill clarifies that accommodations intermediaries must collect and remit the statewide tax on accommodations, any other applicable accommodations taxes or fees, local accommodations taxes, and beach preservation fees, unless the accommodations provider has contracted a professional property management company to manage or oversee rental of a property. Further, this bill defines accommodations intermediary, accommodations provider, professional property management company, and merchant of record, among other definitions. This bill also removes the provision exempting an individual who furnishes accommodations of less than six sleeping rooms on the same premises, which is the individual's place of abode, from the definition of a "retailer" and "seller."

Currently, a 7 percent statewide sales tax is imposed upon the gross proceeds from the rentals or charges for sleeping accommodations furnished at any place in which rooms, lodgings, or sleeping accommodations of any kind are furnished. The 7 percent tax on accommodations is distributed as 4 percent to the General Fund, 1 percent to the EIA, and 2 percent to the municipality or county in which the tax was collected. The person currently liable for the tax is the person in the business of furnishing the accommodations, whether such person is the owner, a real estate agent, listing service, broker, online travel company, or similar entity handling the accommodations. The person liable for the sales tax on accommodations must obtain a retail license and remit the tax to DOR on a monthly basis, with some exceptions based on the duration and frequency of accommodations furnished.<sup>2</sup>

This bill may increase voluntary compliance in remitting the statewide accommodations tax by clearly delineating the responsibilities of accommodations intermediaries and establishing that the merchant of record is required to collect and remit this revenue. Based on guidance and discussion with DOR, we believe that persons, firms, or corporations newly defined as accommodations intermediaries are currently required to collect and remit the statewide accommodations tax. Therefore, this bill clarifies existing collection liabilities and specifies a framework for collection and remittance dependent on the merchant of record designation. Thus,

<sup>2</sup> South Carolina Department of Revenue, *Sales and Use Tax Manual*, November 2022, <https://dor.sc.gov/resources-site/lawandpolicy/Documents/Chapter%2011%20-%20Accommodations.pdf>

this bill could potentially increase General Fund and EIA revenue or change the timing of revenue collections to the extent that the clarification of collection and remittance liabilities may improve voluntary compliance in accommodation tax collections. However, the potential change is undetermined as there are no data to determine the revenue that may be impacted. In addition, this bill changes the definition of retailer and seller to include individuals who furnish accommodations of less than six sleeping rooms on the same premises, which is the individual's place of abode. However, such individuals are exempt from the tax on accommodations pursuant to Section 12-36-920. Therefore, this change is not expected to impact revenue.

Overall, this bill may result in an undetermined increase in General Fund and EIA revenue generated from the statewide accommodations tax if voluntary compliance increases or may change the timing of collections due to the clarification of responsibilities for accommodations intermediaries.

### **Local Expenditure**

This bill shifts the responsibility for collecting local accommodations taxes and beach preservation fees from local governments to DOR. The bill also states that local governing bodies have sixty days before the imposition of either a local accommodations tax or beach preservation fee takes effect to notify DOR and STO through delivery of a certified copy of the ordinance adopted by the local governing body. RFA contacted all counties and MASC regarding the expenditure impact of this bill and received a response from Florence County, Colleton County, and MASC. Both Florence and Colleton indicate that this bill will result in no impact on their respective counties. However, MASC indicates that municipal governments that assess local accommodations taxes will be required to update local protocols and provide training due to this bill, specifically related to merchants of record as defined by this bill. Additionally, although we did not receive responses that indicated cost savings, we anticipate that shifting the responsibility for collecting these taxes and fees from local governments to DOR may reduce local expenses. Therefore, RFA anticipates that this bill will result in an undetermined impact on local expenditures.

### **Local Revenue**

In addition to the 2 percent statewide accommodations tax that is distributed to counties and municipalities, local governments may also currently impose a local accommodations tax of up to 3 percent, and some municipalities may impose a beach preservation fee of up to 1 percent.<sup>3</sup>

This bill may result in an undetermined increase in local revenue generated from the statewide accommodations tax, local accommodations taxes, and beach preservation fees collected and remitted by accommodations intermediaries or improve the timing of collections, to the extent

<sup>3</sup> South Carolina Department of Revenue, *Sales and Use Tax Manual*, November 2022, <https://dor.sc.gov/resources-site/lawandpolicy/Documents/Chapter%2011%20-%20Accommodations.pdf>

that the clarification of collection and remittance liabilities in this bill may improve voluntary compliance in accommodation tax collections. Additionally, MASC also expressed concern that shifting the responsibility for collecting these taxes and fees to DOR may change the timing of local revenues depending on the process for how the funds are disbursed by DOR to local governments and that local governments have made significant investments in geocoded software that has improved collections, which may be impacted by the change in responsibility.



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