South Carolina Revenue and Fiscal Affairs Office
Statement of Estimated Fiscal Impact

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Bill Number:	H. 3907 Introduced on February 6, 2025
Subject:	Honor our First Responders Act
Requestor:	House Ways and Means
RFA Analyst(s):	Jolliff, Miller, Tipton, and Welsh
Impact Date:	April 7, 2025

Fiscal Impact Summary

This bill establishes the Honor Our First Responders Act in Section 1. Section 2 of the bill requires an individual or group health plan that provides coverage for spouses or dependent children of a qualified first responder to provide coverage and pay the full premium for twenty-four months if the first responder's death was a natural and proximate result of an injury by external accident or violence incurred as a result of his employment. Section 3 provides that the Governor may order flags on buildings be flown at half-mast in tribute to a deceased emergency medical technician (EMT) who died in the line of duty. Sections 4 and 5 provide an income tax deduction for military retirement income and qualified retirement income for first responders. Section 6 expands the owner-occupied tax exemption for surviving spouses to the surviving spouse of a qualifying EMT. Section 7 expands the tuition exemption at state-supported colleges, universities, and vocational or technical schools for children of EMTs who are totally disabled or killed in the line of duty.

This bill will have no expenditure impact on the Public Employee Benefit Authority (PEBA). The agency anticipates this bill will require coverage for the surviving dependents for about one PEBA health plan subscriber per year. PEBA has enrolled three "killed in the line of duty" first responder subscribers since 2022. This bill changes the current practice of extending one year of benefits to a member's surviving dependents to two years. PEBA anticipates this additional year of coverage will amount to a recurring annual expenditure of about $1,912. PEBA anticipates managing provisions of this bill with existing appropriations.

This bill will have no expenditure impact on the Department of Insurance (DOI) as it anticipates any additional responsibilities can be managed within existing appropriations.

The Department of Revenue (DOR) will administer the retirement income tax exemption for first responders and owner-occupied property tax exemption for surviving spouses of EMTs with existing staff and resources. Therefore, the bill will not impact expenditures for the agency.

This bill is not expected to have a material impact on insurance premium tax revenue. Private individual or group health plans may experience an increase in expenses for the insurance premiums that must be covered for twenty-four months for a first responder who is killed in the line of duty. However, given the limited anticipated number of occurrences, and since many of the deceased are likely to be covered through PEBA, the impact on private insurance and insurance premium taxes is likely to be minimal.

The bill will decrease General Fund individual income tax revenue by $10,947,000 beginning in FY 2025-26 for the qualified retirement exemption for first responders. All military retirement is currently deductible under Section 12-6-1171, and there is no additional impact for military retirement. Notably, the bill includes EMTs in first responders but also requires that the first responder be eligible for South Carolina Police Officers Retirement System (PORS) or employed in a position that would qualify if the State of South Carolina was the employer. As EMTs are not eligible for PORS, these individuals would not be eligible for the qualified retirement income deduction.

This bill is expected to have a minimal impact on tuition revenue for state institutions of higher learning due to the addition of EMTs to the first responders whose children are eligible to receive up to four years of free undergraduate tuition if the first responder parent is killed or becomes totally disabled in the line of duty. Based on responses from the University of South Carolina (USC), Clemson University, the Medical University of South Carolina (MUSC), Coastal Carolina University (CCU), Lander University, Winthrop University, South Carolina State University (SCSU), and Francis Marion University (FMU), approximately 7 students on average were enrolled at each institution under the current tuition exemption over the last three fiscal years. However, any reduction in tuition revenue due to the addition of EMTs to the first responder tuition exemption will be managed under normal operations for the institution.

Revenue and Fiscal Affairs (RFA) contacted all counties and the Municipal Association of South Carolina (MASC) to determine the local fiscal impact of this bill. MASC and Florence County provided responses. Based on the responses received, this bill may have a minimal local expenditure impact due to the potential increase in health insurance costs.

This bill will decrease property tax revenue statewide by up to $2,469 beginning in tax year 2025 due to the newly qualified owner-occupied property tax exemption the surviving spouse of a qualifying EMT.

Explanation of Fiscal Impact

Introduced on February 6, 2025
State Expenditure
This bill establishes the Honor Our First Responders Act in Section 1. Section 2 of the bill requires an individual or group health plan that provides coverage for spouses or dependent children of a qualified first responder to provide coverage and pay the full premium for twenty-four months if the first responder's death was a natural and proximate result of an injury by external accident or violence incurred a as result of his employment. Section 3 provides that the Governor may order flags on buildings be flown at half-mast in tribute to a deceased EMT who died in the line of duty. Sections 4 and 5 provide an income tax deduction for qualified retirement income for first responders. Section 6 expands the owner-occupied property tax exemption for surviving spouses to the surviving spouse of a qualifying EMT. Section 7 expands

the tuition exemption at state-supported colleges, universities, and vocational or technical schools for children of EMTs who are totally disabled or killed in the line of duty.

Public Employee Benefit Authority. PEBA anticipates this bill will require health insurance coverage of the surviving dependents for about one PEBA health plan subscriber per year. PEBA has enrolled three "killed in the line of duty" first responder subscribers since 2022. This bill changes the current practice of extending one year of benefits to a member's surviving dependents to two years. PEBA anticipates this additional year of coverage will amount to a recurring annual expenditure of about $1,912. PEBA anticipates managing provisions of this bill with existing appropriations.

Department of Insurance. This bill will have no expenditure impact on DOI to administer the changes to health insurance requirements as it anticipates any additional responsibilities can be managed within existing appropriations.

Department of Revenue. The bill provides a retirement income tax exemption for first responders and expands the owner-occupied property tax exemption for surviving spouses of EMTs. DOR will administer these provisions with existing staff and resources. Therefore, the bill will not impact expenditures for the agency.

State Revenue

This bill establishes the Honor Our First Responders Act in Section 1. Section 2 of the bill requires an individual or group health plan that provides coverage for spouses or dependent children of a qualified first responder to provide coverage and pay the full premium for twenty-four months if the first responder's death was a natural and proximate result of an injury by external accident or violence incurred a as result of his employment. Section 3 provides that the Governor may order flags on buildings be flown at half-mast in tribute to a deceased EMT who died in the line of duty. Sections 4 and 5 provide an income tax deduction for qualified retirement income for first responders. Section 6 expands the owner-occupied property tax exemption for surviving spouses to the surviving spouse of a qualifying EMT.

<u>Section 2</u>

Section 2 of the bill requires an individual or group health plan that provides coverage for spouses or dependent children of a qualified first responder to provide coverage and pay the full premium for twenty-four months if the first responder's death was a natural and proximate result of an injury by external accident or violence incurred as a result of his employment.

This bill is not expected to have a material impact on insurance premium tax revenue. Insurance premiums are taxed at 1.25 percent. Insurance premium tax revenue is distributed 2.25 percent to Other Funds and 97.75 percent to the General Fund. Private individual or group health plans may experience an increase in expenses for the insurance premiums that must be covered for twenty-four months for a first responder who is killed in the line of duty. As this bill may impact premiums, it may increase the General Fund and Other Funds due to an increase in premium tax revenue. However, given the limited anticipated number of occurrences, and since many of the deceased are likely to be covered through PEBA, the impact on premium taxes is likely to be minimal.

Sections 4 and 5

Sections 4 and 5 of the bill provide an income tax deduction for military retirement and qualified first responder retirement income. The bill also provides that the current deductions of $15,000 for any income for taxpayers age 65 and older and $3,000 of retirement income for taxpayers under age 65 must be reduced for any military or qualified first responder retirement income deducted from taxable income. All military retirement is currently deductible under Section 12-6-1171.

This analysis is based on data from the PORS. Membership in PORS includes police officers, peace officers, firefighters, coroners, magistrates, and probate judges. Police officers and firefighters must earn at least $2,000 per year and devote at least 1,600 hours per year to this work to qualify for PORS. This revenue estimate includes all members of PORS, because PEBA is unable to differentiate retirees by their previous occupations, which may include additional members beyond those that will qualify. In addition, this revenue estimate includes otherwise eligible retirement income of police officers, peace officers, and firefighters earned in other states and retirement income of South Carolina retirees who do not participate in PORS but qualify for this exemption. Notably, the bill includes EMTs as first responders but also requires that the first responder be eligible for PORS or employed in a position that would qualify if the State of South Carolina was the employer. As EMTs are not eligible for PORS, these individuals would not be eligible for the deduction.

Since current statutes allow various amounts of retirement income deductions by taxpayers depending on their age, we use PORS data to segregate these taxpayers into two categories: age 65 and older and under age 65. Currently, taxpayers age 65 and older may deduct income of up to $15,000 per year, while taxpayers under age 65 may deduct retirement income of up to $3,000 per year. Further, all military retirement can be deducted, and therefore, this impact only addresses the qualifying retirement for first responder service.

The latest available year of PORS data is for FY 2023-24. From these data, we estimate the number of retirees and their retirement benefits for tax year 2025, or FY 2025-26, by applying a growth rate of approximately 4.5 percent per year. This growth rate is based upon recent growth over the last 3 years. We estimate the number of additional retirees not covered by PORS by calculating the percentage of protective service providers in South Carolina for ages 18 to 60 from Census Bureau data and applying that percentage to the South Carolina population aged 60 and over. This adds approximately 10.7 percent more retirees and retirement benefits to the analysis above the number of retirees and retirement benefits reported by PORS.

PORS data are adjusted further for retirement benefits paid to disabled retirees because income from a total and permanent disability is deductible under current statutes in South Carolina. To account for this already exempt retirement income, we reduce the amount of estimated retirement benefits by 5.3 percent. This reduction is derived from PORS data indicating that approximately 13.3 percent of all retirement benefits in FY 2023-24 was disbursed to disabled retirees. Also, PORS' actuarial consultant estimates that 40 percent of disabled retirees would be classified as totally and permanently disabled. The product of 13.3 percent and 40 percent from these two estimates results in a 5.3 percent reduction in total retirement benefits.

The table below reports the revenue impact by retirees under age 65, age 65 and older, and in total. We expect that 10,760 protective service retirees under age 65 in FY 2025-26 will have $290,546,000 in retirement income. This represents approximately $27,000 in average annual retirement income per retiree. Current law allows these retirees to deduct up to $3,000 of retirement income, resulting in estimated benefits currently deducted of $32,280,000. We estimate that the remaining $258,266,000 in taxable retirement benefits at an average tax rate of 3.29 percent would generate $8,493,000 in individual income tax in FY 2025-26.

For eligible protective services retirees age 65 and older, we expect that 13,570 retirees in FY 2025-26 will have $287,017,000 in retirement income. This represents approximately $21,148 in average annual retirement income per retiree. Current law allows these retirees to deduct up to $15,000 of retirement income, resulting in estimated benefits currently deducted of $203,550,000. We estimate that the remaining $83,467,000 in taxable retirement benefits at an average tax rate of 2.94 percent would generate $2,454,000 in individual income tax in FY 2025-26.

Combining the revenue impacts of the proposed protective services retirement income deduction for both age groups results in an estimated reduction in General Fund individual income tax revenue of $10,947,000 in FY 2025-26.

Estimated First Responder Retirement Deduction FY 2025-26

	Estimated Number of Retirees	Estimated Annual Retirement Benefits	Estimated Average Retirement Benefit	Estimated Retirement Benefits Deducted Under Current Law	Estimated Remaining Retirement Income	Estimated Tax on Remaining Retirement Income
Under Age 65	10,760	$290,546,000	$27,000	$32,280,000	$258,266,000	$8,493,000
Age 65 and Over	13,570	$287,017,000	$21,148	$203,550,000	$83,467,000	$2,454,000
Total	24,330	$577,563,000	$48,148	$235,830,000	$341,733,000	$10,947,000

Section 7

Section 7 of the bill adds EMTs to the first responders in Section 59-111-110(1) whose children are eligible for free tuition at any state supported college or university or any state supported vocational or technical school if the first responder parent is killed or becomes totally disabled in the line of duty. Currently, first responders included in this section are regularly employed and volunteer firefighters, organized rescue squad members, members of the Civil Air Patrol, law enforcement officers, and corrections officers. Children of an eligible first responder are permitted to receive no more than four years of undergraduate free tuition.

Based on responses from USC, Clemson, MUSC, CCU, Lander, CofC, Winthrop, SCSU, and FMU, approximately 7 students on average received free tuition under the current tuition exemption at each institution over the last three fiscal years. This bill may increase the number of students eligible to receive free tuition, based on the estimated 2 EMT deaths per year (see the local revenue section), in addition to any EMTs who become totally disabled in the line of duty. Therefore, this bill may reduce tuition revenue for state supported colleges and universities as well as vocational or technical schools. However, any tuition revenue decrease is expected to be immaterial and will be managed under normal operations for the institution.

Local Expenditure
RFA contacted all counties and the Municipal Association of South Carolina (MASC) to determine the local fiscal impact of this bill. MASC and Florence County provided responses. Florence County does not identify any local expenditures due to this bill. MASC notes that there may be an increase in expenses for health insurance coverage due to Section 2 of the bill. Based on these responses, RFA anticipates this bill will have a minimal local expenditure impact.

Local Revenue
Section 6 adds the surviving spouse of an EMT who died in the line of duty as a qualified surviving spouse for purposes of the property tax exemption under Section 12-37-220(B)(1)(b). This exemption exempts the oner occupied property from all property taxes. Currently, owner occupied property is exempt from all school operating millage. Based on an average fair market value for owner-occupied property of $240,583 and a non-school operating millage of 180.70, the bill will decrease property tax revenue by approximately $1,739 for each newly qualified exempted property.

Additionally, analysis of occupational deaths related to emergency services estimated a rate 12.7 fatalities per 100,000 emergency medical services providers annually.[1] The Department of Public Health reported approximately 13,848 emergency medical technicians. Based on this rate and the above employment levels, we would estimate approximately 2 emergency medical services provider deaths per year.

Also, approximately 71 percent of homes in the state are owner-occupied.[2] This bill may result in 1 to 2 newly qualified property tax exempt owner-occupied properties annually and a total statewide property tax reduction of up to approximately $2,469 beginning in tax year 2025.

[1] Maguire, et. al., Annals of Emergency Medicine, *Occupational fatalities in emergency medical services: a hidden crisis*, Retrieved March 28, 2023, https://pubmed.ncbi.nlm.nih.gov/12447340/
[2] United States Census Quick Facts South Carolina, Retrieved March 23, 2025, https://www.census.gov/quickfacts/fact/table/SC/HSG445223#HSG445223

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