



# SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE

## STATEMENT OF ESTIMATED FISCAL IMPACT

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**Bill Number:** H. 5122 Amended by House Ways and Means Sales, Use and Income  
Tax Legislative Subcommittee on March 31, 2026  
**Subject:** Internet and Communications Service Providers Equipment  
**Requestor:** House Ways and Means  
**RFA Analyst(s):** Daigle  
**Impact Date:** April 13, 2026

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### Fiscal Impact Summary

This bill as amended exempts all supplies, technical equipment, machinery, and electricity sold to internet access and communications services providers for use in producing, broadcasting, or distributing internet access service, communication services, or any combination thereof from sales tax. The total state and local sales tax exemption in this bill is capped at \$10,000,000 each year. This bill requires the Department of Revenue (DOR) to receive refund claims from and distribute refunds to internet access providers and communications service providers.

This bill will result in a minimal expenditure impact for DOR to update forms, the department website, and perform system changes. DOR indicates that the changes can be administered within existing staff and appropriations.

Based upon the estimated sales tax that will be exempted, the Revenue and Fiscal Affairs Office (RFA) anticipates that refunds will reach \$10,000,000 per year. Therefore, this bill will decrease state sales tax revenue by approximately \$7,920,000 beginning in FY 2026-27. Of this amount, the General Fund will be reduced by \$5,280,000, the Education Improvement Act Fund (EIA) will be reduced by \$1,320,000, and the Homestead Exemption Fund (HEX) will be reduced by \$1,320,000. In addition, local sales tax revenue will be reduced by approximately \$2,080,000 beginning in FY 2026-27. The impact on each local jurisdiction will depend on the local option sales taxes in effect for the various entities. These amounts are based on the state sales tax rate and the average local sales tax rate statewide of 1.58 percent. If the local sales tax rates that are applicable to these sales vary, the distribution of the \$10,000,000 in refunds will change.

Further, the manufacturer designation in the proposed exemption is only applicable for Section 58-9-3100, and thus we do not anticipate this designation to result in additional manufacturer sales and use tax exemptions for communications services providers and internet services providers. However, DOR has not issued a final determination on the designation pursuant to this bill, and therefore it is unclear whether communications service providers and internet services providers would be eligible for additional existing exemptions based on their manufacturer designation, including certain computer equipment and construction materials.

## Explanation of Fiscal Impact

**Amended by House Ways and Means Sales, Use and Income Tax Legislative Subcommittee on March 31, 2026**

### **State Expenditure**

This bill would exempt all supplies, technical equipment, machinery, and electricity sold to internet access and communications services providers for use in producing, broadcasting, or distributing internet access service, communication services, or any combination thereof from sales tax. In addition, the bill states that for the purpose of the exemption, the services providers are deemed to be manufacturers.

The total state and local sales tax exemption in this bill is capped at \$10,000,000 per year. Internet access providers and communications service providers must apply to DOR for a refund of state and local sales and use taxes paid on exempt items in this bill no later than January thirty-first for the prior calendar year. If the total amount of refund claims exceeds \$10,000,000, DOR must issue pro-rata refunds such that the total amount of refund claims do not exceed \$10,000,000. Refunds must be paid no later than June first.

DOR anticipates that this bill will result in a minimal expenditure impact in order to update forms, the department website, and perform system changes. DOR indicates that the changes can be administered within existing staff and appropriations.

### **State Revenue**

This bill implements a new sales tax exemption for internet access and communications service providers. The total amount of state and local sales tax that may be refunded is capped at \$10,000,000 per year.

For information, RFA estimates that sales tax refunds to internet access and communications service providers will reach the maximum amount of \$10,000,000 beginning in FY 2026-27. In order to estimate whether the maximum refund amount would be reached, we reviewed experience from other states with similar exemptions and US Census Bureau data on expenditures in service industries to determine a potential range of the impact on state and local sales tax.<sup>1,2</sup> The specific items included in the exemption vary from other states, and we also considered this in our analysis. Based on a combination of these data sources and resources, we estimate that, if not capped, the same exemption would reduce total state and local sales tax revenue by approximately \$32,300,000 beginning in FY 2026-27. Therefore, we anticipate that refunds to internet access and communications service providers pursuant to this bill will reach the maximum sales tax refund amount of \$10,000,000 beginning in FY 2026-27.

Based on the state sales tax rate and the statewide average local sales tax rate, this bill will decrease state sales tax revenue by approximately \$7,920,000 beginning in FY 2026-27. Of this

<sup>1</sup> US Census Bureau, *Service Annual Survey Latest Data (NAICS-basis): 2022 Table 5: Estimated Selected Expenses for Employer Firms 2020-2022*, October 2, 2024, <https://www.census.gov/data/tables/2022/econ/services/sas-naics.html>

<sup>2</sup> We reviewed actual expenditures reported from a similar sales tax exemption in Tennessee, which were reported to the Tennessee Department of Revenue. We also reviewed analyses and data from Ohio, New York, and Indiana.

amount, the General Fund will be reduced by \$5,280,000, the EIA will be reduced by \$1,320,000, and the HEX will be reduced by \$1,320,000. These amounts may vary if the local sales tax rates that are applicable to these sales vary from the state average.

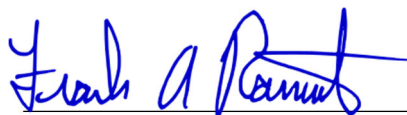
Further, the manufacturer designation in the proposed exemption is only applicable for Section 58-9-3100, and thus we do not anticipate this designation to result in additional manufacturer sales and use tax exemptions for communications services providers and internet services providers. However, DOR has not issued a final determination on the designation pursuant to this bill, and therefore it is unclear whether communications service providers and internet services providers would be eligible for additional existing exemptions based on their manufacturer designation, including certain computer equipment and construction materials.

### **Local Expenditure**

N/A

### **Local Revenue**

This bill will reduce local sales and use tax revenue due to the sales tax exemption for internet access and communications services providers. Based upon the analysis included under the State Revenue section and applying an average local tax rate of 1.58 percent to the estimated total gross eligible sales, local sales tax revenue will be reduced by approximately \$2,080,000 beginning in FY 2026-27. However, this amount may vary if the local sales tax rates that are applicable to these sales vary. Further, the impact on each local jurisdiction will depend on the local option sales taxes in effect for the various entities.



Frank A. Rainwater, Executive Director