

Statement of Estimated State Revenue Impact

Date: April 6, 2011

Bill Number: S.B. 709

Authors: Rose and Ford

Committee Requesting Impact: Senate Finance Committee

Bill Summary

A bill to amend the Code of Laws of South Carolina, 1976, by adding Section 2-1-270 so as to create the Exemptions Repeal Committee, a Joint Committee of the Senate and the House of Representatives, to require the Office of Economic Research to divide the sales tax exemptions into five groups and randomly select an order for the repeal of one group a year until all groups are repealed, to provide that the Exemptions Review Committee shall hold hearings on the exemptions and may amend the contents of sales tax exemption groups and the order for repeal, to provide the procedure by which the General Assembly may enact the recommendations, and by adding Section 12-36-2121 so as to provide that if the General Assembly does not enact a law setting forth a schedule for the repeal of the sales tax exemption groups, the sales tax exemptions only apply to eighty percent of the gross proceeds of sales, and to reduce the percentage by twenty percent annually until the sales tax exemptions are repealed on July 1, 2016.

REVENUE IMPACT ^{1/}

If Section 1 is adopted, this section and the joint resolution to be offered by the Exemptions Repeal Committee and approved by both houses of the General Assembly would not become effective until July 1, 2013; this bill, therefore, is not expected to affect sales tax revenue in FY2011-12 and FY2012-13. This bill would increase sale tax revenue in FY2013-14 through FY2017-18 by an amount that is subject to public evaluation, approval by the Exemptions Repeal Committee, and both houses of the General Assembly. If Section 2 is adopted, this section would increase state sales tax revenue by an estimated \$453,994,348 in FY2012-13 and each fiscal year thereafter until the sales tax exemptions are repealed in FY2016-17. Of this amount, General Fund sales tax revenue would be increased by \$302,662,898, the Education Improvement Fund would be increased by \$75,665,725, and the Homestead Exemption Fund would be increased by \$75,665,725 in FY2012-13.

Explanation

Section 1. This bill would add Section 2-1-270 to create the Exemptions Repeal Committee as a joint committee of the Senate and House of Representatives. The bill instructs the Office of Economic Research within the Budget & Control Board to divide all sales tax exemptions contained in Section 12-36-2120 into five groups that have a similar revenue impact on the State. The Office of Economic Research would randomly select the order of which group of exemptions would be repealed with the first group of exemptions to be repealed effective July 1, 2013. Every July 1st thereafter, another group of exemptions is offered for repeal until all five groups of exemptions have been repealed. Once the groupings of the exemptions and the order for repeal of the exemptions has been determined and submitted to the Exemptions Repeal Committee, the chairman of the Senate Finance Committee, and the Chairman of the House Ways and Means Committee, the Exemptions Repeal Committee shall hold public hearings on the grouping of the exemptions and the order for repeal of the exemptions. After public evaluation, the Exemptions Repeal Committee would submit its recommendation on the exemptions groupings and order of repeal to the General Assembly by January 15, 2013. Upon approval of a joint resolution by the General Assembly, the provisions of the joint resolution would take effect July 1, 2013.

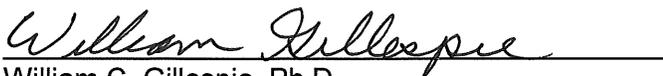
Based upon the latest comprehensive review of state sales tax exemptions by the Office of Economic

Statement of Estimated State Revenue Impact

Research, sales and use tax exemptions totaled an estimated \$2,524,226,944 in FY2008-09 pursuant to Section 12-36-2120. Based on the advice of the Department of Revenue, sales tax exemptions (1) and (2), exemptions prohibited by the US or SC constitutions, and tangible personal property sold to the federal government, would remain exempt under federal law even if the state repealed its exemption. Also, Section 12-36-2120(77), the sales tax holiday on personal energy efficient products meeting or exceeding ENERGY STAR® program requirements, has been declared unconstitutional by the SC Supreme Court. After adjusting for the above changes, an estimated \$2,269,971,738 of sales tax exemptions remains. Separating an estimated \$2,269,971,738 of sales tax exemptions into five equal groups yields an estimated \$453,994,348 of sales tax exemptions per group. Two sales tax exemptions are greater than the simple arithmetic average – prescription medicines and fuel used for motive power, i.e., gasoline, and would exceed the average annual amount of sales tax exemptions. All of the sales tax exemptions under review may be repealed or only some of the exemptions may be repealed depending upon the outcome of the public hearings and evaluation period. Because the joint resolution offered by the Exemptions Repeal Committee and approved by both houses of the General Assembly would not become effective until July 1, 2013, this section is not expected to affect sales tax revenue in FY2011-12 and FY2012-13. This section would increase sale tax revenue in FY2013-14 through FY2017-18 by an amount that is subject to public evaluation, approval by the Exemptions Repeal Committee, and both houses of the General Assembly. The average of the five possible outcomes is expected to be \$453,994,348.

Section 2. This section would add Section 12-36-2121 to allow the current sales tax exemptions provided in Section 12-36-2120 to apply to eighty percent of the gross proceeds of sales effective July 1, 2012 if the General Assembly does not enact a law that meets the requirements of Section 2-1-270 added in Section 1. Multiplying \$2,269,971,738 of sales tax exemptions contained in Section 12-36-2110 by twenty percent of the gross proceeds of sales that would no longer be subject to state sales taxation, yields an increase in state sales tax revenue of an estimated \$453,994,348 in FY2012-13. This section also provides for the gradual reduction in the sales tax exemptions that may apply to the gross proceeds of sales by twenty percent each year until the sales tax exemptions in Section 12-36-2120 are repealed effective July 1, 2016.

Section 3. This act takes effect upon approval by the Governor.



William C. Gillespie, Ph.D.
Chief Economist

Analyst: Martin

^{1/} This statement meets the requirement of Section 2-7-71 for a state revenue impact by the BEA, or Section 2-7-76 for a local revenue impact of Section 6-1-85(B) for an estimate of the shift in local property tax incidence by the Office of Economic Research.