

Statement of Estimated State Revenue Impact

Date: March 14, 2011

Bill Number: H.B. 3540

Author: Hart

Committee Requesting Impact: House Ways & Means Committee

Bill Summary

A bill to amend the Code of Laws of South Carolina, 1976, by adding Section 12-6-3760 so as to allow a state tax credit for employers hiring an unemployed individual receiving unemployment compensation benefits, to provide the amount of the credit, those taxes against which the credit is allowed, and the eligibility requirements for creditable employees, to provide for the administration of the credit, and to provide that the credit is allowed for eligible individuals hired after June 30, 2011, and before July 1, 2012, and extends for fifty months for each creditable employee.

REVENUE IMPACT ^{1/}

This bill would reduce General Fund individual income tax, corporate income tax, bank tax, savings and loan association taxes, corporate license tax, and insurance premium tax revenue by an estimated \$31,639,410 in FY2011-12 and by an estimated \$63,278,820 in FY2012-13.

Explanation

This bill would add Section 12-6-3760 to allow an employer that hires a "creditable employee" to claim a \$100 per month nonrefundable income tax credit for each unemployed creditable employee first hired by the employer after June 30, 2011 and before July 1, 2012. A "creditable employee" must also meet the remaining conditions – has filed a claim for unemployment compensation and is currently receiving weekly unemployment compensation benefits for at least four weeks (30 days); was unemployed immediately before becoming employed; has no return to work date or promise of future employment; remains employed by the employer for at least four consecutive work weeks (30 days) and consists of at least a 35-hour work week; and the employee must be a U.S. citizen or a lawfully present alien confirmed through the federal employment verification system known as "E-Verify".

According to the latest data from the Employment Security Commission, an average of 70,155 individuals received unemployment compensation checks during the first five weeks in 2011, of which an estimated 30,155 unemployed individuals would be hired and become creditable employees. Based upon data from the Bureau of Labor Statistics, it takes a typical unemployed person an average of 19.9 weeks (5 months) to find employment after a job separation. Since individuals are constantly added to and removed from the unemployment rolls, the number of initial claimants for unemployment insurance turns over 2.61 times each year (52 weeks divided by 19.9 weeks equals 2.61). Multiplying the additional 30,155 unemployed claimants by an unemployment turnover rate of 2.61 yields an estimated 78,705 potential creditable employees. Applying an annual nonrefundable income tax credit of \$1,200 per claimant yields an estimated \$94,446,000 in tax credits. Adjusting for one-third of

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employers that would not have enough taxable liability to claim a credit yields an estimated \$63,278,820 of income tax credits. Since one-half of the tax credits would be claimed from July 1, 2011 to December 31, 2011, General Fund income tax revenue would thereby be reduced by an estimated \$31,639,410 in FY2011-12. Any unused credits may be carried forward to succeeding years and the tax credit remains in effect for fifty consecutive months for each creditable employee. In the second year, a full year of tax credits yields a reduction of General Fund income tax revenue of \$63,278,820 in FY2012-13. This act takes effective upon approval by the Governor.



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^{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.