Statement of Estimated State Revenue Impact

Date: March 9, 2011

Bill Number: H.B. 3720

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Committee Requesting Impact: House Ways and Means Committee

Bill Summary
To amend Section 12-6-3360, as amended, Code of Laws of South Carolina, 1976, relating to definitions of the jobs tax credit, so as to revise the requirements of a qualifying servicerelated facility and a technology intensive facility; by adding Section 126-3411 so as to provide that a corporation establishing a national corporate headquarters or expanding or adding to an existing national corporate headquarters in this state, which in connection therewith adds at least fifty new full-time jobs shall be exempt from paying state corporate income taxes for a period of ten years; to amend Section 12-20-105, as amended, relating to tax credits for providing infrastructure, so as to increase the maximum aggregate credit to four hundred thousand dollars annually; to amend Sections 4-12-30, 4-29-67, and 12-44-90, all as amended, relating to fee in lieu of taxes, so as to provide that a county auditor or county assessor may request and obtain any financial books and records from a sponsor that support the sponsor's tax form or return to verify the calculations of the fee in lieu of taxes tax form or return; and to amend Section 12-36-2120, as amended, relating to sales tax exemptions, so as exempt computers, computer equipment, computer hardware and software purchases for a datacenter and electricity used by a datacenter.

REVENUE IMPACT
This bill, in total, would reduce General Fund revenues by $458,432 in FY2011-12 and by $777,000 in FY2012-13. Of this total amount, $358,432 would be a reduction in General Fund corporate income tax revenues in FY2011-12, $100,000 would be a reduction in General Fund corporate license taxes in FY2011-12, and $777,000 would be a reduction in General Fund income tax revenues in FY2012-13.

Explanation of Bill

Section 1: This section of the bill would amend Section 12-6-3360(M)(13) by lowering the required amount of new jobs created by a qualifying service-related facility in order for such a facility to receive job tax credits. This section would also amend Section 12-6-3360(M)(14) to include data processing, hosting and related services facilities (NAICS code 518210), computer facilities management services (NAICS code 541513), and other computer-related service facilities (NAICS code 541519) to the definition of "technology intensive facility", expanding the jobs tax credit to these sectors. Based upon data from the SC Employment Security Commission, these qualifying sectors (NAICS code 518210, 541513, and 541519) added an average of 222 jobs each year over the latest three fiscal years even without the credit. It is expected that this pace of new jobs creation in this sector will continue in FY2011-12, but with this bill, these companies will receive the credit. Multiplying 222 new jobs by an average job tax credit of $3,500 per new job created, it is estimated that this section of the bill would reduce ongoing collections of taxes by an estimated $777,000 in FY2012-13 as this credit is claimed one year after jobs are created.
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Section 2: This section of the bill would add Section 12-6-3411 that exempts corporations that establish national corporate headquarters or expand existing national corporate headquarters in South Carolina from the corporate income tax for a period of ten years if the headquarters adds at least fifty new full-time corporate headquarters related jobs. Under current law, corporations establishing headquarters in South Carolina and creating at least forty new headquarters-related jobs may claim an income tax credit equal to twenty percent of the cost of real property and an additional income tax credit equal to twenty percent of the cost of personal property. This section prohibits a national corporate headquarters from claiming both the twenty-percent income tax credits and the ten-year corporate income tax exemption. According to the South Carolina Department of Commerce, in the past four years, five national corporate headquarters have expanded existing national corporate headquarters in South Carolina and created at least fifty new full-time jobs. Based upon corporate headquarters income tax credit data from the Department of Revenue, it is estimated that one national corporation that already exists in South Carolina and is paying taxes will expand existing headquarters in South Carolina and qualify for the corporate income tax exemption in FY2011-12. This will reduce taxes currently being collected. Based upon state corporate income tax liability data provided by the Department of Revenue, it is estimated that this section of the bill will reduce General Fund corporate income tax revenue by $358,432 in FY2011-12.

Section 3: This section of the bill amends 12-20-105(E) that increases the maximum aggregate corporate license tax credit for companies that provide infrastructure improvements to eligible projects from three hundred thousand dollars to four hundred thousand dollars per tax year. This section of the bill is expected to reduce General fund corporate license tax revenues by $100,000 in FY2011-12.

Section 7: This section of the bill exempts the state sales and use tax on computers, computer equipment, computer hardware, computer software, and electricity used by a datacenter. Datacenters are defined in this section as facilities in which at least fifty million dollars are invested in real or personal property or both over a five-year period and that provide infrastructure for hosting or data processing services. The state has not attracted hosting or data processing datacenters of this caliber. In the absence of this proposed legislation, this trend is expected to continue. Since the revenue projection does not include these projects, these tax exemptions will have no impact on the projection. As a result, the revenue projection would not be impacted.

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1 This statement meets the requirement of Section 27-71 for a state revenue impact by the BEA, or Section 27-76 for a local revenue impact or Section 6-1-85(8) for an estimate of the shift in local property tax incidence by the Office of Economic Research.