

Statement of Estimated State Revenue Impact

Date: April 6, 2012

Bill Number: S.B. 1030

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Committee Requesting Impact: Senate Finance Committee

Bill Summary

A bill to amend Section 12-36-2120 of the 1976 code, relating to the Second Amendment Weekend tax exemption for certain firearms, to include an exemption for residential home protection products.

REVENUE IMPACT ^{1/}

This bill is expected to reduce state sales and use tax revenue by an estimated \$1,095,478 in FY2012-13. Of this amount, General Fund sales and use tax revenue would be reduced by \$730,318, the Education Improvement Act would be reduced by \$182,580, and the Homestead Exemption Fund would be reduced by \$182,580 in FY2012-13.

Explanation

This bill would amend Section 12-36-2120(76) by allowing a sales and use tax exemption on the sales of home security and surveillance systems, residential security lighting, residential security doors, door jamb reinforcement systems, residential locksmith grade door locks, residential window security hardware, residential glass security laminate, and dogs bred for security, commonly referred to as American Kennel Club working group breeds.

Currently, the Second Amendment Weekend only includes a sales and use tax exemption on the purchase of handguns, as defined pursuant to Section 16-23-10(1), rifles, and shotguns. This bill would amend the Second Amendment Weekend to the Second Amendment and Home Protection Weekend. The sales and use tax exemption would apply to sales made on qualified purchases during the forty-eight hour period beginning at 12:01 a.m. on the Friday after Thanksgiving and ending at twelve midnight the following Saturday.

A review of financial statements from various security system providers show that total revenue in this industry generally consists of sixty-five percent service revenue and thirty-five percent product sales. While some companies offer a free base equipment package with the purchase of a monthly security service contract, many customers choose to purchase additional equipment. The additional equipment would be subject to the two-day sales and use tax exemption. According to the U.S. Bureau of the Census, total spending on security systems amounts to \$175,834,000 each year. By multiplying \$175,834,000 by thirty-five percent this yields security product sales of an estimated \$61,541,900 annually, or by an estimated \$168,608 per day. We anticipate that the tax free weekend will affect purchases within a thirty day window in anticipation of the tax free weekend after Thanksgiving Day. Multiplying \$168,608 by the thirty day window and by a state sales and use tax rate of six percent yields a reduction in sales and use tax revenue of an estimated \$303,494 in FY2012-13.

Also, according to the U.S. Bureau of the Census, total spending on security windows and doors and other security devices amounts to \$74,700,000 each year, or by an estimated \$204,658 per day. Multiplying \$204,658 608 by the thirty day window and by a state sales and use tax rate of six

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percent yields a reduction in sales and use tax revenue of an estimated \$368,384 in FY2012-13. Collectively, this section of the bill is expected to reduce state sales and use tax revenue by an estimated \$671,878 in FY2012-13. Of this amount, General Fund sales and use tax revenue would be reduced by \$447,918, the Education Improvement Act would be reduced by \$111,980, and the Homestead Exemption Fund would be reduced by \$111,980 in FY2012-13.

This bill would also reenact Section 12-36-2120(76) to allow a sales and use tax exemption on the gross proceeds of the sales price of handguns, rifles, and shot guns for sales occurring from 12:01 a.m., the Friday after Thanksgiving through twelve midnight, the Saturday after Thanksgiving for the current fiscal year. The Second Amendment Weekend was first passed in Act 338 of 2008 which also included other tax provisions. Act 338 was later determined to violate the one subject rule of the South Carolina Constitution, Article III, Section 17 by the South Carolina Supreme Court on May 4, 2009. The S.C. Constitution states that "Every Act or resolution having the force of law shall relate to but one subject, and that shall be expressed in the title." Since the ruling, the Second Amendment Weekend has survived by being inserted into the annual state appropriation bill as a temporary proviso, although it is not currently in the FY2011-12 Appropriation Act. This bill would attempt to satisfy the one subject rule and place the Second Amendment Weekend in statutory law.

According to the latest data provided by the U.S. Department of the Treasury, Bureau of Alcohol, Tobacco, Firearms and Explosives, the Internal Revenue Service, and the Federal Bureau of Investigation regarding firearm sales and background checks, we estimate South Carolina residents will purchase an estimated 96,620 firearms annually producing an estimated \$85,895,611 in gross sales, or by an estimated \$235,330 per day. We anticipate that the tax free weekend will affect purchases within a thirty day window in anticipation of the tax free weekend after Thanksgiving Day. Multiplying \$235,330 by the thirty day window and by a state sales and use tax rate of six percent yields a reduction in sales and use tax revenue of an estimated \$423,600 in FY2012-13. Of this amount, General Fund sales and use tax revenue would be reduced by \$282,400, EIA funds would be reduced by \$70,600, and the Homestead Exemption Fund would be reduced by \$70,600 in FY2012-13. Overall, this bill is expected to reduce state sales and use tax revenue by an estimated \$1,095,478 in FY2012-13. Of this amount, General Fund sales and use tax revenue would be reduced by \$730,318, the Education Improvement Act would be reduced by \$182,580, and the Homestead Exemption Fund would be reduced by \$182,580 in FY2012-13.



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¹¹ 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.