~~Indicates Matter Stricken~~

Indicates New Matter

COMMITTEE REPORT

March 9, 2011

**S. 36**

Introduced by Senators McConnell, McGill and Setzler

S. Printed 3/9/11--S.

Read the first time January 11, 2011.

**THE COMMITTEE ON FINANCE**

To whom was referred a Bill (S. 36) to amend Act 99 of 2007, relating to the sales tax exemption for durable medical equipment and supplies, by repealing Sections 1B and 1C, which state that the sales tax, etc., respectfully

**REPORT:**

That they have duly and carefully considered the same and recommend that the same do pass with amendment:

Amend the bill, as and if amended, by striking all after the enacting words and inserting:

/SECTION 1. A. SECTION 1B of Act 99 of 2007 is amended to read:

B. (A) Notwithstanding the sales and use rates imposed pursuant to Chapter 36, Title 12 of the 1976 Code, the rate of tax imposed pursuant to that chapter on the gross proceeds of sales of items described in subsection A of this section is five and one‑half percent for such sales from July 1, 2007.

(B) Notwithstanding the sales and use rates imposed pursuant to Chapter 36, Title 12 of the 1976 Code, the rate of tax imposed pursuant to that chapter on the gross proceeds of sales of items described in subsection A of this section is three and one-half percent for such sales from July 1, 2011.

(C) Notwithstanding the sales and use rates imposed pursuant to Chapter 36, Title 12 of the 1976 Code, the rate of tax imposed pursuant to that chapter on the gross proceeds of sales of items described in subsection A of this section is one and three-quarters percent for such sales from July 1, 2012.

(D) Effective January 1, 2013, the sales tax exemption on the gross proceeds of sales of items described in subsection A is fully implemented and no sales and use tax may be imposed on the items described in subsection A.

SECTION 2. Act 99 of 2007 is amended by repealing SECTION 1C. which reads:

C. Beginning with the February 15, 2008, forecast by the Board of Economic Advisors of annual general fund revenue growth for the upcoming fiscal year, and annually thereafter, if the forecast of that growth equals at least five percent of the most recent estimate by the board of general fund revenues for the current fiscal year, then the applicable state sales and use tax rate imposed on items described in subsection A. of this section is reduced, effective the following July first, by one and one‑half percent in the first year and by one percent every year thereafter. That reduced rate applies until a subsequent reduction takes effect. If the February fifteenth forecast meets the requirement for a rate reduction, the board promptly shall certify this result in writing to the Department of Revenue. On the July first that the rate attains zero, the provisions of subsections B. and C. of this section no longer apply.

SECTION 3. This act takes effect upon approval of the Governor./

Renumber sections to conform.

Amend title to conform.

HUGH K. LEATHERMAN, SR. for Committee.

**STATEMENT OF ESTIMATED FISCAL IMPACT**

**REVENUE IMPACT 1/**

This bill, as amended, will reduce general fund sales tax revenue by $817,936 in FY2011-12.

**Explanation of amendment (March 2, 2011) – by the Senate Finance Sales and Income Taxation Subcommittee**

This amendment would reduce the sales and use tax on the sale of durable medical equipment (DME) paid directly by funds under the Medicare and Medicaid programs from five and one-half percent to three and one-half percent starting on July 1, 2011. The sales tax would be reduced from three and one-half percent to one percent effective July 1, 2012. DME paid directly by funds under the Medicare and Medicaid programs would then be fully exempt from the sales and use tax starting on July 1, 2013. This amendment would also repeal Section 1C which triggers the incremental reduction in the sales tax rate on DME based on general fund revenue growth. Based upon collections of the five and one-half percent sales tax on DME in FY09-10, we estimate that this amendment will reduce general fund sales tax revenue by $817,936 in FY2011-12.

## Explanation

This bill will amend Act 99 of 2007 by repealing Section 1B and 1C which states that the sales tax rate for durable medical equipment paid directly by funds under the Medicare and Medicaid programs is five and one-half percent subject to further reduction based on General Fund revenue growth. The repeal of these sections would fully exempt durable medical equipment paid directly by funds under the Medicare and Medicaid programs from sales tax. Currently, the sales tax rate for durable medical equipment is five and one-half percent. Further incremental reduction of this rate has not occurred because forecasted general fund revenues have not grown at the required five percent rate. Based upon collections of the five and one-half percent sales tax on durable medical equipment in FY09-10, we estimate that fully exempting the sales tax from sales of durable medical equipment is expected to reduce general fund sales tax revenue by $2,249,324 in FY2011-12.

*Approved By:*

William C. Gillespie

Board of Economic Advisors

**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 or Section 6-1-85(B) for an estimate of the shift in local property tax incidence by the Office of Economic Research.**

**A** **BILL**

TO AMEND ACT 99 OF 2007, RELATING TO THE SALES TAX EXEMPTION FOR DURABLE MEDICAL EQUIPMENT AND SUPPLIES, BY REPEALING SECTIONS 1B AND 1C, WHICH STATE THAT THE SALES TAX RATE ON DURABLE MEDICAL EQUIPMENT IS FIVE AND ONE-HALF PERCENT SUBJECT TO FURTHER REDUCTION BASED ON GENERAL FUND REVENUE GROWTH.

Be it enacted by the General Assembly of the State of South Carolina:

SECTION 1. Act 99 of 2007 is amended by repealing SECTION 1B and SECTION 1C which read:

B. Notwithstanding the sales and use rates imposed pursuant to Chapter 36, Title 12 of the 1976 Code, the rate of tax imposed pursuant to that chapter on the gross proceeds of sales of items described in subsection A of this section is five and one‑half percent for such sales from July 1, 2007.

C. Beginning with the February 15, 2008, forecast by the Board of Economic Advisors of annual general fund revenue growth for the upcoming fiscal year, and annually thereafter, if the forecast of that growth equals at least five percent of the most recent estimate by the board of general fund revenues for the current fiscal year, then the applicable state sales and use tax rate imposed on items described in subsection A. of this section is reduced, effective the following July first, by one and one‑half percent in the first year and by one percent every year thereafter. That reduced rate applies until a subsequent reduction takes effect. If the February fifteenth forecast meets the requirement for a rate reduction, the board promptly shall certify this result in writing to the Department of Revenue. On the July first that the rate attains zero, the provisions of subsections B. and C. of this section no longer apply.

SECTION 2. This act takes effect January 1, 2011.

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