



**SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE**  
**STATEMENT OF ESTIMATED FISCAL IMPACT**  
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Bill Number: H.3568 As amended by the Senate on May 26, 2015  
 Author: G.R. Smith  
 Requestor: House of Representatives  
 Date: May 28, 2015  
 Subject: Sales tax exemptions  
 RFA Analyst(s): Martin

**Estimate of Fiscal Impact**

	<b>FY 2015-16</b>	<b>FY 2016-17</b>
<b>State Expenditure</b>		
General Fund	N/A	N/A
Other and Federal	N/A	N/A
Full-Time Equivalent Position(s)	0.00	0.00
<b>State Revenue</b>		
General Fund	(\$812,206)	(\$1,624,412)
Other and Federal	(\$406,104)	(\$812,208)
<b>Local Expenditure</b>	N/A	N/A
<b>Local Revenue</b>	N/A	N/A

**Fiscal Impact Summary**

This bill, as further amended, would reduce sales and use tax revenue by an estimated \$1,218,310 in FY2015-16. Of this total, General Fund revenue would be reduced by \$812,206, the E.I.A. fund would be reduced by \$203,052, and the Homestead Exemption Fund would be reduced by \$203,052 in FY2015-16. In FY2016-17, and each fiscal year thereafter, sales and use tax revenue would be reduced by an estimated \$2,436,620 annually. Of this total, General Fund revenue would be reduced by \$1,624,412, the E.I.A. would be reduced by \$406,104, and the Homestead Exemption Fund would be reduced by \$406,104 annually.

**Explanation of Fiscal Impact**

**Explanation of Amendment (May 26, 2015) – By the Senate**

**State Expenditure**

Since this legislation makes no substantive changes to existing programs or resources, the Department of Revenue can administer the legislative changes with existing resources.

**State Revenue**

This amendment adds language from H.3062 to include a sales tax exemption for children's clothing sold to a private charitable organization exempt from federal and state income tax, except for private schools, for the sole purpose of distribution by that organization to needy children. This sales and use tax exemption is discussed in Section 3 of the revenue impact statement. The following is a section-by-section analysis of the amended bill.

**Section 1.** This section would amend Section 12-36-2120 allow a sales and use tax exemption for building materials purchased by a nonprofit tax exempt entity to build, rehabilitate, or repair a home for the benefit of an individual or family in need. This would include organizations such as Habitat for Humanity. This organization is organized and operated to build and sell single family houses to selected buyers to promote home ownership and build a sense of community. This is done through the assistance of thirty-four affiliates located throughout the state. The Board of Economic Advisors has been advised by Habitat for Humanity that their goal for 2016 is to complete 150 new single family homes statewide. At an estimated cost of materials of \$30,000 per home and applying a six percent sales tax rate, sales and use tax revenue would be reduced by an estimated \$270,000 annually.

Since the effective date of this bill is January 1, 2016, sales and use tax revenue would be reduced by one-half of a full fiscal year, or an estimated \$135,000 in FY2015-16. Of this total, General Fund revenue would be reduced by \$90,000, the E.I.A. would be reduced by \$22,500, and the Homestead Exemption Fund would be reduced by \$22,500 in FY2015-16. In FY2016-17, sales and use tax revenue would be reduced by an estimated \$270,000 annually. Of this total, General Fund revenue would be reduced by \$180,000, the E.I.A. would be reduced by \$45,000, and the Homestead Exemption Fund would be reduced by \$45,000 in FY2016-17, and each fiscal year thereafter.

**Section 2.** This section would amend Section 12-36-2120(52) to strike “owned by or leased to the federal government or commercial air carriers” for those types of air carriers that would be eligible for a sales and use tax exemption on parts and supplies used by businesses that repair or recondition aircraft. This change would allow a sales and use tax exemption on all parts and supplies used to repair or recondition aircraft for all types of aircraft. This amendment would now include private general aviation aircraft previously excluded from the exemption.

Based on information from the General Aviation Manufacturer’s Association and the Federal Aviation Administration, Washington, D.C., there are 2,855 general aviation aircraft registered and/or hangered in South Carolina. Multiplying 2,855 general aviation aircraft by an estimated \$4,400 annual maintenance expenditures and applying a six percent sales and use tax rate yields a reduction of sales and use tax revenue of an estimated \$753,720 annually.

Since the effective date of this bill is January 1, 2016, sales and use tax revenue would be reduced by one-half of a full fiscal year, or an estimated \$376,860 in FY2015-16. Of this total, General Fund revenue would be reduced by \$251,240, the E.I.A. would be reduced by \$62,810, and the Homestead Exemption Fund would be reduced by \$62,810 in FY2015-16. In FY2016-17, sales and use tax revenue would be reduced by an estimated \$753,720 annually. Of this total, General Fund revenue would be reduced by \$502,480, the E.I.A. would be reduced by \$125,620, and the Homestead Exemption Fund would be reduced by \$125,620 in FY2016-17, and each fiscal year thereafter.

**Section 3.** This section would add a sales and use tax exemption on the sale of children’s clothing sold to a private charitable organization exempt from federal and state income tax, except for private schools, for the sole purpose of distributing the clothing to needy children. According to the amendment, the definition of “clothing” would be the same as that in Section

12-36-2120(57)(a)(i) and (iii) to include clothing and footwear only, and “needy children” would be defined as those children eligible for free meals under the National School Lunch Program of the United States Department of Agriculture.

The few states that have similar sales and use tax exemptions have done so to give low income parents of underprivileged children assistance with obtaining school uniforms where local school districts require mandatory dress codes for class attendance. Although the scope of this bill goes beyond required school uniforms, this bill seeks to create another avenue to assist underprivileged children in obtaining several articles of clean clothing to attend school.

The number of private charities with state and federal income tax exemption designations is very large. Essentially, any organization structured as a 501(c) for tax purposes could qualify. This could include any civic league, social welfare organizations, churches, homeowner associations, and others. Also, there is no clear definition of “sole purpose” for an organization. The generally accepted unwritten rule is that as long as 50.1 percent of an organization’s efforts go toward promoting the common good and general welfare of the people it is acceptable. If these definitions, however, are interpreted more broadly, the fiscal impact could be significantly higher.

According to the latest data from the U.S. Department of Agriculture, Food and Nutrition Service, National School Lunch Program, there are 481,534 school age children participating in the free lunch program in South Carolina. Multiplying 481,534 needy children by an average clothing donation of \$50 and applying a six percent sales and use tax rate yields a reduction in sales and use tax revenue of an estimated \$1,444,600 in FY2015-16. Of this amount, General Fund sales and use tax revenue would be reduced by \$963,066, the EIA fund would be reduced by \$240,767, and the Homestead Exemption Fund would be reduced by \$240,767 in FY2015-16.

This section would also not permit a sales and use tax exemption for children’s clothing sold to a private charitable organization that in turn donates the clothing to needy children that attend a private school. Based upon the latest data from the South Carolina Revenue and Fiscal Affairs Office, Division of Research, there are an estimated 50,796 private school children in South Carolina. According to the latest data from the U.S. Department of Education, National Center for Education Statistics and the U.S. Department of Agriculture, Food and Nutrition Service, National School Lunch Program, nearly twenty-one percent of private school children in grades K-12 are participating in the free lunch program in South Carolina. Multiplying 50,796 needy private school children by a nearly twenty-one percent participation rate and by an average clothing donation of \$50 and applying a six percent sales and use tax rate yields sales and use tax revenue of an estimated \$31,700 in FY2015-16. Of this amount, General Fund sales and use tax revenue would amount to \$21,134, the EIA fund would amount to \$5,283, and the Homestead Exemption Fund would amount to \$5,283 in FY2015-16. Collective, the net effect of this section would be to reduce sales and use tax revenue by an estimated \$1,412,900 in FY2015-16. Of this amount, General Fund sales and use tax revenue would be reduced by \$941,932, the EIA Fund would be reduced by \$235,484, and the Homestead Exemption Fund would be reduced by \$235,484 in FY2015-16.

Since the effective date of this bill is January 1, 2016, sales and use tax revenue would be reduced by one-half of a full fiscal year, or an estimated \$706,450 in FY2015-16. Of this total, General Fund revenue would be reduced by \$470,966, the E.I.A. would be reduced by \$117,742, and the Homestead Exemption Fund would be reduced by \$117,742 in FY2015-16. In FY2016-17, sales and use tax revenue would be reduced by an estimated \$1,412,900 annually. Of this total, General Fund revenue would be reduced by \$941,932, the E.I.A. would be reduced by \$235,484, and the Homestead Exemption Fund would be reduced by \$235,484 in FY2016-17, and each fiscal year thereafter.

**Section 4.** This act takes effect January 1, 2016.

**Local Expenditure**

N/A

**Local Revenue**

N/A

**Explanation of Amendment (May 20, 2015) – By the Senate Finance Committee**

**State Expenditure**

Since this legislation makes no substantive changes to existing programs or resources, the Department of Revenue can administer the legislative changes with existing resources.

**State Revenue**

This amendment would remove the phrase “area median income” and replace it with “county median income”. This change would require an individual or family in need to have an income less than eighty percent of the county median income in order for a non-profit entity to receive a sales and use tax exemption on the necessary building materials required to build, rehabilitate, or repair a home. This amendment would not affect General Fund revenue in FY2015-16.

**Local Expenditure**

N/A

**Local Revenue**

N/A

**Explanation of Amendment (April 29, 2015) – By the House of Representatives**

**State Expenditure**

Since this legislation makes no substantive changes to existing programs or resources, the Department of Revenue can administer the legislative changes with existing resources.

**State Revenue**

This amendment would include an amendment to Section 12-36-2120(52) to strike “owned by or leased to the federal government or commercial air carriers” for those types of air carriers that would be eligible for a sales and use tax exemption on parts and supplies used by businesses that repair or recondition aircraft. This change would allow a sales and use tax exemption on all parts

and supplies used to repair or recondition aircraft for all types of aircraft. This amendment would now include private general aviation aircraft previously excluded from the exemption.

Based on information from the General Aviation Manufacturer's Association and the Federal Aviation Administration, Washington, D.C., there are 2,855 general aviation aircraft registered and/or hangered in South Carolina. Multiplying 2,855 general aviation aircraft by an estimated \$4,400 annual maintenance expenditures and applying a six percent sales and use tax rate yields a reduction of sales and use tax revenue of an estimated \$753,720 annually.

Since the effective date of this bill is January 1, 2016, sales and use tax revenue would be reduced by one-half of a full fiscal year, or an estimated \$376,860 in FY2015-16. Of this total, General Fund revenue would be reduced by \$251,240, the E.I.A. would be reduced by \$62,810, and the Homestead Exemption Fund would be reduced by \$62,810 in FY2015-16. In FY2016-17, sales and use tax revenue would be reduced by an estimated \$753,720 annually. Of this total, General Fund revenue would be reduced by \$502,480, the E.I.A. would be reduced by \$125,620, and the Homestead Exemption Fund would be reduced by \$125,620 in FY2016-17, and each fiscal year thereafter.

**Local Expenditure**

N/A

**Local Revenue**

N/A

**Explanation of Bill filed February 11, 2015**

**State Expenditure**

Since this legislation makes no substantive changes to existing programs or resources, the Department of Revenue can administer the legislative changes with existing resources.

**State Revenue**

This bill would amend Section 12-36-2120 allow a sales and use tax exemption for building materials purchased by a nonprofit tax exempt entity to build, rehabilitate, or repair a home for the benefit of an individual or family in need. This would include organizations such as Habitat for Humanity. This organization is organized and operated to build and sell single family houses to selected buyers to promote home ownership and build a sense of community. This is done through the assistance of thirty-four affiliates located throughout the state. The Board of Economic Advisors has been advised by Habitat for Humanity that their goal for 2016 is to complete 150 new single family homes statewide. At an estimated cost of materials of \$30,000 per home and applying a six percent sales tax rate, sales and use tax revenue would be reduced by an estimated \$270,000 annually.

Since the effective date of this bill is January 1, 2016, sales and use tax revenue would be reduced by one-half of a full fiscal year, or an estimated \$135,000 in FY2015-16. Of this total, General Fund revenue would be reduced by \$90,000, the E.I.A. would be reduced by \$22,500, and the Homestead Exemption Fund would be reduced by \$22,500 in FY2015-16. In FY2016-17, sales and use tax revenue would be reduced by an estimated \$270,000 annually. Of this total,

General Fund revenue would be reduced by \$180,000, the E.I.A. would be reduced by \$45,000, and the Homestead Exemption Fund would be reduced by \$45,000 in FY2016-17, and each fiscal year thereafter.

**Local Expenditure**

N/A

**Local Revenue**

N/A



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Frank A. Rainwater, Executive Director