SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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Bill Number:	S.0412 Introduced on February 14, 2017
Author:	Campbell
Subject:	Community Development Corporations and Financial Institutions
Requestor:	Senate Finance
RFA Analyst(s):	R. Martin and Heineman
Impact Date:	February 6, 2018

Estimate of Fiscal Impact

	FY 2018-19	FY 2019-20	FY 2020-21
State Expenditure			
General Fund	$0	$0	$0
Other and Federal	$0	$0	$0
Full-Time Equivalent Position(s)	0.00	0.00	0.00
State Revenue			
General Fund	($2,806,147)	($935,382)	($703,963)
Other and Federal	$0	$0	$0
Local Expenditure	$0	$0	$0
Local Revenue	$0	$0	$0

Fiscal Impact Summary
This bill would reduce General Fund income, bank, or insurance premium tax revenues by an additional estimated $2,806,147 in FY2018-19, by an estimated $935,382 in FY2019-20, and an estimated $703,963 in FY2020-21 when the $5,000,000 tax credit limitation is reached. These figures include the addition of two uncertified community development corporations and community development financial institutions in which taxpayers may invest and claim nonrefundable tax credits against investments.

Explanation of Fiscal Impact

Introduced on February 14, 2017
State Expenditure
The Department of Commerce indicates that any additional workload related to the department's certification, authorization, and monitoring process for administering tax credits is not expected to require additional staffing or incur additional costs, and would have no expenditure impact on the General Fund, Federal funds, or Other funds.

State Revenue
Section 1. A community development corporation is a nonprofit corporation which is tax exempt and has a primary mission of developing and improving low-income communities and neighborhoods through economic and related development. A community development financial institution is an organization that has a primary mission of promoting community development by providing credit, capital, or development services to small businesses or home mortgage

assistance to individuals. Currently, pursuant to Section 12-6-3530, a taxpayer is allowed a nonrefundable tax credit against South Carolina income tax, bank tax, or insurance premium tax equal to thirty-three percent of the investment in a community development corporation or community development financial institution. The total credit that may be claimed by all taxpayers is $1,000,000 in one calendar year and $5,000,000 for all calendar years. Any unused credit may be carried forward and must be used before the taxable year that begins on or after ten years from the date of the acquisition of stock or other equity interest that is the basis for the credit.

The table below describes the number of taxpayers and the amount of tax credits claimed against investments in community development corporations and community development financial institutions from tax year 2002 to tax year 2015, the latest year data is available. Over this period, 612 taxpayers have claimed $2,390,122 in nonrefundable tax credits.

History of CDC / CDFI Tax Credits Claimed

Tax Year	No. of Taxpayers Filing Credits	Amount of Tax Credits
2002	12	$2,957
2003	9	$2,050
2004	12	$22,539
2005	14	$5,234
2006	16	$14,001
2007	33	$31,927
2008	41	$113,354
2009	28	$25,877
2010	32	$275,545
2011	36	$378,668
2012	38	$173,263
2013	88	$502,334
2014	112	$287,865
2015	141	$554,508
2016	N/A	N/A
Total	612	$2,390,122

Note: N/A - Not Available.

Sources: Board of Economic Advisors; S.C. Department of Revenue

This bill makes several changes to current statutes and may be summarized as follows:

- The tax credit percentage is increased from the current thirty-three percent of all amounts invested in a certified community development corporation or in a community development financial institution to one hundred percent

- Total credits may not exceed $5,000,000 for all taxpayers in any calendar year

- The Department of Commerce must not authorize any tax credits after the annual $5,000,000 limitation has been met

- The Department of Commerce shall authorize the tax credits each year on a first-come first-served basis

- Twenty-five percent of annual tax credits must be held in a reserve account during the first three quarters of each tax year and made available exclusively to small, rural based community development corporations. During the first three quarters of any tax year, an individual community development corporation or a community development financial institution must not be authorized to receive more than fifteen percent of the statewide total annual credits. During the fourth quarter of each tax year, all remaining tax credits are available to all certified community development corporations or community development financial institutions.

As shown in the table above, the $5,000,000 limitation has never been achieved in any tax year during the existence of the community development tax credit program. This section would change the allocation method of how the Department of Commerce awards tax credits for investments in community development corporations and community development financial institutions, and increase the tax credit percentage from thirty-three percent of all amounts invested in a certified community development corporation or in a community development financial institution to one hundred percent.

Using the latest data from the table above, there were $554,508 in tax credits claimed by community development corporations and community development financial institutions in tax year 2015. Dividing $554,508 in tax credits claimed by the current tax rate of thirty-three percent yields total taxable income of $1,680,327 in tax year 2015. If the tax credit percentage was one hundred percent in taxable year 2015, an estimated $1,680,327 may have been claimed by taxpayers. This is an increase of more than $1,125,000 than was claimed in tax year 2015. Since more than one-third of all certified community development corporations and community development financial institutions are located in the Southeast, and market demand continues to be strong by serving areas where traditional financing is underrepresented, it is reasonable to expect that the amount of community development corporation and community development financial institution credits may double by FY2018-19. If total tax credits claimed double from $554,508 in tax year 2015 to $1,109,016 in tax year 2018, then taxable income would increase from $1,680,327 ($554,508 in tax credits divided by 0.33) in tax year 2015 to $3,360,655 ($1,109,016 in tax credits divided by 0.33) in tax year 2018. Tax credits claimed would increase from $554,508 in tax year 2015 to $3,360,655 ($3,360,655 multiplied by 1.0) in tax year 2018 after adjusting for the tax credit rate increase from thirty-three percent to one hundred percent. Total tax credits claimed would increase by $2,806,147 ($3,360,655 minus $554,504 = $2,806,147) over the three year period, or an estimated $935,382 ($2,806,147 divided by 3 tax years) per tax year. Under this scenario, the $5,000,000 tax credit limitation for all taxpayers will be reached by FY2020-21. Future growth in the usage of the tax credits will depend on the availability of high risk investment funds, the available housing stock, and the overall strength of the economy.

Section 2. This section would add unnumbered subitems to Section 12-6-3530 to allow taxpayers to claim nonrefundable tax credits against investments in an uncertified community development corporation and a community development financial institution. This section would allow the South Carolina Association for Community Economic Development to be recognized as a community development corporation, and the South Carolina Community Capital Alliance to be recognized as a community development financial institution. According to the Federal Reserve Bank of Richmond, Community Development Department, there are currently nineteen certified community development corporations and community development financial institutions in South Carolina. The addition of two relatively small uncertified development corporations would reduce General Fund income, bank, or insurance premium tax revenues by an estimated $58,370 in FY2018-19, and each fiscal year thereafter. This amount would be part of the $5,000,000 annual limitation for all taxpayers in a calendar year.

Section 3. This section would extend the sunset date of this tax credit by an additional seven years to June 30, 2027, unless the provisions are reauthorized by the General Assembly before June 30, 2020. After this date, all laws and regulations dealing with community development corporations and community development financial institutions would be repealed.

Section 4. This act takes effect January 1, 2018.

Local Expenditure
N/A

Local Revenue
N/A

Frank A. Rainwater

Frank A. Rainwater, Executive Director