



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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|------------------------|--|---------------------------------|
| Bill Number: | H. 4133 | Introduced on February 27, 2019 |
| Author: | Weeks | |
| Subject: | Community Development Corporation and Financial Institutions | |
| Requestor: | House Ways and Means | |
| RFA Analyst(s): | R. Martin | |
| Impact Date: | March 13, 2019 | |

Fiscal Impact Summary

This bill would reduce state General Fund individual and corporate income tax, bank tax, and insurance premium tax revenue (including retaliatory taxes), by an additional estimated \$500,000 in FY2019-20, by an estimated \$1,500,000 in FY2020-21.

Furthermore, if the scheduled repeal date of the community development corporation and community development financial institutions tax credit is extended from June 30, 2020, to June 30, 2023, state General Fund individual and corporate income taxes, bank taxes, and insurance premium taxes (including retaliatory taxes), or any combination thereof will be reduced by an estimated \$3,000,000 in FY2021-22 through FY2023-24.

Explanation of Fiscal Impact

Introduced on February 27, 2019

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 the current statute and may be summarized as follows:

- A taxpayer may claim a tax credit equal to thirty-three percent of equity investments and may claim a tax credit equal to fifty percent of cash donations in a certified community development corporation or in a community development financial institution
- Total credits for all taxpayers may not exceed the aggregate amount in any calendar year based on the following schedule:
 - \$1,000,000 for all taxpayers in tax year 2019;
 - \$2,000,000 for all taxpayers in tax year 2020;
 - \$3,000,000 for all taxpayers in tax years after 2020.
- The Department of Commerce must not authorize any tax credits after the annual aggregate limitation has been met as listed above

- 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 \$1,000,000 annual 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. This section also distinguishes between investments as an equity investment versus a cash donation. This section would change the tax credit percentage from thirty-three percent of all amounts invested to all equity investments in a certified community development corporation or in a community development financial institution. The language also adds a tax credit equal to fifty percent for all cash donations in a certified community development corporation or in a community development financial institution.

Using the latest data from the table above, there were \$554,508 in tax credits claimed by investors in community development corporations and community development financial institutions in tax year 2015. The number of taxpayers claiming the tax credit, the total amount of tax credits claimed, and the average tax credit claimed by each taxpayer has steadily risen over the latest six tax years. 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 will continue to increase by FY2019-20. 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. Since the Southern region is one of the fastest growing housing regions in the United States, it would be reasonable to expect the maximum aggregate tax credit limit will be met each calendar year.

Using an average aggregate amount of tax credits claimed per tax year of \$500,000 in the absence of the proposed legislation, the difference in the maximum aggregate tax credits claimed in tax year 2019 (FY2019-20) of \$1,000,000 under the current proposal and \$500,000 under existing law would reduce General Fund income, bank, or insurance premium tax revenues by an additional estimated \$500,000 in FY2019-20. Using the same analysis, this would reduce General Fund income, bank, or insurance premium tax revenues by an additional estimated

\$1,500,000 in FY2020-21. The bill's revenue impact for FY2021-22 through FY2023-24 for the extension of the sunset date is discussed below.

Section 2. This section would add unnumbered sub-items to Section 12-6-3530 to insure that returns on investments in a certified community development corporation and a certified community development financial institution, including the value of any tax credits authorized pursuant to this section, may not exceed the total amount of the initial investment. This amount would be part of the aggregate 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 three years to June 30, 2023, 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.

Since the community development corporation and community development financial institutions tax credit is scheduled to be repealed on June 30, 2020, the Board of Economic Advisors (BEA) is not expecting any further additional revenue reductions in the state General Fund revenue beginning in FY2020-21 from this tax credit. If the scheduled repeal date of the community development corporation and community development financial institutions tax credit is extended, by three years, from June 30, 2020, to June 30, 2023, state General Fund revenue will be affected. In this case, state General Fund individual and corporate income taxes, bank taxes, and insurance premium taxes (including retaliatory taxes), or any combination thereof will be reduced by an estimated \$3,000,000 in FY2021-22 through FY2023-24.

Section 4. This act takes effect January 1, 2019.

Local Expenditure

N/A

Local Revenue

N/A



Frank A. Rainwater, Executive Director