**South Carolina General Assembly**

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**S. 995**

**STATUS INFORMATION**

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Summary: Income tax credit

**HISTORY OF LEGISLATIVE ACTIONS**

Date Body Action Description with journal page number

2/13/2018 Senate Introduced and read first time ([Senate Journal‑page 4](file:///h:\sj\20180213.docx))

2/13/2018 Senate Referred to Committee on **Finance** ([Senate Journal‑page 4](file:///h:\sj\20180213.docx))

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**VERSIONS OF THIS BILL**

[2/13/2018](file:///p:\pprever\2017-18\995_20180213.docx)

**A** **BILL**

TO AMEND THE CODE OF LAWS OF SOUTH CAROLINA, 1976, BY ADDING SECTION 12‑6‑3685 SO AS TO ALLOW AN INCOME TAX CREDIT FOR CONTRIBUTIONS TO A SCHOLARSHIP FUNDING ORGANIZATION THAT PROVIDES GRANTS FOR STUDENTS TO ATTEND CERTAIN INDEPENDENT AND HOME SCHOOLS, TO SPECIFY THE MANNER IN WHICH THE CREDIT IS CLAIMED, TO SPECIFY THE PROCESS BY WHICH CERTAIN ORGANIZATIONS AND SCHOOLS BECOME ELIGIBLE, TO SPECIFY CERTAIN INFORMATION WHICH MUST BE MADE PUBLIC, AND TO ALLOW THE DEPARTMENT OF REVENUE TO ENFORCE THE PROVISIONS OF THE CREDIT.

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

SECTION 1. Article 25, Chapter 6, Title 12 of the 1976 Code is amended by adding:

“Section 12‑6‑3685. (A) As used in this section:

(1) ‘Eligible school’ means an independent school including those religious in nature, other than a public school, at which the compulsory attendance requirements of Section 59‑65‑10 may be met, that:

(a) offers a general education to primary or secondary school students;

(b) does not discriminate on the basis of race, color, or national origin;

(c) is located in this State;

(d) has an educational curriculum that includes courses set forth in the State’s diploma requirements and where the students attending are administered national achievement or state standardized tests, or both, at progressive grade levels to determine student progress;

(e) has school facilities that are subject to applicable federal, state, and local laws; and

(f) is a member in good standing of the South Carolina Association of Christian Schools, the South Carolina Independent Schools Association, the Palmetto Association of Independent Schools, the American Montessori Society, the International Montessori Council, or the National Association of Private Schools or alternatively accredited by AdvancED or the National Council for Private School Accreditation.

(2) ‘Exceptional needs child’ means a child:

(a)(i) who has been evaluated in accordance with this state’s evaluation criteria, as set forth in S.C. Code Ann. Regs. 43‑243.1, and determined eligible as a child with a disability who needs special education and related services, in accordance with the requirements of Section 300.8 of the Individuals with Disabilities Education Act; or

(ii) who has been diagnosed within the last three years by a licensed speech‑language pathologist, psychiatrist, or medical, mental health, psychoeducational, or other comparable licensed health care provider as having a neurodevelopmental disorder, a substantial sensory or physical impairment such as deaf, blind, or orthopedic disability, or some other disability or acute or chronic condition that significantly impedes the student’s ability to learn and succeed in school without specialized instructional and associated supports and services tailored to the child’s unique needs; and

(b) the child’s parents or legal guardian believes that the services provided by the school district of legal residence do not sufficiently meet the needs of the child.

(3) ‘Disadvantaged child’ means a child who is eligible for the federal free or reduced lunch program and whose family meets the qualifications for federal Medicaid benefits.

(4) ‘Independent school’ means a school, other than a public school, at which the compulsory attendance requirements of Section 59‑65‑10 may be met and that does not discriminate based on the grounds of race, color, religion, or national origin.

(5) ‘Nonprofit scholarship funding organization’ means a charitable organization that:

(a) is exempt from federal tax pursuant to Section 501(a) of the Internal Revenue Code by being listed as an exempt organization in Section 501(c)(3) of the tax code;

(b) allocates at least ninety‑five percent of its annual contributions received during a particular year to provide grants for tuition to children enrolled in an eligible school meeting the criteria of this section and grants for home school curriculum fees, and incurs administrative expenses annually of not more than five percent of its annual contributions for a particular year to cover operational costs;

(c) allocates all of its funds used for grants on an annual basis to children who are exceptional needs or disadvantaged students or for home school curriculum fees;

(d) does not provide grants only for the benefit of one school, and if the department determines that the nonprofit scholarship funding organization is providing grants to one particular school, the tax credit allowed by this section may be disallowed;

(e) does not have as a volunteer, contractor, consultant, fundraiser, or member of its governing board any parent, legal guardian, or member of their immediate family who has a child or ward who is currently receiving or has received a scholarship grant authorized by this section from the organization within one year of the date the parent, legal guardian, or member of their immediate family became a board member;

(f) does not have as a member of its governing board or an employee, volunteer, contractor, consultant, or fundraiser who has been convicted of a felony;

(g) does not release personally identifiable information pertaining to students or donors or use information collected about donors, students, or schools for financial gain; and

(h) does not place conditions on schools enrolling students receiving scholarships to limit the ability of the schools to enroll students accepting grants from other nonprofit scholarship funding organizations.

(6) ‘Parent’ means the natural or adoptive parent or legal guardian of a child.

(7) ‘Person’ means an individual, partnership, corporation, or other similar entity.

(8) ‘Qualifying student’ means a student who is an exceptional needs child or a disadvantaged child, a South Carolina resident, and who is eligible to be enrolled in a South Carolina secondary or elementary public school at the kindergarten or later‑year level for the applicable school year.

(9) ‘Resident public school district’ means the public school district in which a student resides.

(10) ‘Transportation’ means transportation to and from school only.

(11) ‘Tuition’ means the total amount of money charged for the cost of a qualifying student to attend an independent school including, but not limited to, fees for attending the school, textbook fees, and school‑related transportation.

(12) ‘Department’ means the Department of Revenue.

(13) ‘School year’ means July first through June thirtieth each year.

(14) ‘Home school’ means a home, residence, or location where a parent or legal guardian teaches one or more children as authorized pursuant to Section 59‑65‑40, 59‑65‑45, or 59‑65‑47.

(15) ‘Home school child’ means any child attending an eligible home school.

(16) ‘Home school curriculum fees’ means the total amount of money charged for instruction‑related expenditures of a home school child to attend an eligible home school including, but not limited to, curriculum packages, textbooks, digital education, and testing materials.

(B)(1) A person is entitled to a tax credit against income taxes imposed pursuant to this chapter, or bank taxes imposed pursuant to Chapter 11 of this title for the amount of cash and the monetary value of any publicly traded securities the person contributes to a nonprofit scholarship funding organization up to the limits of this section if:

(a) the contribution is used to provide grants for tuition to exceptional needs children enrolled in eligible schools who qualify for these grants under the provisions of this section; and

(b) the person does not designate a specific child or school as the beneficiary of the contribution.

(2) A person is entitled to a tax credit against income taxes imposed pursuant to this chapter, or bank taxes imposed pursuant to Chapter 11 of this title for the amount of cash and the monetary value of any publicly traded securities the taxpayer contributes to a nonprofit scholarship funding organization up to the limits of this section if:

(a) the contribution is used to provide grants for tuition to disadvantaged children enrolled in eligible schools who qualify for these grants under the provisions of this section; and

(b) the taxpayer does not designate a specific child or school as the beneficiary of the contribution.

(3) A person is entitled to a tax credit against income taxes imposed pursuant to this chapter, or bank taxes imposed pursuant to Chapter 11 of this title for the amount of cash and the monetary value of any publicly traded securities the person contributes to a nonprofit scholarship funding organization up to the limits of this section if:

(a) the contribution is used to provide grants for home school curriculum fees to home school children attending a home school who qualify for these grants under the provisions of this section; and

(b) the person does not designate a specific child or home school as the beneficiary of the contribution.

(C)(1) Grants may be awarded by a scholarship funding organization for a school year in an amount not exceeding eleven thousand dollars or the total cost of tuition, whichever is less, for qualifying students at an eligible school. Before awarding any grant, a scholarship funding organization must receive written documentation from the parent documenting that the qualifying student is an exceptional needs or disadvantaged child. Upon approving the application, the scholarship funding organization shall issue a paper check payable to the parent or guardian of the qualifying student and delivered to the eligible school. If the qualifying student leaves or withdraws from the school for any reason before the end of the semester or school year and does not reenroll within thirty days, then the eligible school shall return a prorated amount of the grant to the scholarship funding organization based on the number of days the qualifying student was enrolled in the school during the semester or school year within sixty days of the qualifying student’s departure.

(2) Grants may be awarded by a scholarship funding organization for a school year in an amount not exceeding one thousand dollars or the total cost of home school curriculum fees, whichever is less, for a qualifying home school child attending a home school. Before awarding any grant, a scholarship funding organization shall receive written documentation from the parent documenting that the student is a home school child. A scholarship funding organization may reimburse a parent directly for expenditures actually paid for home school curriculum fees, or pay vendors directly for home school curriculum fees on behalf of the home school child.

(D)(1)(a) The tax credits authorized by subsection (B)(1) may not exceed cumulatively a total of twenty‑five million dollars each calendar year for contributions made on behalf of exceptional needs students. If the department determines that the total of these credits claimed by all taxpayers exceeds the limit amount, it shall allow credits only up to those amounts on a first‑come, first‑served basis.

(b) The tax credits authorized pursuant to subsection (B)(2) may not exceed cumulatively a total of twenty‑five million dollars each calendar year for contributions on behalf of disadvantaged children. If the department determines that the total of these credits claimed by all taxpayers exceeds the limit amount, it shall allow credits only up to those amounts on a first‑come, first‑served basis.

(c) The tax credits authorized pursuant to subsection (B)(3) may not exceed cumulatively a total of ten million dollars each calendar year for contributions on behalf of home school children. If the department determines that the total of these credits claimed by all taxpayers exceeds the limit amount, it shall allow credits only up to those amounts on a first‑come, first‑served basis.

(d) The department shall establish an application process to determine the amount of credit available to be claimed. The receipt of the application by the department shall determine priority for the credit. The credit must be claimed on the return for the tax year that the contribution is made.

(2) A taxpayer may not claim more than one hundred percent of his total tax liability for the year in contribution toward the tax credits authorized by subsection (B)(1), (2), and (3). This credit is not refundable. If the credit exceeds the taxpayer’s tax liability for the taxable year, the excess amount may be carried forward for credit against income or bank taxes in the next ten succeeding taxable years.

(3) If a taxpayer deducts the amount of the contribution on the taxpayer’s federal return and claims the credit allowed by this section, then the taxpayer shall add back the amount of the deduction for purposes of South Carolina income or bank taxes.

(4) The department shall prescribe the form and manner of proof required to obtain the credits authorized by subsection (B). Also, the department shall develop a method of informing taxpayers if the credit limit is met at any time during the year.

(E) A corporation or entity entitled to a credit under subsection (B) may not convey, assign, or transfer the credit authorized by this section to another entity unless all of the assets of the entity are conveyed, assigned, or transferred in the same transaction.

(F) Except as otherwise provided, neither the Department of Education, the Department of Revenue, nor any other state agency may regulate the educational program of an independent school that accepts students receiving scholarship grants pursuant to this section.

(G)(1) A public nonprofit organization to oversee the scholarship funding organizations must be organized by the department as a public charity as defined by the Internal Revenue Code under section 509(a)(1) through (4).

(2) The public nonprofit organization must be governed by five directors, two appointed by the Chairman of the House Ways and Means Committee, one of which is based upon the recommendation of the South Carolina Association of Christian Schools and one which is based upon the recommendation of the Diocese of Charleston, two appointed by the Chairman of the Senate Finance Committee based upon the recommendations of the South Carolina Independent Schools Association, and one appointed by the Governor based upon the recommendation of the Palmetto Association of Independent Schools. The directors of the public nonprofit organization, along with the director of the department, shall designate an executive director of the public nonprofit.

(3) In concert with the public nonprofit directors, the department shall administer the public nonprofit organization, which will provide oversight of the scholarship funding organizations and address any citizen concerns about the programs’ administration at eligible schools or with the scholarship funding organizations.

(4) By January fifteenth of each year, the department shall report to the Chairman of the Senate Finance Committee, the Chairman of the House Ways and Means Committee, and the Governor:

(a) the number and total amount of grants issued to eligible schools by each scholarship funding organization in the prior school year;

(b) the identity of the school and the amount of the grant for each grant issued to an eligible school in the prior school year by each scholarship funding organization;

(c) an itemization and detailed explanation of fees or other revenues obtained from or on behalf of an eligible school by any scholarship funding organization;

(d) a copy of a compilation, review, or audit of each scholarship funding organization conducted by a certified public accounting firm as provided to the department by each scholarship funding organization in their application to participate in the program; and

(e) the criteria and eligibility requirements for scholarship awards of each scholarship funding organization as provided to the department by each scholarship funding organization in their application to participate in the program.

(5) The directors may request an audit by the department if they believe a scholarship funding organization is in violation of the provisions of this section.

(H)(1) By August first of each year, each nonprofit scholarship funding organization shall apply to the department to be considered an eligible organization for which its contributors are allowed the tax credit allowed by this section. If a nonprofit scholarship funding organization does not apply, the organization may not be published as an approved organization, and contributions to that organization must not be allowed for purposes of the credit allowed by this section. A nonprofit scholarship funding organization’s application must contain:

(a) the number and total amount of grants issued to eligible schools in the preceding fiscal year;

(b) for each grant issued to an eligible school in the preceding fiscal year, the identity of the school and the amount of the grant;

(c) an itemization and detailed explanation of any fees or other revenues obtained from or on behalf of any eligible schools;

(d) a copy of the organization’s Form 990 or other comparable federal submission that indicates the provisions of the Internal Revenue Code under which the organization has been granted exempt status for purposes of federal taxation;

(e) a copy of a compilation, review, or audit of the organization’s financial statements, conducted by a certified public accounting firm;

(f) the criteria and eligibility requirements for scholarship awards; and

(g) a certification by the organization that it meets the definition of a nonprofit scholarship funding organization as that term is defined in subsection (A)(5) and that the report is true, accurate, and complete under penalty of perjury in accordance with Section 16‑9‑10.

(2) By receiving the application materials and approving the organization as an eligible organization pursuant to item (1), the department is not determining that the organization meets all of the requirements of a qualified nonprofit scholarship funding organization and the organization remains subject to examination as provided for pursuant to subsection (I).

(3) The department has authority to disclose the names of qualifying nonprofit scholarship funding organizations to the Education Oversight Committee. The department also may disclose to the Education Oversight Committee the names of organizations that applied but were not qualified by the department and those organizations whose eligibility has been revoked in accordance with subsection (I)(2), as well as the reason the application of the organization was not accepted or the reason its qualification was revoked.

(4) By September first of each year, the department shall publish on its website a list of all qualifying nonprofit scholarship funding organizations, to include their names, addresses, telephone numbers, and, if available, website addresses. Also, the results of the audit required by item (1)(e) must be published with the list.

(I)(1) Nothing in this section restricts the department’s authority to supervise and audit any of the parties. The department has authority to oversee, examine, and audit the nonprofit scholarship funding organizations, including determining whether the nonprofit scholarship funding organization is being operated in a manner consistent with the requirements for an IRC Section 501(c)(3) organization or is in compliance with any other provision of this section.

(2)(a) If at any time during the year, the department has evidence, through audit or otherwise, that a nonprofit scholarship funding organization is not being operated in a manner consistent with the requirements for operating an IRC Section 501(c)(3) organization or is not in compliance with any other provision of this section, the department immediately may revoke the organization’s participation in the program and shall notify the organization and the Education Oversight Committee in writing of the revocation.

(b) Notice of revocation may be provided to the organization by personal delivery to the organization, by first class mail to the last known address of the organization, or by other means reasonably designed to provide notice to the organization.

(c) Any donations made following the date the notice of revocation is received by the organization or in the case of delivery by mail ten days after the notice of revocation was mailed, do not qualify for the credit and the donated funds must be returned to the donor by the organization. This section may not limit the department’s authority to deny any tax credit or other benefit provided by this section if the circumstances warrant.

(d)(i) Within thirty days after the day on which the organization is notified of the revocation, the organization may request a contested hearing before the Administrative Law Court. Within thirty days after a request for a contested case hearing is received by the Administrative Law Court, an administrative law judge shall hold the contested case hearing and determine whether the revocation was reasonable under the circumstances. The department has the burden of proof of showing that the revocation was reasonable under the circumstances. The revocation is ‘reasonable’ if the department has some credible evidence to believe that the organization is not being operated in a manner consistent with the requirements for operating an IRC Section 501(c)(3) organization or is not in compliance with any other provision of this section. The decision made by the administrative law judge is final and conclusive and may not be reviewed by any court. If the organization does not request a contested case hearing within thirty days of the immediate revocation, the revocation is permanent.

(ii) If the administrative law judge determines that the revocation was reasonable, the administrative law judge shall remand the case to the department to issue a department determination for permanent revocation within the time period determined by the judge. The organization may appeal this department determination in accordance with Section 12‑60‑460. At the contested case hearing on the department determination, the parties may raise new issues and arguments in addition to those issues and arguments previously presented at the revocation hearing.

(iii) If the administrative law judge determines that immediate revocation is not reasonable, the revocation must be lifted and the organization may resume accepting donations and award scholarships hereunder. The department may still issue a department determination in accordance with Section 12‑60‑450(E)(2).

(iv) If at any time during the process, the department believes the organization is in compliance, the department, in its sole discretion, may reinstate the organization and notify the Education Oversight Committee.

(v) Following the permanent revocation of a nonprofit scholarship funding organization, the department has the authority to oversee the transfer of donated funds of the revoked organization to other nonprofit scholarship funding organizations.

(J) A nonprofit scholarship funding organization may transfer funds to another nonprofit scholarship funding organization, especially if the organization cannot distribute the funds in a timely manner or if the organization ceases to exist. The funds that are transferred by one nonprofit scholarship funding organization to another only may be considered by one organization when calculating its administrative expenses.”

SECTION 2. This act takes effect upon approval by the Governor and applies to income tax years beginning after 2017. All tax credits earned as a result of a contribution made to a scholarship funding organization in 2018 apply to the cumulative total of twenty‑five million dollars for exceptional needs children, twenty‑five million dollars for disadvantaged children, and ten million dollars for home school children, regardless of when in 2018 the contribution is made. All necessary reports and forms must be submitted as soon as practicable upon the enactment of this act.

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