AMENDED

March 28, 2012

**H. 4894**

Introduced by Reps. White, Bedingfield, McCoy, Loftis, Bingham, Herbkersman, Parker, Bowen, Erickson, Taylor, G.M. Smith, Forrester, Frye, G.R. Smith, Merrill, Stringer, Lowe, Nanney, Tribble, Crawford, Ryan, Corbin, Southard, J.R. Smith, Allison, Barfield, Chumley, Clemmons, Cole, Crosby, Delleney, Edge, Hamilton, Hardwick, Harrell, Harrison, Hearn, Henderson, Hixon, Limehouse, Long, Lucas, D.C. Moss, Murphy, Norman, Owens, Pinson, Pitts, Putnam, Quinn, Simrill, Skelton, Sottile, Spires, Tallon, Thayer, Toole, Viers, Young, Atwater, Huggins and Patrick

S. Printed 3/28/12--H.

Read the first time February 23, 2012.

**A** **BILL**

TO AMEND THE CODE OF LAWS OF SOUTH CAROLINA, 1976, BY ADDING SECTION 12‑6‑1145 SO AS TO AUTHORIZE A DEDUCTION FROM STATE OF SOUTH CAROLINA TAXABLE INCOME UP TO SPECIFIED AMOUNTS FOR TUITION PAID BY A PARENT OR LEGAL GUARDIAN FOR THEIR CHILD OR WARD TO ATTEND AN INDEPENDENT SCHOOL OR A PUBLIC SCHOOL OUTSIDE THE CHILD’S OR WARD’S SCHOOL DISTRICT OF RESIDENCE, AND TO ALSO AUTHORIZE A SIMILAR INCOME TAX DEDUCTION UP TO A SPECIFIED AMOUNT TO A PARENT OR LEGAL GUARDIAN FOR HOME SCHOOL EXPENDITURES; AND BY ADDING SECTION 12‑6‑1146 SO AS TO AUTHORIZE A CREDIT AGAINST A TAXPAYER’S SOUTH CAROLINA INCOME TAX LIABILITY OR CERTAIN OTHER TAX LIABILITY FOR CONTRIBUTIONS MADE TO NONPROFIT SCHOLARSHIP FUNDING ORGANIZATIONS THAT PROVIDE GRANTS FOR CHILDREN WHO ARE ELIGIBLE FOR THE FEDERAL FREE OR REDUCED SCHOOL LUNCH PROGRAM, WHO ARE “EXCEPTIONAL NEEDS” CHILDREN, OR WHOSE FAMILIES MEET THE REQUIREMENTS FOR FEDERAL MEDICAID BENEFITS TO ATTEND INDEPENDENT SCHOOLS OF THEIR CHOICE, AND TO PROVIDE THE PROCEDURES FOR, AND CONDITIONS AND LIMITATIONS OF THESE TAX CREDITS.

Amend Title To Conform

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

SECTION 1. Article 9, Chapter 6, Title 12 of the 1976 Code is amended by adding:

“Section 12‑6‑1145. (A) As used in this section:

(1) ‘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, or national origin. For purposes of this definition, ‘independent school’ does not include a home school as defined in item (2).

(2) ‘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.

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

(4) ‘Qualifying student’ means a student who is 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 current school year.

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

(6) ‘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 and school‑related transportation.

(B)(1) Beginning with the 2012‑2013 school year, a parent or legal guardian who teaches one or more qualifying students at home as authorized pursuant to Section 59‑65‑40, 59‑65‑45, or 59‑65‑47 may take a deduction against their State of South Carolina taxable income of up to two thousand dollars per home school student for instruction‑related expenditures. This deduction is limited to a total of two thousand dollars per child per year regardless of the number of taxpayers incurring home school instruction‑related expenses on behalf of that child. The deduction allowed by this subsection is fully deductible for the calendar year in which the home school term begins provided the qualifying student completes the school term for that school year.

(2) Beginning with the 2012‑2013 school year, a parent or legal guardian is entitled to a deduction against their State of South Carolina taxable income of up to four thousand dollars paid to an independent school within this State for tuition on behalf of their child or ward to attend the independent school for that school year. The child or ward must be a qualifying student as this term is defined in subsection (A)(4). This deduction is limited to a total of four thousand dollars per child per year regardless of the number of taxpayers making tuition payments on behalf of that child. The deduction allowed by this subsection is fully deductible for the calendar year in which the school term begins provided the qualifying student completes the school term for that school year.

(3) Beginning with the 2012‑2013 school year, a parent or legal guardian is entitled to a deduction against their State of South Carolina taxable income of up to one thousand dollars paid on behalf of their child or ward to attend a school in a school district which is not the school district of residence of the child or ward. This deduction is limited to a total of one thousand dollars per child per year regardless of the number of taxpayers making payments to another school district on behalf of that child. The deduction allowed by this subsection is fully deductible for the calendar year in which the school term begins provided the qualifying student completes the school term for that school year.

(4) Beginning with the 2013-2014 school year, the dollar amount of the deductions provided for in items (1), (2), and (3) above must be increased on an annual basis by an inflation factor equal to the percentage increase in the previous year of the Consumer Price Index, Southeast Region, as published by the United States Department of Labor, Bureau of Labor Statistics plus the percentage increase in the previous year in the population of the State as determined by the Office of Research and Statistics of the State Budget and Control Board.

The department shall publish the increases as determined in this item each year on its website available to the general public.”

SECTION 2. Article 9, Chapter 6, Title 12, of the 1976 Code is amended by adding:

“Section 12‑6‑1146. (A) The purpose of this section is to:

(1) provide tax credits for certain contributions to a nonprofit scholarship funding organization;

(2) expand educational opportunities for children of families that have limited financial resources or exceptional needs; and

(3) enable children in this State to achieve a greater level of excellence in their education.

(B) In enacting this section, the General Assembly recognizes diversity among children and affirms that every child is unique. The General Assembly also affirms that children learn differently from one another and may benefit from expanded educational opportunities.

(C) As used in this section:

(1) ‘Eligible school’ means an independent school including those religious in nature, other than a public or home 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 Southern Association of Colleges and Schools, the South Carolina Association of Christian Schools or the South Carolina Independent Schools Association.

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

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

(b) allocates, after its first year of operation, at least ninety‑five percent of its annual contributions and revenue received during a particular year to provide grants for tuition, transportation, or textbook expenses (collectively hereinafter referred to as tuition) or any combination thereof to children enrolled in an eligible school meeting the criteria of this section, and incurs administrative expenses annually, after its first year of operation, of not more than five percent of its annual contributions and revenue for a particular year;

(c) allocates all of its funds used for grants on an annual basis to children who are ‘exceptional needs’ students as defined herein, or who are eligible for the federal free or reduced lunch program, or whose families meet the qualifications for federal Medicaid benefits;

(d) does not provide grants solely for the benefit of one school, and if the Department of Revenue 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 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; and

(f) does not have as a member of its governing board any person who has been convicted of a felony, or who has declared bankruptcy within the last seven years.

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

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

(D) The tax credits allowed by this section may be used in computing any tax imposed by this chapter or in computing insurance premium taxes or bank license fees; provided, that the tax credit may not offset more than sixty percent of the taxpayer’s liability for a particular year.

(E) A person is entitled to a tax credit under this section for the amount of money the person contributes to a nonprofit scholarship funding organization up to the limits of this section if:

(1) the contribution is used to provide grants for tuition, transportation, or textbook expenses (tuition) or any combination thereof to children enrolled in eligible schools who qualify for these grants under the provisions of this section; and

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

(F)(1) Grants may be awarded by the nonprofit scholarship funding organization in an amount not exceeding five thousand dollars per year or seventy‑five percent of the cost of tuition, whichever is less, for children who are eligible for the federal free or reduced school lunch program or whose families meet the requirements for federal Medicaid benefits to attend an independent school. The dollar and percentage amounts of grants permitted by this item must be increased annually beginning with 2013, in the manner provided in subsection (H).

(2) In addition to the provisions of item (1), grants may be awarded by a scholarship funding organization in an amount not exceeding ten thousand dollars or seventy‑five percent of the cost of tuition, whichever is less, for students with ‘exceptional needs’ to attend an independent school. An ‘exceptional needs’ child is defined as a child who has significant cognitive, mental, physical, or emotional disabilities and whose parents or legal guardian believe that the services provided by the school district of legal residence do not sufficiently meet the needs of their child. The dollar and percentage amounts of the grants permitted by this item must be increased annually beginning in 2013, in the manner provided in subsection (H).

(G)(1) The tax credits authorized by this section may not exceed cumulatively a total of fifteen million dollars annually for contributions made on behalf of students who are eligible for the federal free or reduced lunch program and whose families meet the qualifications for federal Medicaid benefits, and the tax credits authorized by this section may not exceed cumulatively a total of ten million dollars annually for contributions made on behalf of ‘exceptional needs’ students. If the Department of Revenue determines for a particular year that the total of such credits claimed by all taxpayers for one or both categories exceed these amounts, it shall proportionally reduce the credits of all taxpayers pro rata for that year in that category. The dollar amount of each of the tax credit caps imposed by this item, beginning with 2013, must be increased annually in the manner provided in subsection (H).

(2) Taxpayers making contributions to a nonprofit scholarship funding organization who desire that a portion or all of their contributions be used for grants for exceptional needs children shall state with their contribution the amount to be used for this purpose. These amounts so stated must be used for purposes of computing the maximum tax credit amounts under item (1) of this subsection authorized for contributions on behalf of exceptional needs students. If no such designation for exceptional needs children is made, the contribution shall come within the maximum tax credit limitation for contributions pertaining to students who are eligible for the federal free or reduced lunch program and whose families meet the qualifications for federal Medicaid benefits provided in item (1).

(3) If a husband and wife file separate returns for any year, they each may only claim one‑half of the tax credit that would have been allowed for a joint return for the year.

(4) The person shall apply for a credit under this section on or with the tax return for the period for which the credit is claimed.

(5) The Department of Revenue shall prescribe the form and manner of proof required to obtain the credit authorized by this section.

(6) A person may claim a credit under this section for a contribution during a particular period only against the tax owed for the corresponding period.

(7) Any unused tax credit, including the portion of a contribution which is reduced pro rata under item (1) of this subsection, may be carried forward for a period not exceeding five consecutive years. However, the tax credit is not refundable.

(H)(1) Beginning with the year 2013, the dollar amount and percentage amount of a scholarship which may be granted under this section and the dollar amount of each of the tax credit caps provided in subsection (G)(1) must be increased on an annual basis by an inflation factor equal to the percentage increase in the previous year of the Consumer Price Index, Southeast Region, as published by the United States Department of Labor, Bureau of Labor Statistics plus the percentage increase in the previous year in the population of the State as determined by the Office of Research and Statistics of the State Budget and Control Board.

(2) The department shall publish the increases determined under item (1) each year on its website available to the general public.

(I) A corporation or entity entitled to a credit under this section may not convey, assign, or transfer the deduction or 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.

(J) Except as otherwise provided by this section, 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.

(K)(1) The Education Oversight Committee, as established in Chapter 6, Title 59, is responsible for determining if an eligible school meets the criteria established by subsection (C)(1) of this section, and shall annually publish an approved list of such schools meeting this criteria as provided in item (2) below. For this purpose, it also shall promulgate regulations further enumerating the specifics of this criteria. In performing this function, the Education Oversight Committee shall establish an advisory committee made up of not more than nine members including parents, and representatives of independent schools and independent school associations. The advisory committee shall provide recommendations to the Education Oversight Committee on the content of these regulations and any other matters requested by the Education Oversight Committee.

(2)(a) By the first day of August of each year, beginning on August 1, 2012, the Education Oversight Committee, on its website available to the general public, shall provide a list with addresses and telephone numbers of nonprofit scholarship funding organizations in good standing which provide grants under this section, and a list of approved independent schools which accept grants for eligible students under this section and which in its determination are in compliance with the requirements of subsection (C)(1) of this section.

(b) Student test scores each year, by category, on national achievement or state standardized tests, or both, for all grades tested administered by an eligible school receiving or entitled to receive scholarship grants under this section must be transmitted to the Education Oversight Committee which in turn shall publish this information on its website with the most recent scores by category included.

(3) Any independent school not determined to be an eligible school under the provisions of this section may seek review by filing a request for a contested case hearing with the Administrative Law Court in accordance with the court’s rules of procedure.

(4) The Education Oversight Committee, after consultation with its nine‑member advisory committee, may exempt an independent school having students with exceptional needs who receive scholarship grants pursuant to this section from the curriculum requirements of subsection (C)(1)(d).

(L)(1) Every nonprofit scholarship funding organization providing grants under this section shall cause an outside auditing firm each year to conduct a comprehensive financial audit of its operations in conformity with generally accepted accounting principles and shall furnish same within thirty days of its completion and acceptance to the Secretary of State and Department of Revenue which must be made available by them on their website for public review.

(2) Every independent school accepting grants for eligible students under this section shall cause to be conducted a compliance audit by an outside entity or auditing firm examining its compliance with the provisions of this section and shall furnish the same within thirty days of its completion and acceptance to the Secretary of State and Department of Revenue which must be made available by them on their website for public review.

(M) On January 1, 2015, and on January first every three years thereafter, the Education Oversight Committee shall report to the Governor and the General Assembly on the effectiveness and success of this section and whether or not the purposes of this section as provided in subsections (A) and (B) hereunder have been accomplished.”

SECTION 3. If a section, subsection, paragraph, subparagraph, sentence, clause, phrase, or word of this act is for any reason held to be unconstitutional or invalid, this holding does not affect the constitutionality or the validity of the remaining portions of this act, the General Assembly hereby declaring that it would have passed this act, and each section, subsection, paragraph, subparagraph, sentence, clause, phrase, and word thereof, irrespective of the fact that any one or more other sections, subsections, paragraphs, subparagraphs, sentences, clauses, phrases, or words thereof may be declared to be unconstitutional, invalid, or otherwise ineffective.

SECTION 4. Public schools may offer the same tests referenced in Section 12‑6‑1146(C)(1)(d) of the 1976 Code as added by SECTION 2 of this act.

SECTION 5. Members of the General Assembly serving at the time of this act’s effective date are not eligible to take the tax deduction provided for in Section 12-6-1145 of the 1976 Code, as added by Section 1 of this act, for four years after this act’s effective date.

SECTION 6. This act takes effect upon approval by the Governor and shall be reviewed by the General Assembly and the Education Oversight Committee by December 31, 2019. The tax deductions authorized by Section 1 and tax credits authorized by Section 2 of this act may be taken to the extent authorized beginning with calendar year 2012.

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