



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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Bill Number: H.3242
Author: Robinson-Simpson
Subject: Income Tax Credit
Requestor: House Ways and Means
RFA Analyst(s): Martin
Impact Date: March 15, 2016

Estimate of Fiscal Impact

	FY 2016-17	FY 2017-18
State Expenditure		
General Fund	\$0	\$0
Other and Federal	\$0	\$0
Full-Time Equivalent Position(s)	0.00	0.00
State Revenue		
General Fund	\$0	(\$3,372,662)
Other and Federal	\$0	\$0
Local Expenditure	\$0	\$0
Local Revenue	\$0	\$0

Fiscal Impact Summary

This bill would not impact General Fund revenue in FY2016-17. This bill would, however, reduce General Fund individual and corporate income tax, the bank tax, the savings and loan tax, the corporate license tax, and insurance premium tax revenue of an estimated \$3,372,662 in FY2017-18. This bill would not impact Other Funds or Federal Funds.

Explanation of Fiscal Impact

State Expenditure

The Department of Revenue indicates that there will be no expenditure impact to the General Fund, Federal Funds, or Other Funds from this bill. The Department can administer the legislative changes with existing resources.

State Revenue

Section 1. This bill would add Section 12-6-3710 to allow an eligible taxpayer to claim a nonrefundable income tax credit of \$5,000 for each formerly incarcerated individual that is hired as a full-time employee. The tax credit may be claimed beginning after tax year 2014 in the year in which the formerly incarcerated individual completes the twelfth month of employment if the following conditions are met:

- \$5,000 tax credit earned in the year in which the formerly incarcerated individual completes the twelfth consecutive month of employment with the taxpayer

- The tax credit allowed may be claimed for an eligible individual only once, regardless of the employer
- Total tax credit an employer receives may not exceed the taxpayer's tax liability. Any unused credit may be carried over to the succeeding year
- "Incarcerated individual" means an individual that was held in a state or county prison, jail, or detention center for at least ninety consecutive days
- The Department of Revenue may prescribe forms and promulgate regulations necessary to implement the provisions of this section, including requiring the necessary documentation to prove eligibility.

Currently, there is a federal tax credit of \$2,400 for hiring a formerly incarcerated individual through the Work Opportunity Tax Credit program. The credit is available to private, for-profit employers and the number of new hires who are eligible for employment is unlimited. Employers may claim a credit of forty percent of first-year wages up to \$6,000 for new employees who work at least 400 hours for a maximum credit of \$2,400 per employee. Most formerly incarcerated individuals work in the fields of construction or general manual labor, maintenance, and assembly line or factory jobs.

Based on the latest information from the U.S. Department of Justice, Office of Justice Programs, Bureau of Justice Statistics, the Urban Institute, Justice Policy Center, and the S.C. Department of Corrections, there are an estimated 24,421 inmates housed in state, county, jail, or detention center correctional facilities in South Carolina. During a typical year, fifty-five percent of inmates are released from custody. Multiplying 24,421 inmates by fifty-five percent yields 13,432 inmates released from custody from state and local facilities. The bill makes no distinction between violent and non-violent offenders; therefore, all released inmates are included in the total.

Based on a review of longitudinal (following the same group of individuals over time) studies of formerly incarcerated individuals, thirty-one percent of formerly incarcerated individuals become employed within two months of being released, and seventy-two percent is full-time employment with an average wage rate between \$8.00 to \$9.00 per hour. According to the latest data from the S.C. Department of Corrections, the recidivism rate of those inmates released is slightly less than ten percent after one year since being released and nearly twenty-five within three years since being released from custody. After applying these adjustments, the number of eligible formerly incarcerated individuals is reduced to an estimated 2,698 annually.

Also based on empirical research, less than one-half of formerly incarcerated individuals were employed eight months since their release. Multiplying an estimated 2,698 eligible formerly incarcerated individuals by an annual nonrefundable tax credit of \$5,000 per formerly incarcerated individual with an estimated one-quarter of the formerly incarcerated individuals attaining twelve consecutive months of employment yields a reduction in General Fund revenue of an estimated \$3,372,662 in FY2017-18. This bill would not affect General Fund revenue in FY2016-17, because the requirement of twelve consecutive months of employment could not be

completed until tax year 2017. The tax credit may be taken against the individual and corporate income tax, the bank tax, the savings and loan tax, the corporate license tax, and insurance premium taxes. A table describing this analysis is shown below.

Analysis of Tax Credit for Hiring a Formerly Incarcerated Individual

24,421		Number of inmates in SC facilities (state and local only)
0.55	X	Percentage released during the year
13,432	=	Number of inmates released
0.31	X	Percentage of ex-inmates that find employment
0.72	X	Percentage of ex-inmates that work full-time
2,998	=	Number of ex-inmates working full-time
0.90	X	Recidivism rate - 10% of ex-inmates go back to jail
2,698	=	Number of released inmates still working full-time
\$5,000	X	Annual amount of tax credit per ex-inmate
\$13,490,649	=	Annual amount of tax credit that may be claimed
0.25	X	Average percentage of ex-inmates able to complete 12 months of work
\$3,372,662	=	Annual amount of tax credits claimed under tax section

Note: All calculations by the Board of Economic Advisors
 Sources: U.S. Department of Justice, Office of Justice Programs, Bureau of Justice Statistics, Washington, D.C.; S.C. Department of Corrections, Columbia, SC

Section 2. This act takes effect upon approval by the Governor and applies to eligible employees first employed by the employer after the effective date of this act.

Local Expenditure

N/A

Local Revenue

N/A

Frank A. Rainwater, Executive Director