



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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Bill Number: S.169
Author: Kimpson
Subject: Income Tax Credit
Requestor: Senate Finance
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	(\$1,599,753)	(\$1,599,753)
Other and Federal	\$0	\$0
Local Expenditure	\$0	\$0
Local Revenue	\$0	\$0

Fiscal Impact Summary

This bill would 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 \$1,599,753 in FY2016-17 and 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 \$500 a month for each formerly incarcerated individual that becomes gainfully employed. The tax credit may be claimed beginning after tax year 2014 if the following conditions are met:

- \$500 tax credit per month for each formerly incarcerated individual employed
- The monthly credit is earned after every thirty (30) consecutive days the formerly incarcerated individual is employed

- The formerly incarcerated individual may not have been charged with a violent offense as defined in Section 16-1-60
- Total tax credit an employer receives may not exceed \$50,000 for a taxable year. Any unused credit may be carried over to the succeeding year
- Tax credit remains in effect for twenty-four (24) consecutive months for each eligible formerly incarcerated individual employed. The tax credit remains with the employee regardless of the employer.

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 27,580 inmates housed in federal, state, and local correctional facilities in South Carolina. During a typical year, fifty-five percent of inmates are released from custody. Multiplying 27,580 inmates by fifty-five percent yields 15,169 inmates released from custody. Because the tax credit is only available for non-violent offenders, the number of inmates released annually must be adjusted to remove violent offenders. According to the S.C. Department of Corrections, sixty-five percent of inmates housed in South Carolina correctional facilities are incarcerated for committing violent offenses. Pursuant to Section 16-1-60, there are fifty-three separate violent offenses enumerated. This adjusts the number of eligible formerly incarcerated individuals for the tax credit to an estimated 5,309 annually.

Based on a review of longitudinal (following the same group of individuals over time) studies of formerly incarcerated individual, 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 1,067 annually.

Also based on empirical research, less than one-half of formerly incarcerated individuals were employed eight months since their release. On average, formerly incarcerated individuals held work for three consecutive months since their release and tended to hold one job. Multiplying an

estimated 1,067 eligible formerly incarcerated individuals by a monthly nonrefundable tax credit of \$500 per formerly incarcerated individual for an average of three months before there is a break in employment service yields a reduction in General Fund revenue of an estimated \$1,599,753 in FY2016-17 and FY2017-18. 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

27,580		Number of inmates in SC facilities
0.55	X	Percentage released during the year
15,169	=	Number of inmates released
0.35	X	Percentage that are nonviolent
5,309	=	Number of inmates that are nonviolent
0.31	X	Percentage of ex-inmates that find employment
0.72	X	Percentage of ex-inmates that work full-time
1,185	=	Number of ex-inmates working full-time
0.90	X	Recidivism rate - 10% of ex-inmates go back to jail
1,067	=	Number of released inmates still working full-time
\$500	X	Monthly amount of tax credit per ex-inmate
\$533,251	=	Monthly amount of tax credit that may be claimed
3	X	Average number of months worked before employment disruption
\$1,599,753	=	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