



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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Bill Number:	H. 3899	Introduced on January 12, 2021
Author:	Elliott	
Subject:	Exceptional Needs Tax Credit	
Requestor:	House Ways and Means	
RFA Analyst(s):	Wren and Jolliff	
Impact Date:	March 12, 2021	

Fiscal Impact Summary

This bill makes changes to the Educational Credit for Exceptional Needs Children (ECENC) program. This bill will increase the amount of the ECENC fund that may be retained by Exceptional SC for administrative costs by approximately \$273,000 in FY 2021-22 for a total amount of \$364,000. Since donations recently have been less than the maximum amount of credits allowed, there will be no carryforward donations to future years at this time. Further, the increase in the administrative percentage will reduce the amount available for tax credits by approximately \$273,000 beginning in FY 2021-22 and, therefore, increase General Fund individual income tax revenue by a corresponding amount.

The bill does not change the aggregate credit amount allowed but does allow taxpayers to utilize more of the credit earned and to carry forward unused credits. In tax year 2019, 35 taxpayers earned \$74,833 in tax credits that they were not able to claim under the tax liability limitation. By increasing the limitation from 60 percent to 75 percent, those taxpayers will be able to use approximately \$20,000 in additional tax credits a year, leaving approximately \$55,000 in tax credits to be carried forward. Assuming a similar tax liability in future years, the carryforward would increase credits claimed by approximately \$20,000 for the succeeding three tax years allowed in the bill. This would decrease General Fund revenue by approximately \$20,000 beginning in FY 2021-22.

In summary the combined impact of increasing allowable administrative costs and increasing the ability for taxpayers to claim the credit will result in a net increase in General Fund individual income tax revenue of approximately \$253,000 beginning in FY 2021-22.

Explanation of Fiscal Impact

Introduced on January 12, 2021

State Expenditure

N/A

State Revenue

This bill makes changes to the organizational structure of Exceptional SC, which is the public charity that manages the ECENC fund. The board of directors of the charity will no longer be

appointed by the Chairman of the House Ways and Means Committee, Chairman of the Senate Finance Committee, and the Governor. The bill also increases the amount of the fund that may be retained by the charity for administration and related costs from 2 percent to 8 percent. Further, the bill reduces the reporting requirements of independent schools. This bill allows the ECENC fund to carry forward up to five million dollars of donations into the next year to provide credits in the next year. This carryforward amount does not increase the cumulative tax credit amount set forth in this bill for any one year.

Exceptional SC reports that the ECENC fund received \$4,554,883 in donations in tax year 2019 and retained \$91,097, or 2 percent, for administrative costs. Based upon this information and assuming similar donations in future tax years, increasing the amount that may be retained to 8 percent will allow the charity to retain an additional \$273,292 in FY 2021-22 for a total amount of \$364,389 for administrative costs. Exceptional SC indicates that all donations, less the allowed percentage for administrative costs, have been awarded in prior years and have not met the credit cap in recent years. As such, this increase in administrative expenses will decrease the amount available for tax credits by approximately \$273,000 beginning in FY 2021-22, thereby increasing General Fund individual income tax revenue by a corresponding amount.

The bill also increases the amount of credit a taxpayer may claim in a year from 60 percent of the taxpayer's tax liability to 75 percent for the non-refundable tax credits authorized in Sections 12-6-3790(H)(1) or (I). Further, any used credit from these sections may be carried forward for three tax years after the tax year in which the qualified contribution is first eligible to be claimed. Currently, there is no carryforward provision.

The bill does not change the aggregate credit amount allowed but does allow taxpayers to utilize more of the credit earned and to carry forward unused credits. The latest available data from DOR reports only tax credit claims against individual income tax and no claims against corporate income tax or bank tax. Based upon tax year 2019, 353 individual income taxpayers claimed \$4,052,168 in non-refundable tax credits. Of those, 35 taxpayers earned \$74,833 in tax credits that they were not able to claim under the tax liability limitation. By increasing the limitation, those taxpayers will be able to use approximately \$20,000 in additional tax credits a year, leaving approximately \$55,000 in tax credits to be carried forward. Assuming a similar tax liability in future years, the carryforward would increase credits claimed by approximately \$20,000 for the succeeding three tax years, decreasing General Fund individual income tax revenue by approximately \$20,000 per year beginning in FY 2021-22.

In summary, the impact of increasing the allowable administrative costs and increasing the ability for taxpayers to claim the credit will result in a net increase in General Fund individual income tax revenue of \$253,292 beginning in FY 2021-22.

Local Expenditure

N/A

Local Revenue

N/A



Frank A. Rainwater, Executive Director