



**SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE**  
**STATEMENT OF ESTIMATED FISCAL IMPACT**  
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*This fiscal impact statement is produced in compliance with the South Carolina Code of Laws and House and Senate rules. The focus of the analysis is on governmental expenditure and revenue impacts and may not provide a comprehensive summary of the legislation.*

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<b>Bill Number:</b>	H. 4504	Introduced on January 11, 2022
<b>Author:</b>	Hewitt	
<b>Subject:</b>	Maximum Sales Tax	
<b>Requestor:</b>	House Agriculture, Natural Resources, and Environmental Affairs	
<b>RFA Analyst(s):</b>	Gallagher	
<b>Impact Date:</b>	February 3, 2022	

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### **Fiscal Impact Summary**

This bill amends §12-36-2110(A)(1)(d) to limit the sales tax on watercraft trailers or other wheeled apparatus designed for the regular transportation of watercraft, and watercraft motors to the maximum sales tax of \$500 or 5 percent, whichever is less.

This bill will not impact expenditures for the Department of Revenue (DOR), as providing guidance on tax law changes is part of their regular duties.

This bill would reduce state sales tax revenue by \$502,741 beginning in FY 2022-23. Subjecting watercraft trailers and boat motors to the maximum sales tax will reduce General Fund revenue by \$57,446, EIA Fund revenue by \$21,627, and HEX Fund revenue by \$443,035, and increase Infrastructure Maintenance Fund (IMF) revenue by \$19,367 beginning in FY 2022-23. This bill would also reduce local revenue, as items subject to the maximum sales tax are exempt from local option sales taxes. Therefore, this bill will result in an estimated reduction in local revenue of \$633,541 beginning in FY 2022-23.

Collectively, this bill would reduce total state and local sales tax revenue by an estimated \$1,136,282 beginning in FY 2022-23.

### **Explanation of Fiscal Impact**

#### **Introduced on January 11, 2022**

#### **State Expenditure**

This bill amends §12-36-2110(A)(1)(d) to limit the sales tax on watercraft trailers or other wheeled apparatus designed for the regular transportation of watercraft, and watercraft motors to the maximum sales tax of \$500 or 5 percent, whichever is less. Currently, only boats are included under this maximum sales tax provision. DOR indicates this bill will not have an expenditure impact on the agency, as providing guidance on tax law changes is part of their regular duties.

## State Revenue

This bill amends §12-36-2110(A)(1)(d) to limit the sales tax on watercraft trailers or other wheeled apparatus designed for the regular transportation of watercraft, and watercraft motors to the maximum sales tax of \$500 or 5 percent, whichever is less.<sup>1</sup>

Currently, watercraft trailers sold for business purposes are subject to the infrastructure maintenance fee pursuant to §56-6-627.<sup>2</sup> As such, they are exempt from sales tax pursuant to §12-36-2120(83). Watercraft trailers sold for personal use and wheeled apparatus designed for the regular transportation of watercraft are currently subject to the 6 percent sales tax, plus any local taxes if they are sold by a licensed retailer. This analysis assumes wheeled apparatus designed for the regular transportation of watercraft primarily relates to personal watercraft (PWC) trailers.

Based on data provided by the Department of Natural Resources (DNR) and the National Marine Manufacturers Association (NMMA), Revenue and Fiscal Affairs estimates that 4,466 trailerable boats and 2,617 PWCs will be purchased from a permitted marine dealer (PMD) in FY 2022-23.<sup>3</sup> This analysis assumes consumers that purchase a boat and/or PWC from a PMD also purchase a trailer at the time of sale.

The majority of watercraft trailers cost between \$500 and \$5,000 depending on the trailer type, material, and required number of axles.<sup>4</sup> The average PWC trailer costs between \$1,087 and \$3,599 depending on trailer size and material.<sup>5</sup> This analysis assumes an average cost of \$2,750 per watercraft trailer and \$2,343 per PWC trailer. The following table summarizes these assumptions:

**Table 1: Watercraft and PWC Trailer Analysis Assumptions**

Statistic	Watercraft trailers	PWC Trailers
Average Annual Quantity Purchased from a PMD	4,466	2,617
Average Cost Per Trailer	\$2,750	\$2,343

This bill would subject watercraft and PWC trailers to \$500 or 5 percent of the purchase price of the trailer, whichever is less. This analysis assumes the average watercraft and PWC trailer sale

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<sup>1</sup> Section 50-21-10 defines watercraft as anything used or capable of being used as a means of transportation on the water but does not include: a seaplane regulated by the federal government, water skis, aquaplanes, surfboards, windsurfers, tubes, rafts, and similar devices or anything that does not meet construction or operational requirements of the state or federal government for watercraft.

<sup>2</sup> Sales and Use Tax Manual: Chapter 10, South Carolina Department of Revenue, December 2020.

<sup>3</sup> U.S. Recreation Boating Industry Sees Seventh Consecutive Year of Growth in 2018, Expects Additional Increase in 2019, National Marine Manufacturers Association, January 10, 2019.

<sup>4</sup> Watercraft trailers: The Ultimate Buying Guide, GoRollick, February 1, 2021.

<sup>5</sup> Jet Ski Trailers and Cost, Measuring Stuff, January 1, 2022.

will be subject to the 5 percent tax as 5 percent of \$2,750 or \$2,343 is less than \$500. Further, items taxed pursuant to §12-36-2110(A) are exempt from the 1 percent sales tax remitted to the HEX Fund. As such, 4 percent of the total 5 percent tax will be remitted to the General Fund and 1 percent to the EIA Fund. Pursuant to §12-36-2110(A)(4), revenue generated from maximum sales tax items in excess of \$300 is credited to the IMF. In order for this threshold to be reached, an item must cost more than \$6,000. Since the assumed average cost of both a watercraft trailer and a PWC trailer is less than \$6,000, this analysis assumes the IMF will not be impacted.

Multiplying the estimated 4,466 watercraft trailer and 2,617 PWC trailer purchases by their average assumed cost yields estimated total watercraft trailer sales of \$12,281,015 and PWC trailer sales of \$6,132,512. Applying the current 6 percent sales tax rate and comparing to the proposed 5 percent tax rate yields the following:

**Table 2: Revenue Impact from Subjecting Watercraft Trailers to the Maximum Sales Tax**

Fund	Watercraft trailers		
	Current Sales Tax	Anticipated Sales Tax (\$500 maximum)	Difference
General Fund (4%)	\$491,241	\$491,241	\$0
EIA Fund (1%)	\$122,810	\$122,810	\$0
HEX Fund (1%)	\$122,810	\$0	(\$122,810)
IMF	N/A	N/A	N/A
Total	\$736,861	\$614,051	(\$122,810)

**Table 3: Revenue Impact from Subjecting PWC Trailers to the Maximum Sales Tax**

Fund	PWC Trailers		
	Current Sales Tax	Anticipated Sales Tax (\$500 maximum)	Difference
General Fund (4%)	\$245,300	\$245,300	\$0
EIA Fund (1%)	\$61,325	\$61,325	\$0
HEX Fund (1%)	\$61,325	\$0	(\$61,325)
IMF	N/A	N/A	N/A
Total	\$367,951	\$306,626	(\$61,325)

As such, this bill will reduce HEX Fund revenue by an estimated \$122,810 from the exemption of watercraft trailers and \$61,325 from the exemption of PWC trailers. This results in a total estimated reduction in HEX Fund revenue of \$184,135 beginning in FY 2022-23.

This bill further exempts boat motors from the 6 percent sales tax and subjects them to the maximum sales tax. Currently, a boat sold with a permanently attached motor is taxed at the lesser of 5 percent of the purchase price of the boat and motor or \$500. This amendment would also exempt non-permanently attached motors (also known as outboard motors). Based on data provided by DNR, an average of 7,479 boat motors are purchased from a PMD and 2,355 from nonretailers per year in South Carolina. This analysis separates the data into two categories to more accurately account for the revenue impact: those motors with a sales price of less than \$10,000 and those with a price equal to or greater than \$10,000. This yields the following descriptive statistics:

**Table 4: Boat Motor Sales Data**

Statistic	Boat Motors Purchased from PMD	Boat Motors Purchased from Nonretailers
Number of boat motors with a sale price less than \$10,000	7,448	2,289
Average cost per motor sold if sale price less than \$10,000	\$2,812	\$1,215
Number of boat motors with a sale price equal to or greater than \$10,000	31	66
Average cost per motor sold if sale price equal to or greater than \$10,000	\$37,294	\$15,341

These motors are currently taxed at the 6 percent sales tax rate, with 4 percent remitted to the General Fund, 1 percent to the EIA Fund, and 1 percent to the HEX Fund. Multiplying the average number of boats purchased per year by the average sales price, accounting for prices in excess of \$10,000 and type of seller, and applying the current 6 percent sales tax rate yields the following:

**Table 5: Revenue Impact from Subjecting Watercraft Motors to the Maximum Sales Tax**

Fund	Watercraft Motors		
	Current Sales Tax	Anticipated Sales Tax (\$500 maximum)	Difference
General Fund (4%)	\$1,035,601	\$978,155	(\$57,446)
EIA Fund (1%)	\$258,900	\$237,276	(\$21,624)
HEX Fund (1%)	\$258,900	\$0	(\$258,900)
IMF	\$0	\$19,367	\$19,367
Total	\$1,553,401	\$1,234,798	(\$318,603)

This bill would limit sales tax on watercraft motors to \$500 or 5 percent of the purchase price of the motor, whichever is less. For the sale of a watercraft motor to be limited by the \$500 maximum tax, the purchase price must be greater than \$10,000. As shown in Table 4, the majority of motors would be subject to the 5 percent tax as the average cost of a watercraft motor sold by both PMDs and nonretailers is less than \$10,000. However, an estimated 97 total motors would be limited to the \$500 maximum sales tax per year as their price is greater than \$10,000. Pursuant to §12-36-2110(A)(4), revenue generated from maximum sales tax items in excess of \$300 is credited to the IMF. Furthermore, items subject to the maximum sales tax are exempt from the 1 percent sales tax remitted to the HEX Fund.

Therefore, by subjecting watercraft motors to the maximum sales tax, this bill would reduce General Fund revenue by an estimated \$57,446, EIA Fund revenue by \$21,627, and HEX Fund revenue by \$258,900, and increase IMF revenue by \$19,367 beginning in FY 2022-23. This would result in a total net revenue decrease of \$318,603 beginning in FY 2022-23 from subjecting watercraft motors to the maximum sales tax.

In summary, this bill results in the following total estimated revenue impact beginning in FY 2022-23 by subjecting watercraft trailers or other wheeled apparatus designed for the regular transportation of watercraft, and watercraft motors to the maximum sales tax:

**Table 6: Combined Revenue Impact beginning in FY 2022-23 from Subjecting Watercraft Trailers and Motors to the Maximum Sales Tax**

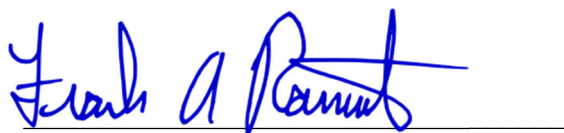
Fund	Revenue Impact from Trailers	Revenue Impact from Watercraft Motors	Total Revenue Impact
General Fund (4%)	\$0	(\$57,446)	(\$57,446)
EIA Fund (1%)	\$0	(\$21,627)	(\$21,627)
HEX Fund (1%)	(\$184,135)	(\$258,900)	(\$443,035)
IMF	\$0	\$19,367	\$19,367
Total	(\$184,135)	(\$318,606)	(\$502,741)

**Local Expenditure**

N/A

**Local Revenue**

This bill amends §12-36-2110(A)(1)(d) to limit the sales tax on watercraft trailers or other wheeled apparatus designed for the regular transportation of watercraft, and watercraft motors to the maximum sales tax of \$500 or 5 percent, whichever is less. Currently, watercraft trailers sold by a retailer for personal use and watercraft motors are subject to the 6 percent sales tax and any local taxes imposed. Items subject to the maximum sales tax are not subject to local taxes. Local sales taxes in South Carolina average an additional 1.43 percent. Based upon the analysis outlined in the State Revenue section, this bill would therefore reduce local sales taxes by an estimated \$263,000 from the exemption of watercraft trailers and \$370,227 from the exemption of watercraft motors, for a total local sales tax revenue reduction of \$633,541 beginning in FY 2022-23.



Frank A. Rainwater, Executive Director