



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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|------------------------|-------------------------------|------------------------------------|
| Bill Number: | S. 635 | Signed by Governor on May 16, 2022 |
| Author: | Setzler | |
| Subject: | S.C. Research Authority Board | |
| Requestor: | Senate | |
| RFA Analyst(s): | Jolliff | |
| Impact Date: | July 12, 2022 | |

Fiscal Impact Summary

This bill makes changes to the membership of the South Carolina Research Authority (SCRA) Board of Trustees, changes to the investments that SCRA is permitted to make, and changes to the provisions regarding companies remaining in an innovation center. These changes are not expected to affect expenditures for any state agency. Further, the bill makes changes to the Industry Partnership Fund tax credit for tax years after 2020. We anticipate that the Department of Revenue (DOR) will implement the necessary changes to the tax credit forms in the annual updates to forms and instructions. Therefore, the bill is not expected to impact expenditures for the agency.

In recent years, Industry Partnership Fund contributions have not met the annual aggregate limit for tax credits of \$9,000,000, which is unchanged in the bill. In 2021, contributions totaled approximately \$6,700,000. However, the bill increases the maximum allowable tax credit per taxpayer, which would allow current contributors to receive additional tax credits if they contribute more. This change would potentially reduce General Fund revenue from individual or corporate income tax, corporate license fees, bank tax, or insurance tax, or some combination thereof, by an additional \$2,300,000 beginning in FY 2022-23, for a total of up to \$9,000,000. The timing of the impact may shift if taxpayers do not have sufficient tax liability to utilize the credits and carry forward credits to future tax years for the allowable ten-year carryforward period. Additionally, because the bill is effective beginning with tax year 2021 but was not enacted until May 2022, it is unlikely that many companies contributed more than the \$250,000 tax credit limit in place during 2021. If a company did contribute more, it would be eligible for the additional tax credit through a refund. However, we anticipate limited impact for tax year 2021.

Explanation of Fiscal Impact

Signed by Governor on May 16, 2022

State Expenditure

This bill makes changes to the membership of the SCRA Board of Trustees, changes to the investments that SCRA is permitted to make, and changes to the provisions regarding companies remaining in an innovation center. These changes are not expected to affect expenditures for any state agency. Further, the bill makes changes to the Industry Partnership Fund tax credit for tax

years after 2020. We anticipate that DOR will implement the necessary changes to the tax credit forms in the annual updates to forms and instructions. Therefore, the bill is not expected to impact expenditures for the agency.

State Revenue

This bill makes changes to the Industry Partnership Fund tax credit for tax years after 2020. Currently, taxpayers who contribute to the Industry Partnership Fund at the SCRA or an SCRA designated affiliate, or both, are allowed a tax credit against individual or corporate income tax, corporate license fees, bank tax, or insurance tax. The tax credit is limited to \$250,000 per taxpayer and an aggregate of \$9,000,000 for all taxpayers in a tax year. The tax credit may be carried forward for ten tax years. The bill would increase the allowable credit amount for individual taxpayers to \$500,000 but does not change the aggregate limit of \$9,000,000 per tax year. Further, if the aggregate limit is not met within sixty days of the annual opening date for applications, the bill increases the maximum credit per taxpayer to \$1,000,000, subject to the aggregate limit.

The table below provides the contributions to the fund in recent years as reported by the S.C. Research Authority. In recent years, contributions have not reached the limit due to changes in federal tax law regulations that have made contributions less favorable.

Contributions to the Industry Partnership Fund

| Year | Amount | Contributors | Average Per Contributor |
|---------------------|---------------|---------------------|--------------------------------|
| 2018 | \$6,000,000 | 111 | \$54,054 |
| 2019 | \$3,066,317 | 68 | \$45,093 |
| 2020 | \$3,755,740 | 93 | \$40,384 |
| 2021 | \$6,706,800 | 154 | \$43,550 |
| 2022 (as of May) | \$1,476,000 | 22 | \$67,091 |

Source: S.C. Research Authority

According to SCRA’s Annual Report for 2021, seven companies contributed at least \$200,000 to the Industry Partnership Fund for the year. Under the bill, these companies could contribute an additional \$250,000 up to the \$500,000 maximum or potentially up to \$1,000,000, given that the aggregate limit has not been met recently.

Based on recent contributions in 2021, the bill may reduce General Fund revenue from individual or corporate income tax, corporate license fees, bank tax, or insurance tax, or some combination thereof, by an additional \$2,300,000 annually beginning in FY 2022-23, subject to the annual aggregate limit of \$9,000,000 total. The timing of the impact may shift if taxpayers do not have sufficient tax liability to utilize the credits and carry forward unused credits to future tax years for the allowable ten-year carryforward period. Additionally, because the bill is effective beginning with tax year 2021 but was not enacted until May 2022, it is unlikely that many companies contributed more than the \$250,000 tax credit limit in place during 2021. If a

company did contribute more, it would be eligible for the additional tax credit through a refund. However, given the limitations in place during the year, we anticipate limited impact for tax year 2021.

Local Expenditure

N/A

Local Revenue

N/A



Frank A. Rainwater, Executive Director