

Executive Summary

As businesses around the world look to increase market share and reduce costs, it seems that more and more are finding South Carolina. And why not? The state's business-friendly tax environment is based on the philosophy that **business, not government, creates wealth**. For businesses, that philosophy means a tax structure and incentives that dramatically reduce the cost of doing business and increases the return on their investment.

Aggressive Incentives Reward Industries for Growth

South Carolina's tax incentives are performance based. Industries in South Carolina that create new jobs and make new investments may be rewarded with:

- credits against their corporate income that can completely eliminate corporate income tax liability for up to 10 years;
- property tax reductions of 45 percent or more;
- numerous sales tax exemptions that reduce start-up as well as on-going costs;
- the ability to use state funds to offset a portion of new employee's withholding taxes; and
- a worker training program customized to meet their individual needs.

\$5.8 Billion of Capital Investment Confirms South Carolina's Strategy Works

South Carolina is an established leader in attracting capital investment from both new and expanding industry. The state consistently leads the 17 state Southern Economic Development Council in per capita capital investment. In 1998 nearly 1,400 companies from around the world invested over \$5.8 billion in South Carolina. The greatest testimony to South Carolina's business climate is the list of internationally-recognized companies including:

- | | | |
|---------------|----------|-------------------|
| • BMW | • DuPont | • Fuji Photo Film |
| • Michelin | • Bose | • Robert Bosch |
| • Nucor Steel | • Honda | • Kimberly-Clarke |

The following pages describe in detail incentives available to a qualified company.

Please note, the incentives in South Carolina are performance based and will increase or decrease in direct proportion with jobs, wages, and/or actual investment. The South Carolina Department of Commerce is not authorized with statutory power to offer definitive tax commitments - only the South Carolina Department of Revenue and Taxation, the local elected council, and the South Carolina Coordinating Council for Economic Development has the authority to do so under South Carolina law. This summary should only be used by the company to assist in their evaluation of South Carolina taxes and incentives. Assumptions underlying the analyses are clearly stated and should be duly noted by the company.

South Carolina's

Corporate Income Tax Structure & Tax Incentives for New and Expanding Industries

South Carolina offers a fair and reasonable tax climate for companies to prosper and grow.

The pro-business attitude of the South Carolina legislature continues to provide industry with numerous important tax incentives. Pro-business legislation in recent years include:

- allowing double-weighting of the sales factor in income apportionment;
- increasing the value and carry-forward of corporate income tax credits;
- reducing the investment requirements to qualify for the Fee-in-Lieu of property taxes;
- increasing maximum depreciation of personal property from 80 percent to 90 percent of original value; and
- first creating, then expanding statewide, the South Carolina Enterprise Program where businesses can utilize employee's state personal income taxes to offset a project's capital costs.

- ***South Carolina's corporate income tax rate is only 5 percent.***
- ***There is no local government tax on corporate income.***

Business Taxes

The major taxes paid by South Carolina corporations are income, sales, license and property. Income and license are state taxes; sales tax is primarily a state tax with some areas exercising their option to add a local sales tax; property is a local tax.

South Carolina State Corporate Income Tax

All corporations operating in South Carolina are taxed on the income derived from business activity conducted in this state. **The corporate income tax rate is 5 percent.** In South Carolina, only the state has the authority to tax corporate income. *There is no local government tax on corporate income.*

Corporate Income Tax for Firms Engaged in Multi-State Activities

Corporations engaged in multi-state activities are taxed only on that portion of income derived from South Carolina sources. Certain income is **allocated** to the corporation in South Carolina and certain income is **apportioned** to determine how much is subject to South Carolina's state corporate income tax.

Corporate Income Basis

The basis for South Carolina gross corporate income and taxable corporate income is based primarily upon a corporation's federal gross income and taxable income.

Allocated Income

Certain corporate income is allocated to the corporation for South Carolina tax purposes before apportionment is applied. (Generally speaking, allocation items are more of an issue with headquarters and similar operations.)

Allocated income includes interest, dividends, royalties, rents, property sale gains and losses and personal services income associated with the South Carolina facility.

Apportioned Income

South Carolina's apportionment formula is based upon the Uniform Division of Income for Tax Purpose Act (UDITPA), which has been adopted generally by the majority of the states. Corporate income is apportioned based upon a three-factor formula of payroll, property and sales.

***Effective June 1995,
these factors are
weighted as follows:***

- ***25% - property factor***
- ***25% - payroll factor***
- ***50% - sales factor***

1. The **property factor** is computed by dividing the value of real and tangible personal property owned or rented or used by the

corporation in South Carolina during the tax year, by the value of real and tangible personal property owned or rented or used by the corporation everywhere.

2. The **payroll factor** is computed by dividing the total payroll of the corporation in South Carolina during the tax year, by the total payroll of the corporation everywhere.
3. The **sales factor** is computed by dividing the sales of the corporation in South Carolina during the tax year, by the total sales of the corporation everywhere.

The weighted factors are added to determine the **apportionment ratio**. The apportionment ratio is then applied to the corporation's total income to determine **apportioned South Carolina income** -- the amount of income subject to South Carolina corporate income tax.

South Carolina Corporate Income Tax

South Carolina's income tax is computed by applying the following formula:

The income allocated to South Carolina is added to the income apportioned to South Carolina, and South Carolina's corporate income tax rate of 5 percent is applied to this sum.

Summary

South Carolina Corporate Income Tax = (Allocated Income + Apportioned Income) x 5 percent

where

$$\begin{array}{rcl} \{.25 \times (\text{SC property} / \text{Property everywhere})\} & & (\text{property factor}) \\ \{.25 \times (\text{SC payroll} / \text{Payroll everywhere})\} & & (\text{payroll factor}) \\ + \{.50 \times (\text{SC sales} / \text{Sales everywhere})\} & & (\text{sales factor}) \end{array}$$

Apportionment Ratio

and

$$\begin{array}{l} \text{Apportionment Rate} \times \text{Apportionable Income} = \text{Apportioned Income} \\ (\text{Allocated Income} + \text{Apportioned Income}) \times 5 \text{ percent} = \text{SC Corporate Income Tax} \end{array}$$

Extended Recovery Time for Business Losses

South Carolina permits a 15-year net carry-forward loss period.

South Carolina's Corporate License Fee (Franchise Tax)

All corporations -- foreign and domestic -- must pay an annual fee to the South Carolina Department of Revenue and Taxation. The rate is one mill per dollar of a proportion of total paid-in-capital and paid-in-surplus, plus \$15. *Earned surplus (retained earnings) is not included in the base in calculating this tax.* The minimum corporate license fee is \$25.

For corporations doing business outside the state, the license fee is determined by apportionment, in the same manner employed in computing the state corporate income tax.

The calculation is based on the total of the capital stock and the paid-in-surplus, multiplied by the apportionment ratio, and the product of that number would then be multiplied by .001, which would be the license fee, plus \$15. In most cases, the license fee is quite low (\$25).

Corporate Income Tax Moratorium for Distressed Counties

Companies creating net new jobs in South Carolina's most economically distressed counties will benefit from a 10-year corporate income tax moratorium. In order to qualify at least 90% of the company's total investment must be in a county where the unemployment rate is twice the state average. The length of the moratorium depends on the number of net new jobs created. For companies creating at least 100 net new jobs in one taxable year the moratorium will last 10-years while companies creating at least 200 net new jobs will be eligible for a 15-year moratorium.

Credits Against South Carolina Corporate Income Tax

Jobs Tax Credit for New Job Creation

A valuable financial incentive offered to qualifying new and expanding industries in South Carolina can be realized through Jobs Tax Credits. The Jobs Tax Credit provides a credit to corporate income tax or premium tax based upon new jobs created by a company locating or expanding a facility in any county in the state. Eligible companies must increase

Jobs Tax Credit Values	
County Classification	Value
Least Developed	\$4,500
Under Developed	\$3,500
Moderately Developed	\$2,500
Developed	\$1,500

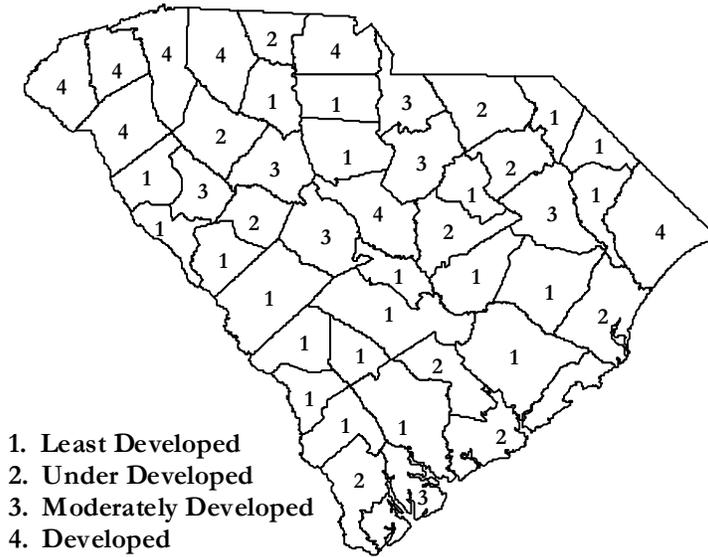
their annual average monthly employment by 10 or more to qualify. The dollar amount of the credit ranges from \$1,500 per new job created to \$4,500 per new job created, depending on the county's socio-economic status.

A county may also join with another county to form a “multi-county industrial park.” Under this arrangement, a county agrees to share the property taxes with a “partner” county in order to raise the value of the credits by \$1,000 per job for qualifying companies.

1999 Jobs Tax Credit Designation

Least Developed	Under Developed	Moderately Developed	Developed
Abbeville	Charleston	Beaufort	Anderson
Aiken	Cherokee	Florence	Greenville
Allendale	Chesterfield	Greenwood	Horry
Bamberg	Darlington	Kershaw	Oconee
Barnwell	Dorchester	Lancaster	Pickens
Berkeley	Georgetown	Lexington	Richland
Calhoun	Jasper	Newberry	Spartanburg
Chester	Laurens		York
Clarendon	Saluda		
Colleton	Sumter		
Dillon			
Edgefield			
Fairfield			
Hampton			
Lee			
Marion			
Marlboro			
McCormick			
Orangeburg			
Union			
Williamsburg			

1999 Jobs Tax Credit Designations



The credit is available for a five-year period beginning with Year 2. (Year 1 is used to establish the created job levels). *The number of new jobs is calculated as the increase in the average monthly employment from one year to the next.* Expansions beyond the certification level within the five-year period are also eligible for credits within this five-year period. If the minimum number of new jobs for certification (10) are met within a given year, those jobs qualify for separate certification and are not subject to the criteria of the previous certification.

**Jobs Tax Credits for A Company in An
 Under Developed County
 Creating 100 Jobs in Year 1**

Year	Credit Per Job	Number of Credits	Dollar Credit
1	Establish Employment Levels		
2	\$3,500	100	\$350,000
3	\$3,500	100	\$350,000
4	\$3,500	100	\$350,000
5	\$3,500	100	\$350,000
6	\$3,500	100	<u>\$350,000</u>
Total Credit:			\$1,750,000

The credit can be applied against corporate income tax or premium tax, but cannot exceed 50 percent of the year's tax liability. Unused credits may be carried forward for 15 years from the year earned. The adjacent table illustrates how the credit is computed for a facility located in an Under Developed county.

Displaced Worker Jobs Tax Credit

South Carolina provides a tax credit to employers in a county or municipality whose boundaries are within 25 miles of a military or other federal installation where employment was reduced by 3,000 workers or more in a single year. This credit is for 10 percent of the employee's first \$10,000 in wages. Therefore, new and expanding companies could receive a tax credit of up to \$1,000 for each displaced worker hired at their facility. This tax credit is not limited to a percentage of tax due, and it allows for a ten-year carry-forward for unused credits.

Corporate Headquarters Credit

In an effort to offset the cost associated with relocating or expanding a corporate headquarters facility, the State of South Carolina provides a corporate income tax credit to companies establishing a headquarters facility in the state. To qualify as a corporate headquarters the facility must be the:

- location where corporate staff members or employees are domiciled and where the majority of the company's financial, legal, personnel, planning and/or other staff functions are handled on a regional or national basis; and
- sole such corporate headquarters within the region or nation. (Regional is defined as a geographical area comprised of either five states [including South Carolina]; two or more states [including South Carolina] if the corporation's entire range of business operations are performed in fewer than five states.)

Credit Qualifications

The credit only applies to facilities, or the portion of facilities, established for the direct use of the headquarters staff.

To qualify for this credit:

- A minimum of 40 new full-time jobs must be created which are engaged in corporate headquarters or R&D activities.
- At least 20 of the 40 newly created jobs must be classified as staff employees.
- Construction costs must exceed \$50,000.

Credits

Facilities qualifying as a corporate or regional headquarters operation will receive a credit to the corporate income tax or corporate license fee for 20 percent of:

- costs incurred in the design, preparation, and development of either establishing or expanding a corporate headquarters;
- direct construction or direct lease costs during the first five years of operations.

Unused portions of this credit may be carried forward for 10 taxable years. *Note that this credit is not limited to 50 percent of a firm's tax liability.*

Enhanced Credit for Corporate Headquarters

In addition to the regular headquarters credit, there is an enhanced corporate headquarters credit. This credit may be applied against 20 percent of the tangible personal property costs of establishing the headquarters. Qualifications for this credit require that a company's tangible personal property be:

- capitalized as personal property for income tax purposes under the Internal Revenue Code;
- purchased for the headquarters facility or research and development facility which is a part of the same project;
- used for headquarters or research and development related functions and services; and,
- used to create a minimum of 75 permanent new full-time jobs performing headquarters or research and development related functions and services, 20 of which are staff level.

Additional qualifications require that a company's

- new jobs must have an average cash compensation level in this state of more than one and one-half times the per capita income in this State at the time the newly created jobs are filled; and,
- average South Carolina employee compensation level for all employees in the state of more than twice the per capita income in this State at the time the newly created jobs are filled.

This credit may be used to eliminate both the company's Franchise Fee and the corporate income tax. Unused credits may be carried forward for 10 years, 15 years if the company meets the job creation and income criteria for personal property credits.

Economic Impact Zone Investment Tax Credit

In order to help offset the impact of federal downsizing in the state, legislation was passed to spur economic growth in areas surrounding the Charleston Naval Base, Myrtle Beach Air Force Base and the Savannah River Site. This legislation allows manufacturers locating in "Economic Impact Zones" a one-time credit against the company's corporate income tax of up to 5% of the company's investment in new production equipment.

The actual value of the credit depends on the applicable recovery period for property under the Internal Revenue Code. The following table illustrates the credit value for the various years outlined in the code.

Recovery Period	Credit Value
3 years	1%
5 years	2%
7 years	3%
10 years	4%
15 or more years	5%

As is the case with the Corporate Headquarters Credit, this credit is not limited in its ability to eliminate corporate income taxes. Any unused credit may be carried forward for up to 10 years.

Operating Costs

Companies may also claim a credit against its South Carolina corporate income tax, bank tax or premium tax for costs incurred in operating a child care program, or for providing child care benefits to employees. The credit can be claimed for payments made directly to licensed or registered independent child care facilities in the name of and for the benefit of an employee. The company may claim a credit equal to 50 percent of the child care payments incurred by the employer, up to \$3,000 per participating employee.

All child care credits can be applied against corporate income tax, bank tax or premium tax, not to exceed 50 percent of the year's tax liability. Unused credits may be carried forward for 10 years from the year earned.

An example of the value of this incentive is shown in the table. This assumes that

- a) the company spends \$200,000 on a child care facility, and
- b) the company pays \$6,000 in child care costs for 50 employees.
- c) Please note that this is an **annual** incentive which can be "stacked" on top of the Jobs Tax Credit.

Estimated Value of Child Care Credit

Capital Credit:	\$100,000
Employee Expense Credit (annual):	\$150,000
<i>(50 employees @ \$3,000 each)</i>	

Corporate Contributions to Infrastructure Construction

Credits against corporate income taxes are permitted for corporate contributions for construction of and/or improvements to infrastructure. Qualified projects for this credit include water and sewer lines and their related facilities and roads that do not exclusively benefit the taxpayer but are dedicated to public use. Credit is permitted for 50 percent of the expense, up to \$10,000 annually. Unused credits up to but not exceeding \$30,000 may be carried forward for three years.

South Carolina State and Local Sales Tax

The sales and use tax rate in South Carolina is 5.0 percent. A local option sales tax of an additional 1.0 percent applies in nearly half of the state's forty-six counties. (With two exceptions, counties which adopt the local option sales tax are required to provide a certain amount of property tax relief.)

The sales tax applies to all retail sales, leases and rentals of tangible personal property, including the value of property purchased at wholesale and then used or consumed by the purchaser; the use tax is based on the sales price of such property.

Out-of-State Sales

South Carolina exempts sales tax on the gross proceeds of the sales of tangible personal property where the seller, by contract of sale, is obligated to deliver to the buyer, or to an agent of the buyer, or to a donee of the buyer, at a point outside of the state or to deliver it to a carrier or to the mails for transportation to the buyer, to an agent of the buyer, or to a donee of the buyer, at a point outside this state.

Out-of-State Purchases -- Use Tax Credit

South Carolina provides a credit to the use tax for sales and use taxes on purchases of tangible personal property paid in another state if the state in which the property is purchased and the sales and use taxes paid allows substantially similar tax credits on tangible personal property purchased in this state. If the amount of the sales or use tax paid in the other state is less than the amount of use tax imposed in this state, the user shall pay the difference to this state.

Available Exemptions

South Carolina supports new and expanding industry with a wide range of valuable exemptions to the sales tax (state and local). These exceptions include the following.

Manufacturers

- machinery and equipment;
- repair parts;
- materials which will become an integral part of the finished product;

- manufacturing electricity; and
- pollution control equipment.

All Industries

- packaging materials; and
- long distance telecommunication, including 800 service.

South Carolina also provides valuable **caps on sales taxes** for the following:

- **Research & Development Equipment:** A maximum sales tax of \$300 on the sale or use of each item of machinery for research and development.
- **Maximum Sales Tax:** A \$300 maximum sales tax is imposed on the sale or lease of aircraft, motor vehicles, motorcycles, boats, recreational vehicles and other items.

Material Handling Equipment

- Material handling equipment is exempt from sales taxes for manufacturing **or** distribution projects investing \$35 million or more.

Note: *For items subject to sales tax exemptions and caps, the 1 percent local sales tax will not apply.*

Enterprise Program

Job Development Credit

South Carolina's Enterprise Program is substantially different from other tax incentives discussed in this booklet in that it provides companies with **funds to offset the cost of locating or expanding a business facility in this state**. Representing actual cash contributions to the project, this incentive allows South Carolina to **lower** the effective cost of investing in this state, and to positively contribute to a company's bottom line and profitability. The company realizes these benefits through the Job Development Credit, which it can collect for up to 15 years.

The Job Development Credit effectively reimburses qualifying companies that add value to the state or community in which they locate for capital expenditures (land, building, site or infrastructure) associated with projects creating new full-time jobs and providing health care benefits for South Carolina citizens.

The actual value depends on the

- number of new full-time jobs (or FTE's);
- rate of pay (net of benefits); and
- the county's status where the new jobs are created.

Ability to achieve this value will depend on

1. maintaining current tax status in this state, and
2. meeting and maintaining mutually agreed upon minimum investment and employment levels.

As a result of South Carolina's continuing effort to provide businesses the best possible climate in which to operate, the South Carolina General Assembly created the Enterprise Zone Act of 1995. The Rural Development Act of 1996 greatly enhanced the Enterprise Zone Act by extending its benefits to the entire state. These two bills are indicative of South Carolina's commitment to reduce the cost of doing business and strengthen the partnership between the state and its business community.

The benefit of the Enterprise Zone legislation is the availability of state funds for eligible project costs (such as land and building) and for retraining. Generally

speaking, the incentive allows qualifying companies to utilize a portion of their employees' personal income tax withholding for eligible project expenses. The Enterprise Program is administered by the SC Coordinating Council for Economic Development.

Source of Funds

The source of funds for Job Development Credits is state personal income tax withholding which is paid by the company's new employees. State personal income tax withholding is required in this state, and as a normal procedure, the company deducts state and federal income tax withholding from employee gross pay as a routine part of payroll processing. State and federal withholding is deposited at a local bank – on a monthly basis for most companies, and reported quarterly.

Companies that qualify for the Job Development Credit, meet and maintain agreed upon investment and employment levels, and are current with respect to taxes owed in South Carolina, may claim this credit quarterly against withholding tax owed. To the extent the credit results in an overpayment of withholding, the amount overpaid is refunded to the company and may be used to reimburse qualifying capital expenditures. Employee's receive a credit equal to the withholding used by the company therefore, **there is no financial impact on employees.**

To claim the credit, the company must be current with respect to any tax owed in the State, and must have maintained its job requirement for the entire quarter. No company will be allowed to claim credit on any employee whose job was created in this state before the taxable year in which the company was approved.

Eligible Capital Expenditures

Withholding refunds may be used to reimburse the types of expenditures that follow:

- land acquisition;
- building construction costs;
- site and building improvements, including tenant improvements to leased property;
- utility system upgrades (water, wastewater, electricity, natural gas and telecommunications), both public and private;

- training costs (although the company typically has none when Special Schools is used);
- transportation facilities; and
- purchase/acquisition of “pollution control equipment” (equipment required to meet federal and state environmental requirements).

Qualifying capital expenditures **must be incurred at the South Carolina site** where the underlying jobs and Job Development Credit are generated. In addition, companies should submit their application and be approved for a preliminary Revitalization Agreement before contracting for any expenditures for which they would like reimbursement. (A Revitalization Agreement is the formal agreement between the company and the SC Coordinating Council for Economic Development. It contains mutually agreed upon investment and employment minimums and approved capital expenditures eligible to be reimbursed by withholding refunds.) The SC Coordinating Council reserves the right to approve or disapprove specific expenditures on a case-by-case basis.

To verify capital expenditures and qualifying jobs, the company is required to make its payroll books and records available for inspection by the Coordinating Council and the South Carolina Department of Revenue and Taxation. Businesses receiving refunds in excess of \$10,000 annually are required by law to furnish an audited report prepared by an independent, certified public accountant itemizing the sources of and uses of monies refunded to the company. This report must be filed by June 30 following the calendar year in which the refunds are received.

Applying for the Job Development Credit

To be eligible to apply for the Job Development Credit, the company must:

- meet the requirements of a manufacturing, corporate office, processing, warehouse, distribution, R & D, tourism, qualifying service-related facility, etc., as defined in the statutes for jobs tax credits;
- provide full-time employees with a benefits package which includes health care;
- create at least 10 *net* new full-time jobs at the facility based on average monthly employment; and
- pay a \$2,000 application fee and receive positive cost/benefit certification (the project is of greater benefit than cost to the state) from the SC Coordinating Council.

Negotiating the Job Development Credit

Once an eligible company receives preliminary approval from the SC Coordinating Council for Economic Development, it may begin to negotiate a Revitalization Agreement. A signed Revitalization Agreement:

- establishes mutually agreeable investment and employment minimums which the company must meet and *maintain* in order to begin claiming a Job Development Credit;
- sets a date by which the project's investment and employment will be completed (must be within five years of the date of the agreement); and
- identifies eligible expenditures which withholding refunds will be used to reimburse.

Note: *The amount of eligible expenditures will also determine the cap on total job development credits that can be claimed over the 15-year period.*

Calculating Potential Value of the Job Development Credit

The **maximum** credit available to any company is based on hourly equivalent pay rates – for all new employees at the facility, as shown in the adjacent table.

The **actual** credit depends on the Jobs Tax Credit classification of the county where the company locates its facility and creates jobs. The actual credit is also capped at the amount of eligible expenditures that are pre-approved and stipulated in the company's Revitalization agreement. **In no case may a company claim total Job Development Credits (over the 15 years) in excess of its eligible costs.**

Average Hourly Wage (or Equivalent)*	Maximum Credit (as percent of Gross Wages)
\$ 6.62 - \$ 8.82	2%
8.83 - 11.03	3
11.04 - 16.55	4
16.56 - up	5

*Adjusted annually

County Jobs Tax Credit Classification	Maximum Credit Company May Claim
Developed	55%
Moderately Developed	70%
Under Developed	85%
Least Developed	100%

South Carolina Department of Commerce

The following table illustrates the process used for calculating the Job Development Credit. This example assumes the company will have 200 eligible employees at an average hourly wage of \$12.00 per hour, and will locate in an under developed county.

**The Value of JDC for
A Company Locating in An
Under Developed County**

Jobs in Year 1	200
Average Hourly Wage	\$12.00/hr
Total Payroll	\$4,992,000
x Job Development Credit	<u>.04</u>
Net Job Development Credit	\$199,680
Net Job Development Credit	\$199,680
x County Classification (Under Dev.)	<u>.85</u>
Total Annual Job Development Credit	\$169,728
Total 15-Year Value	\$2,545,920

Funds for Retraining Available for Existing Industry

Eligible businesses may negotiate with the Coordinating Council for Economic Development for a refund of up to \$500 per production employee per year for the purpose of retraining, providing that the retraining is necessary for the business to remain competitive or to introduce new technologies. "Production employee" includes employees who are engaged in the actual making of tangible personal property or who are directly involved in the manufacturing, processing, operations or distribution process. Please note: Companies will not be allowed claim Job Development Credits and Retraining from the same employee.

The retraining must be approved and coordinated by the technical college(s) under the jurisdiction of the State Board for Technical and Comprehensive Education serving the designated enterprise zone. Refunds per eligible employee under this section may not exceed \$500 in a year, nor \$2,000 over five years. The company must match -- on a dollar-for-dollar basis -- the employee's withholding share used for the training. The total amount is paid to the technical college providing the training.

The Enterprise Program retraining program offers existing companies an opportunity to use employee withholdings to support up to half the costs of training production workers.

In order to collect funds for retraining, a company must submit an application (with a \$500 application fee) to the Coordinating Council.

South Carolina s

Property Taxes and Local Property Tax Incentives

South Carolina Local Property Tax

Tax Basis

In South Carolina, property taxes are levied only by local government. There is no state tax on real or personal property. *There is no tax, state or local, on inventories or intangibles in South Carolina.*

Valuation and Assessment

The South Carolina Department of Revenue determines the fair market value (FMV) of a business' real and personal property to assure equitable local treatment. The fair market value is then assessed at rates established in the Constitution. For manufacturers, real and personal property are both assessed at 10.5 percent. The assessment ratio for all other businesses is 6.0 percent for real property, 10.5 percent for personal property. For homeowners, residences are assessed at 4.0 percent.

Depreciation

Depreciation rates are determined by the South Carolina Department of Revenue based on the type of machinery and manufacturing process. For the majority of manufacturing applications, the most common depreciation rate is 11.0 percent per year to a level of 10 percent of the original property value. Please note that the Department of Revenue makes the final determination of the allowable depreciation.

Taxation

The local millage rate is applied to the assessed depreciated value to determine taxes. Millage rates in South Carolina are site specific.

Sample property tax calculation for an investment of \$40,000,000 in equipment:

Fair Market Value	x	Assessment Ratio	x	Local Millage	=	Property Tax Liability
\$35,6000,000*	x	.105	x	.240	=	\$897,120

*This example assumes a normal depreciation rate of 11% per year in South Carolina.

Property Tax Exemptions

In support of business, South Carolina exempts three classes of property from local property taxation:

- **All** inventories (raw materials, work-in-progress and finished goods).
- **All** intangible property.
- **All** pollution control equipment.

Five-Year Property Tax Abatement

One of South Carolina's local incentives provides businesses a five-year property tax abatement from county ordinary taxes. This relief is not applied to the school portion of property taxes. Abatement represents from 20 percent to 50 percent of the total millage, depending on the county. Typically, the value of the abatement is between 30-35 percent.

Expiration of the Abatement Period

Please note that the tax abatement on investment is in effect for five years only. In Year 6, the abatement terminates and the property is taxed at the millage rate in effect at that time. The following table shows the computation of property taxes and the value of the property tax abatement for this company.

Assumption: For the illustrations presented here, a millage of 240 is used; of that, 75 mills of which are abated.

**Estimated Savings from Abatement Incentive
\$50 Million Investment Example**

Year	Property Taxes No Incentive	Total Abatement Savings	Net Property Taxes w/ Abatement
1	\$1,149,120	\$359,100	\$790,020
2	\$1,059,005	\$330,939	\$728,066
3	\$964,825	\$301,500	\$663,317
4	\$866,455	\$270,767	\$595,688
5	<u>\$763,764</u>	<u>\$238,676</u>	<u>\$525,088</u>
TOTALS	\$4,803,169	\$1,500,982	\$3,302,179
<i>Mills</i>	240	75	165

Assuming a \$50,000,000 investment, and using the average millage rates, the value of the property tax abatement is estimated to be **\$1,500,982**. Note also that this analysis assumes a constant millage growth rate over the five-year analysis period of 2 percent annually. Actual property taxes and abatement values are subject to the millage rates in effect each year.

Fee-in-Lieu of Property Taxes

South Carolina's most valuable local incentive allows a company to negotiate a Fee-in-Lieu of property taxes agreement with a county if certain investment criteria are met. The advantages to a company include:

- **Savings** - payments to local government are reduced significantly by negotiating a lower assessment ratio and negotiating an applicable millage rate.
- **Planning** - payments to local government are stabilized for the term of the agreement (up to twenty years).

**Qualifications for the
Fee-in-Lieu of Property Taxes**

In order to negotiate a fee-in-lieu of property tax, a company must meet one of the following investment criteria.

- Original Fee Statute: \$45 million
- 1995 Fee Statute: \$5 million

- **Scheduling** - with investments of \$45 million or more, the payment stream can be negotiated to meet the financing needs of the company.
- **Cash Flow Advantages** - the \$45 million investment Fee option allows for valuable stability in payments to local government and great flexibility in designing the fee schedule. Companies could have a known tax liability for 20 years *and* can negotiate the timing of the payment structure to meet specific project needs.

Savings Advantages

The Fee-in-lieu incentive is designed so companies can lower their payments to local government over the life of the fee agreement. The table on page 24 presents the estimated payments based upon a total investment of \$50,000,000. These payments reflect an equal payment scenario because companies investing \$45 million or more may negotiate such a schedule. Savings occur from the following:

- Reduction in the assessment ratio from 10.5 percent to a minimum of 6.0 percent. For the proposed investment, preliminary analysis shows the value of this component could be \$3,568,134.
- Potentially locking in the millage rate for the life of the agreement (as much as twenty years). Preliminary analysis shows if the millage rate grows at 2 percent annually, the value of this component could be an additional \$1,655,205.

Thus, the Fee-in-Lieu of Property Taxes incentive could provide total estimated savings of \$5,223,339 more than the abatement for our example project.

Note that the actual value of the savings will vary depending upon the actual fee schedule negotiated, the amount invested and the actual millage increase.

**Example of the
Fee-in-Lieu of Property Taxes**

Year	Normal Property Taxes	Equalized Fee Payments	Savings
1	\$1,149,120	\$337,689	\$811,431
2	\$1,059,005	\$337,689	\$721,315
3	\$964,825	\$337,689	\$627,136
4	\$866,455	\$337,689	\$528,766
5	\$763,764	\$337,689	\$426,075
6	\$656,619	\$337,689	\$318,930
7	\$544,882	\$337,689	\$207,193
8	\$428,414	\$337,689	\$90,724
9	\$413,361	\$337,689	\$75,672
10	\$421,629	\$337,689	\$83,939
11	\$430,061	\$337,689	\$92,372
12	\$438,662	\$337,689	\$100,973
13	\$447,436	\$337,689	\$109,746
14	\$456,384	\$337,689	\$118,695
15	\$465,512	\$337,689	\$127,823
16	\$474,822	\$337,689	\$137,133
17	\$484,319	\$337,689	\$146,629
18	\$494,005	\$337,689	\$156,316
19	\$503,885	\$337,689	\$166,196
20	<u>\$513,963</u>	<u>\$337,689</u>	<u>\$176,274</u>
TOTALS:	\$11,977,125	\$6,753,786	\$5,223,339
<i>Present Value:</i>	\$7,629,438	\$3,901,728	\$3,727,709

Basis for the Fee-in-Lieu Estimates

Investment Schedule

The actual payment stream is subject to negotiation and can be designed to meet the project's strategic financial needs. **The value and the schedule of the fee payments is determined by the actual investment schedule and agreement reached between the company and the county.**

The calculations on page 25 use investment values based upon investment assumptions of \$10,000,000 for land and building and \$40,000,000 in machinery and equipment (subject to 11 percent depreciation to a minimum of 10 percent).

Length of the Agreement and Discount Rate

Assuming an agreement of twenty years, a discount rate of 5.91 percent was used for the table on page 24. This was determined from the U.S. Treasury twenty-year bond rate as reported in the *Wall Street Journal* on February 20, 1998.

Millage Rates

Millage rates in South Carolina are site-specific and are subject to change on an annual basis. State averages were used in the calculations. A typical millage would be approximately 240 mills. In order to illustrate the value to a company of locking-in the millage, the example on page 24 assumes a 2 percent millage increase annually.

Rural Development Act Creates 30-Year, 4 Percent Fee-in-Lieu

Another important component of the Rural Development Act was the creation of a new fee-in-lieu statute. Under this statute, a company may negotiate a fee-in-lieu for up to 30 years with an assessment ratio as low as 4 percent. In order to qualify for this fee the company must:

- Create 200 new jobs and
 - ◆ invest \$400 million
 - or
 - ◆ have an existing investment of \$200 million with \$200 million new investment.

South Carolina's

Special Schools: A Customized Worker Training Program

The Special Schools program is South Carolina's unique and outstanding employment training resource for companies locating or expanding in the state. The program is operated by the State Board for Technical and Comprehensive Education (TECH) which also oversees the statewide Technical Education College System. The Special Schools program recruits, screens and trains individuals for specific assignments with new businesses and industries as well as expansions of existing businesses. With the exception of very specialized areas, the training is provided at no cost to the company. The program is funded entirely with state money and imposes no target populations.

Special Schools Program is one of the oldest start-up training programs in the nation and has been used as a model elsewhere. Since its inception, the program has trained workers for over 1,400 manufacturing firms. In the fiscal year ending June 30, 1998, Special Schools trained 9,000+ workers for over 250 South Carolina industries. Our extensive body of start-up training expertise developed over the years is unmatched in any other state.

The training is usually short-term and is provided prior to opening day or expansion. This assures a trained work force ready to go to work when the facility opens. The training programs are usually located near the facility and often conducted at the facility itself if that is feasible. Each program is customized to a company's unique specifications.

Flexibility and Quality: Special Schools' Trademark

Special Schools is highly regarded by South Carolina employers for the quality of training and the skilled, dependable workers produced. The success of the program is based squarely on its flexibility. Program administrators pride themselves in their ability to develop customized programs that suit the specific needs of clients. It should be noted that TECH's commitment to quality education has not gone unnoticed. The U.S. Department of Labor recognized TECH as a model for technical education systems in the United States. One reason cited was TECH's involvement and dedication to training prospective employees for every major industry locating in the state.

TECH'S Commitment to Industry

When an employer decides to locate (or expand) in the state, the Special Schools staff goes to work to help make sure the plant or business will have the trained workers needed when the facility starts operation. Major steps in the process of operating a Special School are:

- Special Schools staff members meet with the company and analyze the jobs and skill levels needed.
- Representatives of Special Schools, in partnership with South Carolina Jobs Service and the Employment Securities Commission, begin recruiting prospective workers. Ads are placed with various area media completely at the expense of the state.
- Training materials such as manuals, video tapes, slides and charts are developed and tailored to the company's processes. (The system has a media support center capable of producing these types of instructional materials.)
- Instructors are chosen - either TECH staff or the employers staff - and trained in instructional techniques if necessary. The instructors are paid by Special Schools.
- The training facility is prepared and equipment obtained.
- Classes are planned and a lead-time schedule is prepared. The schedule is designed to have training completed approximately two weeks prior to hire needs.
- The training courses are conducted to the standards and requirements of the company. During the training, any trainees who do not meet the required standards are terminated by TECH.
- Counseling and training in good work habits is provided.
- Trainees are not paid for attending the training.
- If needed, the pre-employment training may be followed by a period of on-the-job training after the trainee has been hired.
- When the company is ready to expand or add more employees, Special Schools is available to assist in the training of the new employees. There is no limit to the number of times the Special Schools program may be used.

- At the end of training there is no obligation on the company to hire the trainees nor for the workers to accept an offer of employment.

The people of South Carolina are its major resource. Quality training helps insure South Carolinians have the skills needed by new and expanding industries. Since 1962, more than 189,000 people have been trained through the TECH system and have acquired a wide range of technical skills through this custom-designed training program.