

South Carolina Board of Economic Advisors

Statement of Estimated State Revenue Impact (Section 2-7-71)

Date: April 25, 2005 **Bill Number:** H. 3652 (As amended by Ways and Means on April 18, 2005)

Authors: W.D. Smith, *et. al.* **Committee Requesting Impact:** Ways & Means

Bill Summary

A bill to amend the Code of Laws of South Carolina, 1976, to enact the "South Carolina Put Parents in Charge Act" by adding Chapter 18 to Title 12, Code of Laws of South Carolina, 1976, so as to provide credits for certain taxes and license fees for tuition paid to public or independent schools, to provide credits for certain taxes and license fees for contributions to scholarship granting organizations, to provide for the regulation, registration, and reporting of scholarship granting organizations, and to provide for reporting and accountability of the implementation of this Chapter.

REVENUE IMPACT^{1/}

This bill is expected to reduce General Fund income tax, corporate license fee, and insurance premium tax revenues by \$512,262,466 in FY 2006-07 and \$541,430,328 in FY 2007-08 when the bill would be fully implemented. This pilot program expires July 1, 2017, at which time the General Assembly may extend the pilot program.

Explanation of Amendment by Ways and Means Committee on April 18, 2005

This amendment, beginning in FY 2006-07, creates tuition tax credits for tuition paid to independent schools, scholarship tax credits for contributions to scholarship granting organizations, and public education tax credits for contributions to public school districts. The proposed tuition and scholarship credits are limited to students and parents in two school districts to be determined by the Department of Education. The department shall choose one school district from the top 25% and one school district from the bottom 25% of districts based on median household income. The proposed tuition and scholarship tax credits may not exceed the lesser of 80% of tuition paid or 51% of all state appropriations for K-12 operations on a per pupil basis, which is expected to total \$4,810 in FY 2006-07. Tax credits claimed may exceed these limits for students that qualify for free or reduced priced meals or free milk and handicapped students as specified in the bill. Based on current classifications, we expect that parents of 80% of the students eligible for the credit will receive a tuition tax credit based on 51% of the average state per pupil expenditure and the remaining 20% of parents would receive an increased credit based on 100% of the average state per pupil expenditure due to free or reduced priced meal eligibility or a handicapped classification. We estimate that expenditures on home school students will not reach the full amount of the proposed credits allowed in this bill and their yearly expenses would be \$750, \$1,250, and \$1,750 per student for the lower, middle and upper grades, respectively. For FY 2006-07, the tuition tax credit is limited to one-half of the subsequent years' amounts. It is estimated for FY 2006-07, with the restriction, the tuition credits will be claimed on 1,821 students currently in public schools, 347 home-school students, and 1,151 private school students. These estimated 3,318 students will generate tuition tax credits of \$3,572,964. When fully implemented in FY 2007-08, the tuition tax credit is expected to reduce General Fund income tax, corporate license fee, and insurance premium tax revenues by \$7,434,553 for the expected 3,356 eligible students.

Tax credits for contributions to scholarship granting organizations are for 100% of the contribution; however, scholarship granting organizations would be constrained as to the amount of their scholarship awards by the same restrictions imposed on the tuition tax credit. We expect contributions from individuals and corporations to scholarship granting organizations to provide the maximum scholarships allowed under the amendment to all eligible independent school students and public school students moving to independent schools in these two school districts. Scholarship tax credits are expected to total \$8,689,502 in FY 2006-07 and \$8,995,774.

The public education tax credit for contributions to any public school districts are also for 100% of the contribution. The credit is available statewide and would allow a taxpayer to remit their tax liability to the

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state or to a public school district without any change in tax liability. Taxpayers that itemize their deductions could pay more in federal income taxes due to the reduction in the amount of state income taxes paid. The revenue impact below is adjusted for this situation. Based on actual experience in Arizona and Florida, we expect donations statewide to scholarship granting organizations under the original bill to total \$86.2 million for the 77,253 expected eligible students. Given the high priority that public K-12 education holds in South Carolina, we expect that adjusting the expected revenue impact for independent school students to the much larger number of public school students, 670,000 currently, and allowing for taxpayers that itemized deductions would result in an anticipated reduction in General Fund income tax, corporate license fee, and insurance premium tax revenues of \$500,000,000 in FY 2006-07 and \$525,000,000 in FY 2007-08 when the bill would be fully implemented.

Explanation of bill as Introduced

This bill creates tuition tax credits for tuition paid to public or independent schools and scholarship tax credits for contributions to scholarship granting organizations beginning in FY 2006-07. The proposed credits may not exceed the lesser of 80% of tuition paid or 51% of all state appropriations for K-12 operations on a per pupil basis, which is expected to total \$4,810 in FY 2006-07. These appropriations are expected to grow at 3% annually. Tax credits claimed may exceed these limits for students that qualify for free or reduced priced meals or free milk and handicapped students as specified in the bill. Based on current classifications, we expect that parents of 80% of the students eligible for the credit will receive a tuition tax credit based on 51% of the average state per pupil expenditure and the remaining 20% of parents would receive an increased credit based on 100% of the average state per pupil expenditure due to free or reduced priced meal eligibility or a handicapped classification. Tax credits for contributions to scholarship granting organizations are for 100% of the contribution; however, scholarship granting organizations would be constrained as to the amount of their scholarship awards by the same restrictions imposed on the tuition tax credit. We estimate that expenditures on home school students will not reach the full credits allowed in this bill and their yearly expenses would be \$750, \$1,250, and \$1,750 per student for the lower, middle and upper grades, respectively. The credits have two phase-in restrictions. Students that attend non-public schools as of October 1, 2004 are not eligible until tax year 2008. Public school students in K-4 are eligible in tax year 2006, K-6 in tax year 2007, K-8 in tax year 2008, K-10 in tax year 2009, and all students in public and non-public schools are eligible in tax year 2010. It is estimated for FY 2006-07, with the phase-in restrictions, the tuition and scholarship tax credits will be claimed on 3,790 students currently in public schools, 2,021 home-school students, 6,713 private school students, and 136 students that are in-migrants, or not currently residing in South Carolina. These estimated 12,661 students will generate tuition tax credits of \$12,437,875. Based on actual experience in Arizona and Florida, we expect donations to scholarship granting organizations for scholarship tax credits to total \$16,598,157. The total revenue reduction is expected to be \$29,036,032 in FY 2006-07. By FY 2010-11, we anticipate that 77,253 students, 10,071 from public schools, 16,198 from home schools, 50,824 from private schools, and 160 in-migrants to claim \$145,392,616 in tuition tax credits. Contributions from individuals and corporation to scholarship granting organizations are expected to create scholarship tax credits that total \$86,197,454, for a total revenue reduction of \$231,590,070 in that fiscal year.

/s/WILLIAM C. GILLESPIE
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Analyst: Shuford

^{1/} This statement meets the requirement of Section 2-7-71 for a state revenue impact by the BEA.