

A Summary Explanation of Tax Incentives Available in the Southern Carolina Alliance Region

All Counties of the Southern Carolina Region are classified as Least Developed or Distressed for the purpose of calculating the value of incentives offered. ***Firms investing in the Region or creating new jobs in any county of the Region are eligible to receive maximum economic development incentives allowed by State Law. Firms in Allendale County are exempt from SC Corporate Income Tax, if they meet job creation criteria.***

Under a Federal program for Displaced Workers, firms investing in the **Counties of Allendale and Barnwell are eligible to receive additional incentives associated with workforce reduction at the US Department of Energy, Savannah River Site.** (See “Hiring Displaced Workers” below)

The following description outlines local and state incentives in four categories that qualifying businesses are eligible to receive in the Alliance Region:

- ✓ Cash Payments
- ✓ Income Tax Credits
- ✓ Property Tax Reductions
- ✓ Sales Tax Exemptions

These incentives are available to firms investing in the region and/or creating new jobs.

All incentives described apply equally to existing firms provided new investment and/or job creation thresholds are met.

Incentives fall into two general categories, statutory and discretionary. Statutory incentives are provided by law and firms must be offered these incentives if they qualify under the terms of the incentive. Discretionary incentives on the other hand may or may not be offered depending upon the project, state and local policy.

A summary of incentives that are available in the SCA Region are as follows:

Job Creation Incentives

Job Development and Retraining Credits: **Cash payments** made directly to the employer for creating new jobs or retraining workers based on wages paid. Payments are a percent of payroll and vary from 2% to 5% of wages but can not exceed actual tax withholdings from employees. Qualifying Hourly Wages for 2007 are as follows:

\$8.18 – \$10.89	2%
\$10.50 - \$13.63	3%
\$13.64 - \$20.44	4%
Above \$20.44	5%

Credits Against State Income Tax Liability

Income Tax Moratorium – A forgiveness of all income tax liability for up to 15 years if 100 jobs are created; currently **applies to Allendale County only in the SCA Region.**

Job Tax Credit – A credit against SC Income Tax Liability or Insurance Premium Tax: \$8,000 per job for 5 years. If the project is located in one of the Region’s multi-county business parks the credit increases to \$9,000 per job. (Credit is limited to 50% of tax liability in a single year but unused credits can be carried forward for 15 years).

Textile Revitalization Tax Credit – an income tax credit of up to 25% of rehabilitation expenses spread over 5 years or a 75% property reduction for up to 8 years. (Project must choose between property tax or the income tax credit program).

Research and Development Investment - 5% of qualified research expenses made in South Carolina. (The credit is limited to 50% of the taxpayer’s tax liability remaining after all other credits have been applied. Any unused credit can be carried forward, but must be used before a taxable year beginning 10 years or after from the date of the qualified research expenses)

Investing in an Economic Impact Zone - Barnwell and Allendale Counties are in an EIZ. Investment tax credits are from 1% to 5% depending upon the “useful life” schedule of the property that can range from 1 to 15 years for qualified manufacturing operations placed in service during the taxable year, in the Impact Zone.

Corporate Headquarters Location - a credit against corporate income tax, corporate license fees, or bank taxes equal to 20% of the qualifying costs of establishing a corporate headquarters in South Carolina, or expanding or adding to an existing corporate headquarters. The credit is made up of two parts: Part I, the real property costs and Part II, the personal property costs. A taxpayer may qualify for only Part I of the credit or may qualify for both Parts I and II of the credit.

Infrastructure Construction - credit against corporate income tax or bank tax equal to 50% of the contributions or expenses paid or accrued by the taxpayer for the construction or improvement of water lines, sewer lines, and road projects that are eventually dedicated to public use or a qualifying private entity. A credit is available for each infrastructure project of the taxpayer, but is limited to \$10,000 per project per year. Any unused credit, up to \$30,000 for each project, may be carried forward for 3 years. The maximum infrastructure credit that may be claimed for each project is \$40,000.

Hiring Family Independence Recipient - a tax credit for hiring persons who received family independence payments within the State for 3 months immediately before becoming employed. In order to qualify for the credit, the employer must make health insurance available to a family independence payment recipient. A qualifying

employer receives a “basic” credit amount equal to: 20% of wages paid each full month during the first 12 months; 15% of wages paid for each full month of employment during the second 12 months and 10% of wages paid to the employee for each full month of employment during the third 12 months. **A State cap of \$5,500 is increased to \$5,675 in the Counties of the Southern Carolina Alliance Region.** This additional credit is limited to \$2,100, for each qualifying year.

Hiring Displaced Workers - a tax credit to employers who hire displaced workers whose job was terminated as a result of the closing or realignment of an applicable federal facility. The amount of the credit is up to \$1,000 of wages for services rendered during the one year. Unused credit may be carried forward for 10 years

Contracting with Minority Business - provides a tax credit to those contracting with the State of South Carolina and have subcontracts with a certified South Carolina based minority business (*i.e.*, socially and economically disadvantaged small business.) The credit is equal to 4% of the payments to that subcontractor for work pursuant to the contract. The credit is limited to a maximum of \$50,000 annually. A taxpayer is eligible to claim the credit for 10 consecutive taxable years.

Community Development Corporation Investment - a credit of 33% of the investment against income tax, bank tax, or insurance premium tax for a business investing in a community development corporation or community development financial institution. The total credit that may be claimed by all taxpayers is \$1 million in one calendar year and \$5 million for all calendar years.

Child Care Programs - a credit of 50% of its capital expenditures in the State, up to \$100,000 for costs incurred in establishing a child care program for its employees and 50% of the child care payments made on behalf of the employee not to exceed \$3,000 per year per participant.

Conservation Credit - 25% of the deduction attributable to a gift of land for conservation or to the qualified real property interest located in South Carolina. The credit is capped at \$250 per acre or gift of land the total credit per year is limited to \$52,500 per original transferor.

Energy Conservation and Renewable Energy - 25% of the cost or a maximum of \$2,500 for the cost of each conservation measure including conservation tillage equipment, drip/trickle irrigation systems and equipment and dual purpose combination truck and crane equipment.

Alternative Motor Vehicle Credit - a credit against income taxes equal to 20% of the federal credit allowed under Internal Revenue Code §30B for (1) qualified fuel cell motor vehicle credit, (2) advanced lean burn technology motor vehicle credit, (3) qualified hybrid motor vehicle credit, and (4) qualified alternate fuel motor vehicle credit. For purposes of this State credit, the provisions of Internal Revenue Code §30B are deemed permanent.

Installation of Solar Energy System - 25% of the costs incurred in the installation of a solar energy heating and/or cooling system in a building owned by the taxpayer. The amount of the credit may not exceed \$3,500 or 50% of the taxpayer's tax liability for the taxable year, but can be carried forward for 10 years.

Water Impoundments and Water Controls – 25% of all expenditures for the construction, installation, or restoration of certain ponds, lakes, other water impoundments, and water control structures designed for the purposes of water storage for irrigation, water supply, sediment control, erosion control, or aquaculture and wildlife management, provided these items are not located in or adjacent to and filled primarily by coastal waters of the State.

Textile Facility Revitalization – 25% for income or license tax of the cost of rehabilitating, improves, renovates, or redevelops an eligible Textile site. Tax payer may elect to take a real property tax credit equal to 25% of the rehabilitation expenses made to the property up to 75% of the real property taxes due on the site.

Retail Facility Revitalization - an income tax credit of 10% or property tax credit of 25% of the cost up to 75% of the property taxes due for the renovation, improvement, and redevelopment of abandoned retail facility sites

Rehabilitation of a Certified Historic Structure – a credit of 10% of the qualified rehabilitation expenditures for a certified historic structure located in the State may be taken against income or license taxes if the property qualifies for a federal rehabilitation credit provided in Internal Revenue Code §47. The credit is claimed in equal amounts over a 5 year period beginning with the year that the property is placed in service.

Habitat Management - an income tax credit equal to 50% of the costs incurred for habitat management or construction and maintenance of improvements on real property that are made on a certified management area for endangered species, or of species in need of management, as prescribed by the Department of Natural Resources.

Venture Capital Investment – the tax credit may be used to offset income taxes, bank taxes, savings and loan net income tax liability, license fees and taxes, insurance premium taxes or other tax liability under Title 38 of the SC Code of Laws. The amount of the tax credit issued to a Lender is limited to the Lender's principal loan amount together with required interest. The use of tax credits by an insurance company does not affect the application of retaliatory taxes or other fees required by Chapter 7, Title 38 of the SC Code or any payments due under Chapter 8 of the SC Code. The credits carry forward indefinitely. The tax credits may be transferred to others who are able to use the credit to offset one of the above listed taxes. Special provisions are provided for pass through entities who receive the credit. No more than \$20 million in tax credit certificates are redeemable for any one year; however, any

certificates issued in one year, but carried forward and redeemed in a subsequent year, do not count against the total.

Investing in Industry Partnership Fund – a credit equal to 100% of contributions to the Industry Partnership Fund at the South Carolina Research Authority can be taken against income taxes, license fees, or insurance premium taxes, or any combination of them, for qualified contributions. Unused credit can be carried forward for 10 years from the end of the tax year in which the qualifying contribution is made. In 2007 the deduction is limited to \$1.2 million for a single tax payer and \$4 million state wide.

Investing in Palmetto Seed Capital Fund – investors receive a credit for qualified investments in the Palmetto Seed Capital Corporation or the Palmetto Seed Capital Fund Limited Partnership against income, bank taxes, or insurance premium taxes. The credit is equal to the lesser of: (a) all qualified investments during the tax year multiplied by 30%, plus any credit carryover or (b) 50% of all qualified investments during all tax years multiplied by 30%.

Motion Picture Project Investments/Jobs – a credit of 20% of the cash value of its investment in a qualified South Carolina motion picture project up to \$100,000.

Commercial Production Credits - 10% of the investment in South Carolina by a production company producing commercials for multi-market distribution via television networks, cable, satellite, or motion picture theaters. Unused credit may be carried forward for 10 years.

Motion Picture Payroll Rebate – up to 20% of the payroll cost of incurred in the production of motion pictures in the State limited to \$10 million per project per year.

Mercury Switch Removal - for vehicle recycler or scrap recycling facility participating in the End-of-Life Vehicle Solutions (ELVS) Program a credit against corporate income taxes of \$2.50 for each mercury switch collected and submitted for disposal. Any unused credits may be carried forward indefinitely.

Recycling Facilities - 30% credit of the investment each year for the construction and operation of a recycling facility. Recycling property is property incorporated into or associated with a qualified recycling facility. Investment must be at least \$300 million within 5 years.

Ethanol or Biodiesel Production Credit – a \$0.20 per gallon credit for the production of Ethanol or Biodiesel for 60 months if the facility operates at 25% of capacity for at least 6 months after eligibility is established. Biodiesel from feed stock other than soybeans receives a \$0.30 per gallon credit.

Renewable Fuels Tax Credit – 25% of the cost of constructing and installing the part of a distribution or dispensing facility, including pumps, storage tanks, and related

equipment, that is directly and exclusively used for distribution, dispensing, or storing renewable fuel and 25% of the cost of constructing a process facility.

Brownfield Voluntary Cleanup - The “basic” credit amount is equal to 50% of the cleanup expenses paid or accrued or cash contributions for site cleanup conducted during the tax year the tax credit application is submitted, but not over \$50,000 in a tax year. Any unused credit, up to \$100,000, may be carried forward 5 years. An “additional” credit equal to 10% of the total cleanup costs, not to exceed \$50,000, is allowed in the final year of cleanup

Port Volume Increase (Discretionary) - a tax credit manufacturing, warehousing, or distribution that uses South Carolina port facilities and increases its port cargo volume at these facilities by at least 5% in a calendar year over its base year port cargo volume. Any unused credit may be carried forward for 5 years.

Milk Production Credits – for the producing milk for sale, a refundable income tax credit of (1) \$10,000 based on the production and sale of the first 500,000 pounds of milk sold below the production price over a calendar year and (2) an additional \$5,000 for each additional 500,000 pounds sold below the production price.

Agriculture Use of Anhydrous Ammonia Additive - refundable income tax credit equal to the amount expended to obtain the additive required to comply with South Carolina initiative to prevent the conversion of the active ingredient into methamphetamine, its salts, or isomers.

Quality Improvement Programs - A credit equal to the annual fee paid to the South Carolina Quality Forum to participate in quality programs and a credit equal to 50% of any fees charged to participate in the organizational, performance excellence, assessment process.

Credit Against License Fee for Infrastructure - allows a taxpayer subject to the license fee imposed on South Carolina property and gross receipts such as a power company, water company, gas company, or telephone company, a credit against its license fee liability for 100% of the amount paid in cash for infrastructure for an eligible project of another taxpayer. The maximum credit that may be earned in any tax year by a taxpayer is \$300,000;

Property Tax Reduction Incentives

1. Five Year Moratorium – Granted by Local Government on ordinary county property taxes if the investment is \$50,000 or more. Corporate Headquarters, Research and Distribution facilities qualify also, provided 75 or more new jobs are created by the investment.
2. Textile Rehabilitation Property Tax Credit – Income or license fee credit of up to 25% of the cost of rehabilitating an approved textile operation/plant spread over 8 years with a carry forward of an additional 5 years. Project must choose between property tax or income tax credit program.

3. Pollution Control and Abatement Equipment of Manufacturing Plants – All equipment and machinery of manufacturing operations used for pollution control and abatement is exempt from all property taxes.
4. Environmental Cleanup Property Tax Exemption – Property and improvements subject to a non-responsible party voluntary cleanup contract for which a certificate of completion has been issued by the South Carolina Department of Health and Environmental Control is exempt from all non-school property taxes for 5 years.
5. Banks and Savings and Loans - Personal property of banks and savings and loan associations, including motor vehicles, is exempt from property taxes.
6. Rural Telephone Service Property - Property of telephone companies and rural telephone cooperatives used in providing rural telephone service (that meets certain conditions) is exempt from property taxes.
7. Public Benefit Corporations - all property of public benefit corporations established by a county or municipality and used exclusively for economic development which serves a governmental purpose is exempt from property taxes.
8. Multi-county Business Parks – All property in a multi-county park is exempt from property tax. However, a fee in lieu of taxes must be paid that is the equivalent of the taxes that would ordinarily be due. However, parties may enter into a Fee in Lieu of taxes agreement if jobs and investment thresholds are met.
9. Special Sources Revenue Bonds or Credit – by agreement with local governments, a portion of anticipated property tax revenues from a project may credit to the cost of infrastructure improvements and land require to support the project.
10. Fee-in-Lieu of Tax Agreement – **All Counties of the SCA Region are eligible for the minimum investment of \$2.5 million for firms to enter into a Fee Agreement.** Local governments may give a credit for the fee due for infrastructure improvements or land to support the project as in 10 above.

There are five provisions for the establishment of Fee in Lieu of tax agreements: Recycling Operations, Little Fee, Big Fee, Simplified Fee, Super and Enhanced Investment Fee

- a. Recycling Operations – Assessment rate as low as 3% of property value
- b. Little Fee – Requires a minimum investment of \$2.5 million
- c. Big Fee – Requires a minimum investment of \$45 million
- d. Simplified Fee Agreement – Minimum of \$5 million investment to qualify; Maximum length of agreement is 30 years.
- e. Super Fee Agreement and Enhanced Fee Agreements – These agreements generally require a minimum invest of \$300 million and 125 new jobs but may have other or higher requirements depending upon the amount of effective reduction in property taxes received by the benefiting entity. These fee agreements generally result in an effective assessment rate of 4% compared to 6% for other categories of fee agreements except Recycling.

Fee agreements exempt property from the Agriculture “rollback” provision that requires a one time payment equivalent to the difference in property taxes paid under the classification of agriculture and that of the rate imposed for manufacturing class property.

Sales Tax Incentives

Exemptions from Sales Tax:

1. Manufacturing Machinery and Replacement Parts Sales of property “used directly” in manufacturing, compounding, or processing tangible personal property into products for sale provided the property is “used directly” and it comes into direct contact with the product being manufactured and contributes to bring about a chemical or physical change in the product.
2. Electricity used in manufacturing
3. Materials for direct mail advertising
4. All materials that become an integral part of a manufactured product
5. Sales tax is limited to the lesser 6% of the purchase or \$300 on motor vehicles including trucks, trailers, boats, travel trailers and motor homes
6. Railcars and locomotives
7. Laundry supplies and machinery.
8. Electricity for use in filming/producing motion pictures
9. For recycling facility: recycling property, electricity, natural gas, fuels, gasses, fluids, lubricants, ingredients or component parts of manufactured products, and material handling equipment
10. Material handling systems and material handling equipment used in the operation of a distribution facility or a manufacturing facility of a taxpayer that invests at least \$35 million in South Carolina
11. Parts and supplies used in the business of repairing or reconditioning aircraft owned by or leased to the federal government or commercial air carriers
12. Clothing and other attire required for working in a class 100 or better clean room environment (as defined in Federal Standard 209E)
13. Audiovisual masters made or used by a production company
14. Machines used in research and development
15. Computer equipment and electricity and certain fuel used by, a technology intensive facility that invests \$300 million over 5 years, creates at least 100 new jobs during the 5 years with an average cash compensation of 150% of the per capita income of the State, and spends at least 60% of the \$300 million investment on computer equipment
16. Construction material used in the construction of a single manufacturing and distribution facility that invests at least \$100 million in the State over an 18 month period. This exemption will be phased-in over several years beginning July 1, 2007 and the sale of qualifying construction material will not be fully exempt until July 1, 2011.

17. Tangible personal property purchased by a certified motion picture production company for use in connection with the filming or production of motion pictures in South Carolina that spends at least \$250,000 in connection with the filming or production of one or more motion pictures in the State within a consecutive 12 month period (does not apply to local sales tax or property for television coverage of news and athletic events)
18. Farm equipment/machinery, electricity, fuels used in most farming operations and building materials for poultry

A comprehensive description of all tax incentives available in South Carolina can also be found on the website of the SC Department of Revenue at <http://www.sctax.org/NR/ronlyres/E6DD904B-DCF2-4ECC-B86B-E5F24932849C/0/TaxIncentive2007.pdf>