DORCHESTER COUNTY
ECONOMIC DEVELOPMENT

DORCHESTER COUNTY, SOUTH CAROLINA TAX & INCENTIVE INFORMATION

Dorchester County recognizes that the taxing scheme of a state is an important factor when deciding to locate or expand a business. Often, a business is unaware of available tax incentives that may reduce or eliminate many of the taxes that would otherwise be due. This website provides a brief discussion of South Carolina's income, property, and sales and use tax incentives. It also provides a detailed description of the property incentives which Dorchester County is pleased to provide for qualifying projects.

OVERVIEW OF STATE TAXATION

1. INCOME AND LICENSE TAXES

A. General

South Carolina's income tax was first enacted in 1921. In 1985, South Carolina adopted conforming legislation to most of the federal income tax system under the Internal Revenue Code. The starting point of South Carolina taxation for corporations, partnerships, and limited liability companies is federal taxable income. South Carolina law provides for modifications to be made from federal taxable income in determining South Carolina taxable income.

South Carolina’s corporate income tax rate of 5% is the lowest income tax rate in the Southeast.

A taxpayer's corporate income tax is based primarily on federal gross and taxable income. Companies engaged in multi-state activities will only pay taxes on the income derived from business activity conducted in South Carolina.

B. Calculating Corporate Income – The First Step in Lowering Tax Liability

The first step to maintaining low corporate income tax liabilities is the state's formula for calculating corporate income. A taxpayer's annual corporate income is based on the following:

- Income allocated to South Carolina operations (interest, dividends, royalties, rents, property sale gains and losses, and personal services income); and
- Income apportioned to the operations (based on weighted payroll, property, and sales factors). South Carolina's double weighting of sales reduces the amount of corporate income most companies apportion to the state.

A 5% corporate income tax rate is applied to the sum of these incomes. The resulting figure is the company's state corporate income taxes.

C. Single Factor Sales Apportionment Formula

In 2007, South Carolina began moving towards a single factor sales apportionment formula. A company's income will be apportioned to South Carolina by multiplying the net income remaining after allocation (described above) by a fraction, the numerator of which is the number of sales made in South Carolina and the denominator is the total number of sales of the taxpayer. This new formula eliminates property and payroll from the equation and is advantageous for a manufacturer whose majority of

sales occurs outside the State of South Carolina. The new method is phased in over a 5-year period with a 40% reduction of income attributable to South Carolina in 2008 and an additional 20% each year thereafter. In 2011, the new formula is fully applicable.

D. Income Tax Credits

Taxpayers may be entitled to the following credits in Dorchester County.

i. Job Tax Credits

By creating new jobs in South Carolina, certain taxpayers (including manufacturers, warehouse, distribution, and corporate headquarters) are eligible for a tax credit against annual corporate income tax liability. The value of these credits is determined by the development tier of the county and the number of jobs created. **Dorchester County is currently a Tier 5 county, providing an annual credit of $1,500 per job.** The counties are re-ranked every year based on unemployment rates and per capita income, and the ranking of a county may change from year to year. Dorchester County can agree to designate a site as a "multi-county industrial park." This designation allows a taxpayer to take advantage of an additional $1,000 per net new job—meaning Job Tax Credits of $2,500 per job are available.

The credit is available for a 5-year period beginning with Year 2 (Year 1 is used to establish the created job levels). Credits can be used to offset a taxpayer's annual state corporate income tax liability by up to 50%. Unused credits can be carried forward for up to 15 years. To be eligible for Job Tax Credits, the taxpayer must create a monthly average of 10 net new jobs at the facility in a single taxable year.

ii. State Investment Tax Credit

South Carolina allows manufacturers locating in Economic Impact Zone (EIZ) counties (which includes Dorchester) a one-time credit against a company's corporate income tax of up to 5% of a 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 years or more	5%

The credit is not limited in its ability to eliminate corporate income taxes, and unused credits may be forwarded for up to 10 years.

2. LICENSE TAX

South Carolina's license fee, or franchise tax, is imposed on the privilege of doing business as a corporation in South Carolina. The measure of the license fee is usually based upon the capital stock and paid-in or capital surplus of the corporation. Most corporations pay an annual license fee based on capital (.001 of the corporation's capital stock and paid-in surplus ($1 dollar for each $1,000 of capital stock), plus $15). The minimum license fee is $25.

County and city governments may impose a business license tax on businesses operating within the corporate limits of county or city government. The annual business license tax normally takes the form of a gross receipts tax on the revenues of the

business located within the corporate limits of the licensing body. The base tax rate is dependent upon the nature of the business. **Dorchester County currently has no business license tax. Summerville and many other municipalities do impose one.**

3. SALES AND USE TAX

South Carolina imposes a sales and use tax of 6%. Dorchester County also imposes a sales tax of 1%.

In addition to maintaining a low sales tax rate, South Carolina offers a number of sales tax exemptions for manufacturers including:

- Manufacturing production machinery and applicable repair parts;
- Manufacturing materials that become an integral part of the finished product;
- Industrial electricity and other fuels used in manufacturing tangible personal property;
- Research and development equipment;
- Manufacturers' air, water, and noise pollution control equipment; and
- Packaging materials.

4. PROPERTY TAXES

A. General

Real and personal property used in business is subject to property taxes levied by local governments. Although property tax is collected locally, the Department of Revenue generally oversees property tax collections to ensure equitable and uniform assessment throughout the State.

The calculation of property taxes involves the following three elements:

1. **Valuation:** Real property (other than agricultural use property and property subject to a negotiated fee in lieu of taxes) is appraised to determine fair market value. Personal property of manufacturers is valued at cost from which a fixed depreciation percentage is deducted each year until a residual value is reached.

2. **Assessment Ratio:** The assessment ratio, established in the State Constitution to ensure stability, is 10.5% for manufacturing property and 6% for commercial real property. Manufacturing and commercial personal property is assessed at 10.5%. The valuation is multiplied by this ratio to produce the "assessed value" of a particular piece of property. Taxes are levied based upon this assessed value. New and expanding businesses which invest $2,500,000 or more can enter into a fee in lieu of property taxes which can reduce a 10.5% assessment ratio to 6% for 20 years and eliminate inflationary increases in the value of real property for that period. Very large investments can qualify for a 4% assessment ratio for 30 years with no increase in the value of real property for that period.

3. Millage: Each taxing jurisdiction determines on an annual basis the number of mills required to apply to the total assessed value of property subject to taxation within its jurisdiction in order to raise the money it needs to operate for the next year. Millage rates are site specific. **The 2008 millage for unincorporated areas of Dorchester County is 0.4422.**

For example, if a manufacturer owned a piece of property with a value of $100 and an assessment ratio of 10.5% (the ratio for manufacturing property in the absence of a fee in lieu of property taxes agreement), the assessed value of that property equals $10.50 ($100 x 10.5%). For the purposes of this example, assume the unincorporated

millage rate is 0.4422. **Then, the property tax liability of the owner in 2008 in Dorchester County would be $4.64 ($10.50 x .4422).**

B. Manufacturing Exemptions

1. General

Unlike many states, South Carolina exempts all inventories (raw materials, work-in-progress, and finished goods), all intangible property, and pollution control equipment from property taxation.

2. Manufacturer's Abatement

South Carolina Law provides for a 5-year exemption from county property taxes (the exemption does not apply to school or municipal taxes) for all new manufacturing establishments and all additions costing $50,000 or more to existing manufacturing facilities located in South Carolina. The exemption applies to land, buildings, and additional machinery and equipment installed in the facility. Further, the South Carolina Constitution provides that a municipality may, by ordinance, also exempt this property from municipal property taxes for not more than 5 years.

Additionally, the exemption may be extended to an unrelated purchaser for the time remaining in the seller's exemption period. To qualify, the purchaser must (1) acquire the facility in an arms-length transaction, (2) preserve the existing facility and existing number of jobs, and (3) obtain the approval of the governing body of the county. If the qualifying unrelated purchaser meets the above three requirements and makes additions to the new or existing facility costing $50,000 or more, then the purchaser may qualify for a 5-year exemption from county property taxes.

These abatements to not apply to property in a fee-in-lieu (see below).

3. Research and Development Exemptions

There is also a 5-year exemption from county property taxes (the exemption does not apply to school or municipal taxes) for the facilities of all new enterprises (and all additions valued at $50,000 or more to existing facilities of enterprises) engaged in research and development activities. Further, the governing body of a municipality may, by ordinance, exempt from municipal property taxes for not more than 5 years property that is located in the municipality and that receives the exemption from county property taxes.

Facilities of enterprises engaged in research and development activities are defined as facilities devoted directly and primarily to research and development in the experimental or laboratory sense for new products, new uses for existing products, or for improving existing products. The exemption does not include facilities used in connection with efficiency surveys, management studies, consumer surveys, economic surveys, advertising, promotion, or research in connection with literary, historical, or similar projects.

4. Corporate Headquarters, Corporate Office Facility, and Distribution Facility Exemptions

There is a 5-year exemption from county property taxes (the exemption does not apply to school and municipal property taxes) for new corporate headquarters, corporate office facilities, distribution facilities, and all additions to existing corporate headquarters, corporate office facilities, or distribution facilities if:

(1) The cost of the new construction or addition is $50,000 or more, and

(2) 75 or more new full-time jobs, or 150 or more substantially equivalent jobs, are created in South Carolina.

The governing body of a municipality may, by ordinance, exempt from municipal property taxes for not more than 5 years property that is located in the municipality and that receives the exemption from county property taxes.

- "Corporate headquarters" means the location where corporate staff members or employees are domiciled and employed and where the majority of the company's financial, personnel, legal, planning, or other business functions are handled either on a regional or national basis; it must be the sole such corporate headquarters within the region or nation.
- "Region" or "regional" means a geographic area comprising either (a) at least 5 states, including South Carolina, or (b) 2 or more states, including South Carolina, if the entire business operations of the corporation are performed within fewer than 5 states.
- "Corporate Office Facility" means the location where corporate managerial, professional, technical, and administrative personnel are domiciled and employed, and where corporate financial, personnel, legal, technical, support services, and other business functions are handled. Support services include, but are not limited to, claims processing, data entry, word processing, sales order processing, and telemarketing.
- "Distribution facility" means an establishment where shipments of tangible personal property are processed for delivery to customers.

5. Multi-County Industrial Parks

South Carolina Code §4-1-170 provides that a joint industrial or business park (referred to as a multi-county industrial park) can be established by two or more counties pursuant to a written agreement between those counties.

The multi-county park area is exempt from property tax. The owners of any property in the park will pay a fee in the amount equal to the property taxes that would have been due and payable if the property was not in a multi-county industrial park, unless the parties agree to a negotiated fee in lieu of property. The fee is treated like a property tax for purposes of collection and enforcement and the owners must file returns as if the fee were a property tax.

A county may issue special source revenue bonds to help fund the project or to allow an entity paying a multi-county park fee in lieu of taxes a credit against the fee. However, the special source revenue bonds or the credit amount must be used solely for the purpose of paying the cost of acquiring, constructing, or improving infrastructure or for improved or unimproved real estate which enhances the economic development of the county or municipality.

Additionally, a taxpayer located in a multi-county industrial park creating qualifying new, full time jobs is eligible for an additional $1,000 job tax credit.

6. **Fee in Lieu of Taxes**

Under Article X of the South Carolina Constitution, manufacturing real or personal property is assessed at 10.5% of its fair market value. Commercial personal property is assessed at 10.5%, while commercial real property is assessed at 6%. To promote economic development within this State, the Legislature enacted three negotiated fee in lieu of property tax statutes (referred to as “Fee in Lieu” or “Fee”).

The first Fee-in-Lieu statute was enacted in South Carolina Code §4-29-67 and is commonly referred to as the “Big Fee.” The second statute is contained in Chapter 12 of Title 4 and is commonly referred to as the “Little Fee.” The third statute is contained in Chapter 44 of Title 12 and is referred to as the “Simplified Fee.” Special Fee-in-Lieu provisions exist for very large investments. These provisions are known as the “Super Fee” with respect to the Little and Big Fee and as the “Enhanced Investment Fee” with respect to the Simplified Fee.

Property subject to the Fee usually consists of land, improvements to land, and/or machinery and equipment (excluding some mobile property) located at a project. The Fee statutes permit a company to negotiate to pay a Fee instead of paying property taxes. The 10.5% assessment ratio can be, and often is, negotiated to 6% (4% for very large investments under the Super Fee or Enhanced Investment Fee.) In addition, the company and the county can agree to freeze the millage rate applicable to the property at a set millage rate, or adjust the millage rate every 5 years, for the period the Fee is in effect. During the period of the Fee, the value of personal property is deemed to decrease each year by the depreciation allowable for property tax purposes subject to a floor on the value. The value of real property remains constant, and, therefore, is not subject to inflation. The period of the Fee generally is 20 years for each item of property (30 years for the Super and Enhanced Investment Fee) with an overall limit for the project of 30 years (or 40 years for the Super and Enhanced Investment Fee), with limited exceptions.

Calculations of the Fee must incorporate any property tax exemptions for which the property may be eligible, e.g. pollution control equipment.

Example. The following example shows the savings from reducing the assessment ratio from 10.5% to 6%. Savings are also available from freezing the millage rate and the value of real property.

	NORMAL CALCULATION	**FEE-IN-LIEU CALCULATION**
Total Investment in Equipment	$100,000,000	$100,000,000
Total Investment Less Depreciation	$ 89,000,000	$ 89,000,000
Assessment Ratio	x 10.5%	x 6%
Assessment Value	$ 9,345,000	$ 5,340,000
Millage	**x .4422**	**x .4422**
Tax Due	$ 4,132,359	$ 2,361,348
Savings		**$ 2,361,348**

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