State of South Carolina
Department of Revenue
301 Gervais Street, P.O. Box 125, Columbia, South Carolina 29214

SC REVENUE RULING #99-1

SUBJECT:	Computation of the Index of Taxpaying Ability (Property Tax)
EFFECTIVE DATE:	Applies to all periods open under the statute.
SUPERSEDES:	All previous documents and any oral directives in conflict herewith.
REFERENCES:	S. C. Code Ann. Section 59-20-20(3) (Supp. 1997) S. C. Code Ann. Section 4-1-170 (Supp. 1997) S. C. Code Ann. Section 4-12-30(L) (Supp. 1997) S. C. Code Ann. Section 4-29-67 (Supp. 1997) S. C. Code Ann. Section 12-44-150 (Supp. 1997)
AUTHORITY:	S. C. Code Ann. Section 12-4-320 (Supp. 1997) S. C. Revenue Procedure #97-8
SCOPE:	A Revenue Ruling is the Department of Revenue's official advisory opinion of how laws administered by the Department are to be applied to a specific issue or a specific set of facts, and is provided as guidance for all persons or a particular group. It is valid and remains in effect until superseded or modified by a change in the statute or regulations or a subsequent court decision, Revenue Ruling or Revenue Procedure.

Question:

The "Index of Taxpaying Ability" is an index developed by the General Assembly to measure a local school district's relative fiscal capacity in relation to that of all other school districts in the state. See S. C. Code Ann. Section 59-20-20(3) (Supp. 1997).

Questions have arisen concerning how a school district determines its "fiscal capacity" and how to factor into its fiscal capacity the negotiated fee-in-lieu of property tax payments it receives under S. C. Code Ann. Sections 4-12-30(L) (Supp. 1997), 4-29-67 (Supp. 1997), and 12-44-150 (Supp. 1997), and the fee payments it receives from property located in a joint industrial or business park established pursuant to S. C. Code Ann. Section 4-1-170 (Supp. 1997).

Conclusion:

The appropriate county determines the assessed value of all taxable property within the school district, and then factors into the determination the negotiated fee payments the school district receives from fees-in-lieu of property taxes received under S. C. Code Ann. Sections 4-12-

30(L),4-29-67, and 12-44-150, and the fee payments it receives from property located in a joint industrial or business park established pursuant to S. C. Code Ann. Section 4-1-170 (Supp. 1997). To factor in the fee payments, the payments are converted into the equivalent assessed value necessary to produce such payments.

The value of taxable property in a tax increment financing district (TIFD)[1] must also be factored into the index.

The property tax base generating impact aid revenue is currently not factored into the index[2]. Sales of real property, provided by the appropriate county assessor, are used by the Department of Revenue to generate sales ratio studies. The studies are used to factor the values reported on legal residence property (4% assessment ratio property) and "all other" real property (6% assessment ratio property) to reflect 100% of fair market value.

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[1]Property located in a Tax Increment Financing District (TIFD), established pursuant to Chapter 6 of Title 31, must be taken into consideration in determining a school district=s index of taxpaying ability. The value of taxable **real property** located in a TIFD is frozen after its placement in the TIFD. Property taxes on any increase in value of this taxable real property is available only for TIFD purposes and is not available for school purposes. Thus the incremental value associated with the taxable real property located in the TIFD must be excluded from the calculation of the index of taxpaying ability for the school district in which the TIFD is located. The value of taxable real property at the time of placement in the TIFD and the value of all taxable personal property in the TIFD is available for taxation by the school district and would be included in the computation of the index of taxpaying ability.

[2]Section 59-20-20 of the S.C. Code Ann. (Supp. 1997) provides:

> The index must include an imputed value for the property tax base implicitly generating impact aid revenue. The property tax base must be imputed at two-thirds the average ratio of all true value assessed property value statewide to prior year local revenue statewide in the foundation program, the resulting product multiplied times the average impact aid receipts during the prior three years. If impact aid receipts during the federal fiscal year are less than the average receipts for the prior three years, then state aid to the impact aid districts must be adjusted in the final payment for the state fiscal year. If the State Department of Education determines from fiscal simulations that the school finance system does not meet requirements of Section 5(D) of P.L. 81-874, the Department of Revenue shall exclude an imputed value of impact aid receipts from the index of taxpaying ability.

The Department of Education, pursuant to the authority contained in Section 59-20-20(3), has determined that impact aid should not be included in the index of taxpaying ability. Thus, the Department of Revenue excludes an imputed value of impact aid receipts from the index of taxpaying ability.

The index of taxpaying ability is then determined by the Department of Revenue.

Statutes:

S. C. Code Ann. Section 59-20-20 provides in pertinent part:

> (3) "Index of taxpaying ability" means an index of a local district's relative fiscal capacity in relation to that of all other districts of the State based on the full market value of all taxable property of the district assessed on the basis of property classification assessment ratios set forth in Article 3, Chapter 43 of Title 12 for the second completed taxable year preceding the fiscal year in which the index is used and these assessments must be the audited assessments by school district contained in the annual report submitted yearly to the Comptroller General's office. The county auditor shall provide fiscal year-end audited assessments of real and personal property to the Property Division of the Department of Revenue for each of the school districts of the county for the second completed taxable year preceding the fiscal year in which the index is used not later than October first of each year. The index must be used to calculate each district's share of the revenue to be raised locally for the foundation program. The index must include an imputed value for the property tax base implicitly generating impact aid revenue. The property tax base must be imputed at two-thirds the average ratio of all true value assessed property value statewide to prior year local revenue statewide in the foundation program, the resulting product multiplied times the average impact aid receipts during the prior three years. . . .
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> The index must be determined annually by the Department of Revenue from sales ratio data based on the most recent studies made which correspond with the base year assessments used to compute the current index pursuant to Section 12-43-250 for assessed property within a school district. The base year is the second completed taxable year preceding the fiscal year in which the index is used. The Department of Revenue shall provide the index a preliminary index by November first of each year end and a final index by February first of each year to the State Department of Education and to the auditor of each county who shall provide the index to any governmental entity responsible for approving or levying of millages for school purposes. Changes and corrections may be made to the index before February first but no change is allowed after that date. When the assessment of property is under appeal and the appeal extends beyond the year in which the assessment made pursuant to Section 12-43-305 is applied, the Department of Revenue shall adjust the index of taxpaying ability in the year in which the appeal is resolved by the amount of any difference between the assessments. Any school district is entitled to a hearing before the Department of Revenue to review its designated index of taxpaying ability within thirty days of filing a request for the hearing. . . . In determining sales to assessment ratio, the Department of Revenue shall use only reported consideration on sales for which deeds have been placed on public record. Where sufficient sales data is not available, the Department of Revenue shall make appraisals in lieu of sales in order to determine the index.
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> [F]or purposes of the index of taxpaying ability, the value of a fee in lieu of taxes shall be computed by the Department of Revenue by basing the computation on the net fee received and retained by the school district. The value thus computed shall not be inflated by any portion of the fee shared with or used by any other local taxing authority. . . .

S. C. Code Ann. Section 4-1-170 (Supp. 1997) provides in part:

> By written agreement, counties may develop jointly an industrial or business park with other counties within the geographical boundaries of one or more of the member counties as provided in Section 13 of Article VIII of the Constitution of this State[3]. The written agreement entered into by the participating counties must include provisions which:
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> (3) specify the manner in which revenue must be distributed to each of the taxing entities within each of the participating counties.
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> [F]or the purpose of computing the index of taxpaying ability pursuant to Section 59-20-20(3), allocation of the assessed value of property within the park to the participating counties and to each of the taxing entities within the participating counties must be identical to the allocation of revenue received and retained by each of the counties and by each of the taxing entities within the participating counties. . . .

S. C. Code Ann. Section 4-12-30(L) provides in relevant part:

> (L) Projects on which a fee-in-lieu of taxes is paid pursuant to this section are considered taxable property at the level of the negotiated payments . . . for purposes of computing the index of taxpaying ability pursuant to Section 59-20-20(3). However, for a project located in an industrial development park as defined in Section 4-1-170, projects are considered taxable property in the manner provided in Section 4-1-170 . . . for purposes of computing the index of taxpaying ability pursuant to Section 59-20-20(3). . . .

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[3] Article VIII, '13 of the S. C. Constitution provides in part:

> (D) Counties may jointly develop an industrial or business park with other counties within the geographical boundaries of one or more of the member counties. The area comprising the parks and all property having a situs therein is exempt from all ad valorem taxation. The owners or lessees of any property situated in the park shall pay an amount equivalent to the property taxes or other in-lieu-of payments that would have been due and payable except for the exemption herein provided. The participating counties shall reduce the agreement to develop and share expenses and revenues of the park to a written instrument which is binding on all participating counties.

See also, S. C. Code Ann. Sections 4-29-67(N) and 12-44-150 which contains similar language.

Discussion:

The "Index of Taxpaying Ability" is an index developed by the legislature to measure a local school district's relative fiscal capacity in relation to that of all other school districts in the state. See S. C. Code Ann. Section 59-20-20(3).

Computation: To compute the index the following steps are necessary:

(1) The "full market value" of each class of taxable property within the school district is multiplied by the appropriate assessment ratio for the class as provided for in S. C. Code Ann. Section 12-43-220 (Supp. 1997)[4].

Although S. C. Code Ann. Section 59-20-20(3) speaks of "full market value," it has been the longstanding policy of the Department of Revenue, in the case of agricultural property, to use agricultural use value [see S. C. Code Ann. Section 12-43-220(d)], rather than its "full market value." To do otherwise, would impute to rural agricultural counties a fiscal capacity that they do not have.

For property located in a Tax Increment Financing District (TIFD), established pursuant to Chapter 6 of Title 31, the value of taxable real property at the time of placement in the TIFD and the value of all taxable personal property in the TIFD is available for taxation for school purposes and would be included in the computation of the index of taxpaying ability. See Footnote 1.

(2) Fee-in-lieu of tax payments negotiated pursuant to S. C. Code Ann. Sections 4-12-30, 4-29-67, and 12-44-10 *et seq*. must be factored into the sum obtained in (1) above. These statutes provide that negotiated fees are considered "taxable property" at the "level of the negotiated [fee] payment."

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[4]**Bankruptcy:** Note that section 59-20-20(3) provides

> The index of taxpaying ability for a particular current year shall not include the assessed value of property in a school district which is classified under Section 12-43-220(a) [all real and personal property owned by or leased to manufacturers and utilities] and Section 12-43-220(e) [@all other@ real property taxed on a six percent assessment ratio], which is at least fifteen percent of the total assessed value of real property in the school district, which on February first of the year has been in a bankruptcy status for a minimum of thirty consecutive months, and on which no local school property taxes have been collected for at least two consecutive fiscal years. It is the responsibility of the county auditor to report such exclusions from the index to the Department of Revenue and to immediately notify the Department of Revenue of any change in the bankruptcy status of such real property or any collection of school property taxes from such real property.

The fee received is therefore used to determine the equivalent assessed value of the property producing the fee. To determine the equivalent assessed value requires that the fee revenues be divided by the school millage for the appropriate base year under consideration.

(3) Fees generated from a joint industrial or business park established pursuant to S. C. Code Ann. Section 4-1-170 must also be factored into the sum obtained in (1) above. All property located in a such a park is exempt from ad valorem property taxes. See Footnote 3, *supra*. However, most owners or lessees of any property situated in the park are required to pay an amount equivalent to the property taxes or other in-lieu-of payments that would have been due and payable except for the exemption provided. See S. C. Constitution, Art VIII, ‘13.

The fees received and retained by a school district are used to determine the equivalent assessed value of the property producing the fee. If the school district receives no part of the fees generated by the property in the joint industrial or business park, then none of the fees generated by the park will be factored into that school district's fiscal capacity.

To determine the equivalent assessed value when a school district does receive monies from a joint industrial or business park requires that the fees received and retained by the school district be divided by the school millage for the base year under consideration. The base year is the second completed taxable year preceding the fiscal year in which the index is used. This produces the equivalent assessed value that would generate these fees.

(4) The data from the sales of real property is received by the Department of Revenue from each county, and is used by the Department to generate sales ratio studies to factor the values reported by the auditor for legal residence property (4% assessment ratio property) and for "all other" real property (6 % assessment ratio property) to 100% of fair market value[5].

Sales ratio studies are conducted based on a calendar year; i.e., January 1 through December 31. See S.C. Code of Laws Regs. 117-115. The ratio studies to be used for computing the index of taxpaying ability are the combined studies for the two most current years which correspond with the base year. In the event that reassessment, pursuant to S.C. Code Ann. Section 12-43-217 (Supp. 1997), is implemented in the second of the two years, the first year must also reflect the reassessment values.

The sum of (1), (2), (3) and (4) above, equals the fiscal capacity for the particular school district[6].

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[5]All other property (manufacturers, business personal property, motor vehicles, etc.) should already be at fair market, or agricultural use, value.

[6]S. C. Code Ann. Section 59-20-20(3) provides that the AIndex@ must normally include an imputed value for the property tax base implicitly generating impact aid revenue if certain conditions are met. Imputed aid is not included; see footnote 2.

(5) To determine the "index of taxpaying ability" for that school district, the district's fiscal capacity is divided by the sum of the fiscal capacity of all school districts.

Road-Map: The following chart provides a "road-map" to assist in determining the base tax year and the sales ratio years to be used for a particular implementation year.

ROAD-MAP

Base Tax Year	Ratio Studies (Calendar Years Used)	Auditor Provides Assessments	Indexes Computed	Implementation Begins
7/1/96 - 6/30/97	1995 & 1996	10/1/97 Auditor Provides Assessments	Prelim. Index 11/1/97 Final Index 2/1/98	Begins 7/1/98
7/1/97 - 6/30/98	1996 & 1997	10/1/98 Auditor Provides Assessments	Prelim.Index 11/1/98 Final Index 2/1/99	Begins 7/1/99
7/1/98 - 6/30/99	1997 & 1998	10/1/99 Auditor Provides Assessments	Prelim. Index 11/1/99 Final Index 2/1/2000	Begins 7/1/2000
7/1/99 - 6/30/2000	1998 & 1999	10/1/2000 Auditor Provides Assessments	Prelim. Index 11/1/2000 Final Index 2/1/2001	Begins 7/1/2001

NOTE: All ratio study years must contain comparable values. For example, when computing the index to be used beginning with 7/1/99, if there has been a reassessment which was implemented in 1997, reassessment values for 1996 must also be used.

EXAMPLES[7]

The following examples illustrate how the index of taxpaying ability for a particular school district is computed.

Assume County "A" has only one school district, District "1". Assume that District "1" contains the following property, none of which is under a fee-in-lieu of property tax arrangement. In order to simplify this first example, assume further that the state has no fee-in-lieu of property tax property. Assume the values for all school districts is a given as noted. Assume also that the figures in the columns below have been adjusted by the Department of Revenue based on sales ratio studies as a result of information received from the school districts for the base tax year. See S. C. Code Ann. Section 59-20-20(3).

	Dist. "1"	All School - Dists. (State-Wide)
Legal Residence Property (4% Assessment Ratio)	$3 Million	$120 Million
Agricultural Use Property (4% Assessment Ratio)	$5 Million	$200 Million
Agricultural Use property (6% Assessment Ratio)	$7 Million	$280 Million
All Other Real Property (6% Assessment Ratio)	$9 Million	$360 Million
Manufacturing (10.5% Assessment Ratio)	$9 Million	$360 Million
Cars, Watercraft, Airplanes (10.5% Assessment Ratio)	$8 Million	$320 Million
All Other Personal Property (10.5% Assessment Ratio)	$9 Million	$360 Million
Motor Carriers (9.5% Assessment Ratio)	$1 Million	$ 50 Million
Fee-in-Lieu of Tax Property	$0 Million	$ 000 Million

[7]None of the values are real. They were selected merely to make the examples easier to understand.

Example 1:
The index of taxpaying ability for School District “1” in County “A” is computed as follows:

	DISTRICT “1” PROPERTY VALUES	**DISTRICT “1” MULTIPLIED BY ASSESSMENT RATIO**	**ALL SCHOOL DISTRICTS PROPERTY VALUES**	**ALL DISTRICTS MULTIPLIED BY ASSESSMENT RATIO**
Legal Residence Property (4% Assessment Ratio)*	\$3 Million	\$3 x .04 = .12	\$120 Million	\$120 x .04 = 4.8
Agricultural Use Property (4% Assessment Ratio)	\$5 Million	\$5 x .04 = .2	\$200 Million	\$200 x .04 = 8.0
Agricultural Use Property (6% Assessment Ratio)	\$7 Million	\$7 x .06 = .42	\$280 Million	\$280 x .06 = 16.8
All Other Real Property (6% Assessment Ratio)*	\$9 Million	\$9 x .06 = .54	\$360 Million	\$360 x .06 = 21.6
Manufacturing (10.5% Assessment Ratio)	\$9 Million	\$9 x .105 = .945	\$360 Million	\$360 x .105 = 37.8
Cars, Watercraft, Airplanes (10.5% Assessment Ratio)	\$8 Million	\$8 x .105 = .840	\$320 Million	\$320 x .105 = 33.6
All Other Personal Property (10.5% Assessment Ratio)	\$9 Million	\$9 x .105 = .945	\$360 Million	\$360 x .105 = 37.8
Motor Carrier (9.5% Assessment Ratio)	\$1 Million	\$1 x .095 = .095	\$ 50 Million	\$50 x .095 = 4.75
Fee-in-Lieu of Tax Property	\$0 Million	.0	\$000 Million	0.0
Total:		Total Dist “1” = \$4.105 Million		Total All Districts = \$165.15 Million
\$4.105 Million. \$165.15 Million = .024856 Index of Taxpaying Ability for School District “1”, determined by DOR based on the above values.				

*The values have been adjusted as a result of sales ratio studies to reflect 100% of fair market value.

Example 2:

In addition to the facts assumed in Example (1) above, assume that School District "1" also has projects that generate the following:

$.4 million generated by negotiated fee-in-lieu property, not in a joint industrial park,

$.3 million of which goes to School District "1."

Assume further that 215 Mills is the millage rate for all school purposes in School District "1" for the applicable base year under consideration.

The Index of Taxpaying Ability for School District "1" is now determined as follows:

	DISTRICT "1" PROPERTY VALUES	**DISTRICT "1" MULTIPLIED BY ASSESSMENT RATIO**	**ALL SCHOOL DISTRICTS PROPERTY VALUES**	**ALL DISTRICTS MULTIPLIED BY ASSESSMENT RATIO**
Legal Residence Property (4% Assessment Ratio)*	$3 Million	$3 x .04 = .12	$120 Million	$120 x .04 = 4.8
Agricultural Use Property (4% Assessment Ratio)	$5 Million	$5 x .04 = .2	$200 Million	$200 x .04 = 8.0
Agricultural Use Property (6% Assessment Ratio)	$7 Million	$7 x .06 = .42	$280 Million	$280 x .06 = 16.8
All Other Real Property (6% Assessment Ratio)*	$9 Million	$9 x .06 = .54	$360 Million	$360 x .06 = 21.6
Manufacturing (10.5% Assessment Ratio)	$9 Million	$9 x .105 = .945	$360 Million	$360 x .105 = 37.8
Cars, Watercraft, Airplanes (10.5% Assessment Ratio)	$8 Million	$8 x .105 = .840	$320 Million	$320 x .105 = 33.6
All Other Personal Property (10.5% Assessment Ratio)	$9 Million	$9 x .105 = .945	$360 Million	$360 x .105 = 37.8
Motor Carrier (9.5% Assessment Ratio)	$1 Million	$1 x .095 = .095	$ 50 Million	$50 x .095 = 4.75
	FEE PAYMENT	**FEE PAYMENT TO SCHOOL DISTRICT "1". SCHOOL MILLAGE FOR DISTRICT "1"**	**FEE PAYMENTS STATE WIDE**	**ASSESSED VALUE FEE-IN-LIEU PROPERTY STATE WIDE**
Fee-in-Lieu of Tax Property	$.3 Million	$.3. .215 = $1.4 Million	$15 Million	**$56.6 Million
Total:		Total Dist "1" $5.51 Million		Total All Districts = $221.75 Million
$5.51 Million. $221.75 Million = .024848 Index of Taxpaying Ability for School District "1", determined by DOR based on the above values.				

* The values have been adjusted as a result of sales ratio studies to reflect 100% of fair market value.
** Assumed for this example.

Example 3:

In addition to the facts contained in examples (1) and (2) above, assume that a joint industrial park lying in County "A" has projects which generate $.5 million, $.1 million of which goes to School District "1."

Assume 215 mills for all purposes in School District "1" for the applicable base year under consideration.

The Index of Taxpaying Ability for School District "1" is determined as follows:

	DISTRICT “1” PROPERTY VALUES	DISTRICT “1” MULTIPLIED BY ASSESSMENT RATIO	ALL SCHOOL DISTRICTS PROPERTY VALUES	ALL DISTRICTS MULTIPLIED BY ASSESSMENT RATIO
Legal Residence Property (4% Assessment Ratio)*	$3 Million	$3 x .04 = .12	$120 Million	$120 x .04 = 4.8
Agricultural Use Property (4% Assessment Ratio)	$5 Million	$5 x .04 = .2	$200 Million	$200 x .04 = 8.0
Agricultural Use Property (6% Assessment Ratio)	$7 Million	$7 x .06 = .42	$280 Million	$280 x .06 = 16.8
All Other Real Property (6% Assessment Ratio)*	$9 Million	$9 x .06 = .54	$360 Million	$360 x .06 = 21.6
Manufacturing (10.5% Assessment Ratio)	$9 Million	$9 x .105 = .945	$360 Million	$360 x .105 = 37.8
Cars, Watercraft, Airplanes (10.5% Assessment Ratio)	$8 Million	$8 x .105 = .840	$320 Million	$320 x .105 = 33.6
All Other Personal Property (10.5% Assessment Ratio)	$9 Million	$9 x .105 = .945	$360 Million	$360 x .105 = 37.8
Motor Carrier (9.5% Assessment Ratio)	$1 Million	$1 x .095 = .095	$ 50 Million	$50 x .095 = 4.75
	FEE PAYMENT	**FEE PAYMENT TO SCHOOL DISTRICT “1” SCHOOL MILLAGE FOR SCHOOL DISTRICT “1”**	**FEE PAYMENTS STATE WIDE**	**ASSESSED VALUE FEE-IN-LIEU PROPERTY & PROPERTY IN JOINT PARK STATE WIDE**
Fee-in-Lieu of Tax Property	$.3 Million	$.3. .215 = $1.4 Million	$15 Million	** $56.6 Million Assessed Value
Joint Industrial Park	$.1 Million	$.1. .215 = $.465 Million	$12 Million	**$45.3 Million Assessed Value
Total:		Total Dist “1” = $5.970 Million		Total All Districts = $267.05 Million
$5.970 Million. $267.05 Million = .022355 Index of Taxpaying Ability for School District “1”, determined by DOR based on the above values.				

* The values have been adjusted as a result of sales ratio studies to reflect 100% of fair market value.

** Assumed for purposes of this example.

SOUTH CAROLINA DEPARTMENT OF REVENUE

s/ Burnet R. Maybank III
Burnet R. Maybank, III, Director

Columbia, South Carolina
January 7, 1999