

SC REVENUE ADVISORY BULLETIN #01-6

**SUBJECT:** Calculation of the Local Option Sales Tax Credit for Property Taxes (Property)

**EFFECTIVE:** Applies to all periods open under the statute.  
**DATE**

**SUPERSEDES:** All previous advisory opinions and any oral directives in conflict herewith.

**REFERENCES:** S. C. Code Ann. Section 12-37-930 (2000)  
S. C. Code Ann. Section 4-10-10, *et. seq.* (Supp.2000)

**AUTHORITY:** S. C. Code Ann. Section 12-4-320 (2000)  
S. C. Code Ann. Section 1-23-10(4) (Supp.2000)  
SC Revenue Procedure #99-4

**SCOPE:** The purpose of a Revenue Advisory Bulletin is to provide guidance to the public and to Department personnel. It is a written statement issued to apply principles of tax law to a specific set of facts or a general category of taxpayers. **A Revenue Advisory Bulletin does not have the force or effect of law, and is not binding on the public.** It is, however, the Department's position and is binding on agency personnel until superseded or modified by a change in statute, regulation, court decision, or advisory opinion.

**Question:**

1. How is the local option sales and use tax ("LOST") credit against property taxes determined?

## **Conclusion:**

In the Department of Revenue's ("Department's") opinion, the amount of LOST credit is determined by multiplying the value of the taxable property by the LOST credit ratio - the ratio is determined by dividing the total estimated amount a taxing jurisdiction receives from the Property Tax Credit Fund ("PTCF") by the total appraised value of all taxable property in the taxing jurisdiction as of January one of the applicable tax year. For what constitutes taxable property, see the discussion below.

### ***Local Option Sales Tax (LOST)***

Sections 4-10-10, *et seq.* of the South Carolina Code of Laws ("Code") provide for a one percent local sales and use tax, if approved by a county referendum. If the county adopts the one percent LOST tax, it must use a substantial portion of the LOST taxes to reduce property taxes in the county by providing a credit against property taxes. Code Section 4-10-90(B) provides that the State Treasurer is required to deposit the LOST revenues into the Local Sales and Use Tax Fund which consists of two separate funds - the Property Tax Credit Fund ("PTCF") and the County/Municipal Revenue Fund.

The money deposited into the PTCF must be used to reduce property taxes. The amount credited to the PTCF is 71% of the total revenues received. The money in the Property Tax Credit Fund is divided between the county and the municipalities within the county - 67% of the funds go to the county while the municipalities receive 33% of the funds. The amount that each municipality receives is first determined by dividing the particular municipality's population by the total population in all the municipalities in the county. The resulting percentage is applied to the total amount allocated to all municipalities to determine each municipality's share of funds.

The County/Municipal Revenue Fund receives the other 29% of the money in the Local Sales and Use Tax Fund. This money is divided between the county and the municipalities in the county area as follows: (1) 50% of the funds in the County/Municipal fund are distributed to the county or municipality where the sale occurs and (2) 50% of the funds are distributed based on population in the counties and municipalities. The money in the County/Municipal Revenue Fund may be used for any legitimate government purpose including allowing an additional property tax credit to taxpayers. See Code Section 4-10-50.

This bulletin explains how, in the opinion of the Department, the county and municipalities within the county, should calculate the LOST credit to be applied against the property's county and municipal taxes.

Code Section 4-10-40(B) provides that:

(1) All of the revenue received by a county and municipality from the Property Tax Credit Fund must be used to provide a credit against the property tax liability of taxpayers in the county and municipality in an amount determined by multiplying the appraised value of the taxpayer's taxable property by a fraction in which the numerator is the total estimated revenue received by the county or municipality from the Property Tax Credit Fund during the applicable fiscal year of the political subdivision and the denominator is the total of the appraised value of taxable property in the county or municipality as of January 1 of the applicable taxable year.

(2) For purposes of this chapter [local option sales and use tax]:

(a) property tax liability includes a liability to pay fees in lieu of property taxes;

(b) taxable property includes exempt property for which the owner must pay fees in lieu of property taxes; and

(c) reference to liability for fees in lieu of tax applies to fees arising pursuant to Section 4-1-170 in connection with location in a multi-county industrial or business park as provided in Section 13 of Article VIII of the Constitution of the State of South Carolina.

**NOTE: Fee in Lieu of Tax Property.** In the Department's opinion, only a fee created pursuant to Code Section 4-1-170 (a non-negotiated fee created solely because the property is located in a multicounty park) is eligible for a LOST credit. Property subject to a negotiated fee in lieu of property tax, pursuant to Chapter 12 of Title 4, Section 4-29-67, or Chapter 44 of Title 12 of the Code is not eligible for the LOST credit and the value of the property subject to a negotiated fee in lieu of taxes is not included in the appraised value of the taxpayer's taxable property or the total appraised value of the county's or municipality's taxable property. See Code Section 4-10-40. If property is located in a multicounty park established pursuant to Code Section 4-1-170 and such property is also subject to a negotiated fee, the property, in the Department's opinion, is not entitled to a LOST credit.

**NOTE: Exemptions from Property Tax.** Exemptions from property tax exclude all or a portion of the value of property from property tax. In the Department's opinion, if property is subject to an exemption, that amount is not included in the taxable property of the taxpayer and is also not included in the appraised value of the taxable property of the

county or municipality. Note, the Department does not oversee all exemption provisions of the Code. Questions concerning those exemptions provided under Code Section 12-37-250 (the Homestead Exemption) and Code Section 12-37-251 (Homestead Exemption from Property Taxes Levied for School Operations) should be referred to the Office of the Comptroller General. Some of the other exemptions, which are administered by the Department, are discussed in this bulletin.

In sum, the amount of credit that a taxpayer is entitled to is determined by multiplying the appraised value of the taxpayer’s taxable property as discussed above by the LOST credit ratio - the ratio being determined by dividing the total estimated monies a taxing entity receives from the PTCF by the total appraised value of all taxable property in the taxing jurisdiction for that year.

**This bulletin uses examples to illustrate how to calculate the LOST credit. The examples contain a number of assumptions. Taxpayers and county and municipal officials who are using this bulletin as a reference tool should be aware that the assumptions made in this bulletin, in most instances, will not be reflective of the taxing jurisdiction’s actual situation.**

The following examples illustrate how the LOST credit works.

*Assumptions for Examples*

For the examples, assume the following facts:

None of the money in the County/Municipal Revenue Fund has been allocated for property tax relief.

1% LOST in County A produces total revenues to County A  
for the applicable fiscal year of . . . . . \$ 550,000

The portion of money that is contributed to the Property  
Tax Credit Fund (PTCF) is<sup>1</sup> . . . . . \$390,500  
\$550,000 (Total Proceeds of LOST) x 71% (Portion of Funds that go to the PTCF) = \$390,500

---

<sup>1</sup>Code Section 4-10-90(B)(Supp. 1999) provides that the State Treasurer is required to deposit the LOST revenues into the Local Sales and Use Tax Fund which consists of two separate funds - the Property Tax Credit Fund and the County/Municipal Revenue Fund. Only monies deposited in the PTCF are required to be used to reduce property tax.

County A's share of the PTCF for the applicable fiscal year<sup>2</sup> ..... \$261,635  
\$390,500 x 67% (County Share of the PTCF)

All Municipalities in County A share of the PTCF  
for the applicable fiscal year ..... \$128,865  
\$390,500(Total Proceeds of PTCF) x 33% (Municipalities' Share of PTCF) = \$128,865

Assume Municipality C's share of the \$128,865 is<sup>3</sup> ..... \$ 80,000

Assume Appraised Value of **County A's taxable** property ..... \$1,350,000,000  
as of January 1 of the tax year

Assume Appraised Value of **Municipality C's taxable** property ..... \$800,000,000  
as of January 1 of the tax year

Millage rate to fund County A's Operating Budget ..... 200 Mills  
Millage rate to fund County A's Bonded Indebtedness ..... 5 Mills  
Millage rate to fund Municipality C's Operating Budget ..... 100 Mills  
Millage rate to fund Municipality C's Bonded Indebtedness ..... 0 Mills

Ratio Credit Factor for County A ..... .000194  
\$261,635 (Revenues Received from PTCF)  
÷ by \$1,350,000,000 (Total Appraised Value of Taxable Property in the County) = .000193804

Ratio Credit Factor for Municipality C ..... .000100  
\$80,000 (Revenues Received from PTCF) ÷ \$800,000,000 (Total Appraised Value of Taxable Property in the  
Municipality) = .000100

Assume that each taxpayer's property tax year ends December 31<sup>st</sup> and that each business taxpayer reports all their property on the same return.

---

<sup>2</sup>Code Section 4-10-40(A) provides that the revenues allocated to the PTCF must be distributed to the county and the municipalities in the county area as follows: (1) 67% to the county, and (2) 33% to the municipalities in the county area. The amount that each municipality receives is first determined by dividing the particular municipality's population by the total population in all the municipalities in the county. The resulting percentage is applied to the total amount allocated to all municipalities to determine each municipality's share of funds.

<sup>3</sup>See Footnote 2, supra.

For the manufacturer’s property listed in Example 2, assume that the office building is not located on the premises of, or contiguous to, any of the manufacturing plant sites and that the distribution facility does not involve the distribution of clothing or wearing apparel.

**Example 1: Legal Residence**

Value of Taxpayer X’s legal residence located in Municipality C of County A . . . . .	\$80,000
Taxpayer X is 70 years old and qualifies for the Homestead Exemption <sup>4</sup> . . . . .	\$50,000
Taxpayer X has taxable property for county and municipality purposes of . . . . .	\$30,000
$\$80,000$ (Value of Residence) - $\$50,000$ (Homestead Exemption) = $\$30,000$	
Prior to the credit, Taxpayer X’s county taxes are . . . . .	\$246
$\$30,000$ (Taxable Value of Residence) x $.04$ (Assessment Ratio) = $\$1200$ (Assessed Value) x $.205$ (200 Mills for County Operations and 5 Mills for County Bonded Indebtedness) = $\$246$	
County tax LOST Credit for Taxpayer X is . . . . .	\$6
$\$30,000$ (Taxable Value of Residence) x $.000194$ (LOST Credit Ratio) = $\$6$	
Taxpayer X owes County Taxes of . . . . .	\$240
$\$246$ (Pre-credit County Tax) - $\$6$ (LOST Credit) = $\$240$	
Prior to the credit, Taxpayer X’s Municipal Taxes are . . . . .	\$120
$\$30,000$ (Taxable Value of Residence) x $.04$ (Assessment Ratio) = $\$1200$ (Assessed Value) x $.100$ (100 Mills) = $\$120$	
Municipal tax LOST Credit for Taxpayer X is . . . . .	\$3
$\$30,000$ (Taxable Value of Residence) x $.000100$ (LOST Credit Ratio) = $\$3$	
Taxpayer X owes municipal taxes of . . . . .	\$117
$\$120$ (Pre-credit Municipal Tax) - $\$3$ (LOST Credit) = $\$117$	

---

<sup>4</sup>Code Section 12-37-250 exempts the first \$50,000 of the fair market value of the residence of a taxpayer from county, municipal, school, and special assessment ad valorem property taxes if the person has been a resident of South Carolina for at least one year, and the taxpayer is 65 years or older, totally and permanently disabled, or legally blind.

H.B. 3699, Section 1 (Act No. A346) which is effective for property tax year 2000 and thereafter increased the homestead exemption available under Code Section 12-6-250 from \$20,000 to \$50,000.

**Example 2: Manufacturer**

For purposes of this example, assume that Taxpayer Y owns the following facilities all of which are located in County A and Municipality C.

- 1) Manufacturing plant Zeta placed in service in 1980.  
Its value ..... \$25,000,000
  
- 2) Manufacturing plant Beta placed in service in 1999. Assume it qualifies for the 5 year exemption contained in Code Section 12-37-220(A)(7)<sup>5</sup> for manufacturing facilities. Municipality C has not granted it a municipal tax exemption.  
Its value is ..... \$10,000,000
  
- 3) Manufacturing plant Delta placed in service in 1980 with new pollution control equipment.<sup>6</sup>  
The value of the plant **including** the pollution control equipment is ..... \$9,000,000  
The value of the pollution control equipment is ..... \$2,000,000  
The value of Delta's taxable property ..... \$7,000,000

---

<sup>5</sup>Code Section 12-37-220(A)(7) provides that all new manufacturing establishments and additions receive an exemption for county property taxes for five years. The cost of the new addition must be \$50,000 or more. The exemption does not apply to school taxes or municipal taxes. However, Art. X, Sec. 3, S.C. Constitution, provides that a municipality may, by ordinance, exempt from municipal ad valorem property taxes for not more than five years all new manufacturing establishments.

<sup>6</sup>Code Section 12-37-220(A)(8) provides that the value of all facilities or equipment of industrial plants which are designed for the elimination, mitigation, prevention, treatment, abatement or control of water, air, or noise pollution are exempt from all ad valorem property taxes, if the equipment is required by the state or federal government and used in the conduct of the business.

4) Distribution facility Theta placed in service in 1999. Assume it qualifies for the exemption in Code Section 12-37-220(B)(32)<sup>7</sup> for corporate headquarters, office facilities and distribution facilities and that Municipality C has chosen to allow a five year exemption from municipal taxes. The distribution center's value is . . . . . \$1,000,000

5) Research and development facility Tau which was placed in service in 2000. This facility qualifies for the exemption in Code Section 12-37-220(B)(34)<sup>8</sup> for research and development facilities. Municipality C has not granted it an exemption from municipal tax. The R&D facility's value is . . . . . \$5,000,000

6) Corporate headquarters Alpha placed in service in 1998 which qualifies for the exemption contained in Code Section 12-37-220(B)(32)<sup>9</sup> for corporate headquarters, office facilities and distribution facilities. Municipality C has chosen to allow a five year exemption from municipal taxes. The headquarter's value is . . . . . \$3,000,000

---

<sup>7</sup>All new corporate headquarters, corporate office facilities, distribution facilities and all additions to these facilities will receive an exemption from county property taxes for five years if the cost of the new facility or addition is \$50,000 or more and the taxpayer owning the facility or addition creates at least 75 new jobs. These facilities are not exempt from school taxes or municipal taxes. However, the governing body of a municipality may, by ordinance, exempt such property from municipal ad valorem property taxes for not more than five years. Code Section 12-37-220(B)(32).

<sup>8</sup>Research and development facilities and additions thereto are exempt from county property taxes for five years if the cost of the facility is \$50,000 or more. Research and development facilities are only exempt from county taxes and not school taxes or municipal taxes. However, by ordinance, the governing body of a municipality may exempt such a facility from ad valorem taxes for not more than five years. Code Section 12-37-220(B)(39).

<sup>9</sup>See footnote 7, supra.



<b>Taxable Property</b>	<b>Total Value of Property</b>	<b>Taxable Value for County Purposes</b>	<b>Taxable Value for Municipal Purposes</b>
Manufacturing Plant Zeta	\$25,000,000	\$25,000,000	\$25,000,000
Manufacturing Plant Beta	\$10,000,000	\$0	\$10,000,000
Manufacturing Plant Delta	\$9,000,000	\$7,000,000	\$7,000,000
Distribution Facility Theta	\$1,000,000	\$0	\$0
R & D Facility Tau	\$5,000,000	\$0	\$5,000,000
Corporate Headquarters Alpha	\$3,000,000	\$0	\$0
<b>Total</b>	<b>\$53,000,000</b>	<b>\$32,000,000</b>	<b>\$47,000,000</b>

Assessment Ratio for Manufacturing Plants Zeta, Beta, and Delta and Distribution Facility Theta<sup>10</sup> ..... 10.5%

Assessment Ratio for R & D Facility Tau and Corporate Headquarters Alpha<sup>11</sup> ..... 6%

---

<sup>10</sup>Under Code Section 12-43-220(a), all real and personal property owned by or leased to manufacturer’s and used by the manufacturer in the conduct of the business must be taxed on an assessment ratio equal to ten and one-half percent of the fair market value of the property. Distribution facilities that are involved in the wholesale distribution of clothing and wearing apparel are not considered to be used in the business of manufacturing if they are not located on the manufacturing plant site. These qualifying distribution facilities are assessed at 6%. Since Distribution Facility Theta is not involved in the wholesale distribution of clothing, it will be considered to be used in Y’s manufacturing business and it will be assessed at 10.5%.

<sup>11</sup>Under Code Section 12-43-220(a), real property owned by or leased to a manufacturer and used primarily for research and development is not considered used by a manufacturer in the conduct of the business of a manufacturer. Also, real property owned or leased to a manufacturer and used primarily as an office building is not considered used by a manufacturer in the conduct of the business of the manufacturer for purposes of classification of the property if the office building is not located on the premises of, or contiguous to, the plant site of the manufacturer. Since all other property is assessed at 6%, this property would be assessed at 6%.

Assessed Value of Taxpayer Y's Property for County A's  
 Property Taxes ..... \$3,360,000  
 \$32,000,000 (Value of Y's Property Subject to County Tax) x 10.5% (Assessment Ratio) = \$3,360,000

Prior to the credit, Taxpayer Y's County Property Taxes are ..... \$688,800  
 \$3,360,000 (Assessed Value) x .205 (200 Mills for Operations + 5 Mills Bonded Indebtedness) = \$688,800

County tax LOST Credit for Taxpayer Y is ..... \$6,208  
 \$32,000,000 (Value of Y's Property Subject to County Tax) x .000194 (LOST Credit Factor) = \$6,208

Taxpayer Y owes County Property Taxes of ..... \$682,592  
 \$688,800 (Pre-credit County Tax) - \$6,208 (LOST Credit for County Purposes) = \$682,592

Assessed Value of Taxpayer Y's Property for Municipality C's ..... \$4,710,000  
 Property Taxes  
 \$42,000,000 (Value of Y's Property Subject to Municipal Taxes) x 10.5% (Assessment Ratio) = \$4,410,000  
 \$5,000,000 (Value of R&D Facility Tau) x 6% (Assessment Ratio) = \$300,000  
 \$4,410,000 + \$300,000 = \$4,710,000

Prior to the Credit, Taxpayer Y's Municipal Property Taxes are ..... \$471,000  
 \$4,710,000(Assessed Value) x .100 (100 Mills for Municipal Operations) = \$471,000

Municipal tax LOST Credit for Taxpayer Y is ..... \$4,700  
 \$47,000,000 (Value of Y's Property Subject to Municipal Taxes)  
 x .000100 (LOST Credit Factor for Municipality C) = \$4,700

Taxpayer Y owes Municipal Property Taxes of ..... \$466,300  
 \$471,000 (Pre-credit Municipal Tax) - \$4,700 (LOST Credit for Municipal Purposes) = \$466,300

**Example 3: Company with Negotiated Fee in Lieu**

For purposes of this example, assume that Taxpayer Z owns the following facilities all of which are located in County A and Municipality C.

Manufacturing Plant Phi is under a negotiated fee in lieu of tax pursuant to Chapter 12 of Title 4. The negotiated assessment ratio for Phi Plant is 6%. The negotiated millage rate for Phi Plant's fee is 175 mills.

The value of Phi Plant . . . . . \$20,000,000

Retail Store Mu is a retail facility owned by Taxpayer Z. It is not subject to a negotiated fee in lieu of taxes and it is not located in a multicounty industrial park. It is not entitled to any property tax exemptions.

The value of Retail Store Mu is . . . . . \$10,000,000

Fair Market Value of Z's property eligible for LOST credit . . . . . \$10,000,000  
(Phi Plant's value cannot be included in the appraised value of Z's taxable property since Code Section 4-10-40(B)(2) does not allow a negotiated fee in lieu property to receive the local option sales tax credit. Only Retail Store Mu's value may be included.)

Assessed Value of Z's property eligible for LOST credit . . . . . \$600,000  
\$10,000,000 (Value of Z's Property Subject to County Tax that is eligible for LOST credit)  
x 6% (Assessment Ratio) = \$600,000.

Prior to the credit, Z's County A Property Taxes are . . . . . \$123,000  
\$600,000(Assessed Value) x .205 (200 Mills for Operations + 5 Mills Bonded Indebtedness) = \$123,000  
(Z also owes fee in lieu of property taxes on Phi Plant of \$210,000<sup>12</sup>)  
\$20,000,000 (Value of Phi Plant) x 6% (Assessment Ratio) = \$1,200,000.  
\$1,200,000 (Assessed Value) x .175 (175 mills) = \$210,000

County tax LOST Credit for Z is . . . . . \$1940  
\$10,000,000 (Value of Z's Property Subject to County Tax) x .000194 (LOST Credit Factor) = \$1940

Taxpayer Z owes County Property Taxes of . . . . . \$121,060  
\$123,000 (Pre-credit County Tax) - \$1940 (LOST Credit for County Purposes) = \$121,060  
(Z also owes fee in lieu of property taxes on Phi Plant of \$210,000)  
\$20,000,000 (Value of Phi Plant) x 6% (Assessment Ratio) = \$1,200,000.  
\$1,200,000 (Assessed Value) x .175 (175 mills) = \$210,000

Assessed Value of Z's Property for Municipality C's . . . . . \$600,000  
Property Taxes  
\$10,000,000 (Value of Z's Property Subject to Municipal Taxes) x 6% (Assessment Ratio) = \$600,000

Prior to the credit, Z's Municipal Property Taxes are . . . . . \$60,000  
\$600,000(Assessed Value) x .100 (100 Mills for Municipal Operations) = \$60,000

---

<sup>12</sup>The fee proceeds will be split in accordance with the applicable fee law. Therefore, the county will probably not get the full \$210,000 of fee proceeds.

Municipal tax LOST Credit for Z is ..... \$1,000  
\$10,000,000 (Value of Z's Property Subject to Municipal Taxes)  
x .000100 (LOST Credit Factor for Municipality C) = \$1,000

Taxpayer Z owes Municipal Property Taxes of ..... \$59,000  
\$60,000(Pre-credit Municipal Tax) - \$1,000 (LOST Credit for Municipal Purposes) = \$59,000

If you have questions about this bulletin, you may contact Jerilynn VanStory at (803)898-5151.

SOUTH CAROLINA DEPARTMENT OF REVENUE

s/Elizabeth A. Carpentier  
Elizabeth A. Carpentier

June 25, 2001  
Columbia, South Carolina