Bill Number:	H. 4912 Amended by House Ways and Means on March 21, 2024
Author:	Murphy
Subject:	Assessment Ratios
Requestor:	House Ways and Means
RFA Analyst(s):	Miller and Jolliff
Impact Date:	March 26, 2024

Fiscal Impact Summary

This bill provides that a civilian homeowner within the state that is employed by the Department of Defense (DoD) and receives orders for a change of station for at least one year retains his eligibility for a 4 percent assessment and applicable exemptions while the owner remains on such orders. This also applies even if the property is rented. Currently, if a civilian employed by DoD is transferred out of state for more than a year and retains ownership of his owner-occupied property within the state, the property is reassessed as a commercial property, which is assessed at 6.0 percent and subject to all millage. This bill applies to tax years beginning after 2023 and any open period less than three years.

This bill as amended also creates an exemption for 36.8421 percent of the fair market value of all aircraft of each airline company for the purposes of property taxes. The bill also changes the way time on the ground is determined for the purposes of calculating the ratio of time that an aircraft is in this state compared to total time in and out of state for the purposes of determining the value subject to property tax. The tax is administered and collected by the Department of Revenue (DOR) and distributed to the State Aviation Fund of the SC Aeronautics Commission.

This bill is not expected to impact expenditures for DOR to administer the changes as we anticipate this can be accomplished with existing staff and resources.

This bill will reduce aircraft tax by approximately $2,794,000 beginning in FY 2024-25 for the value exemption. The change in the determination of the ratio is expected to reduce aircraft tax by $3,070,000 beginning in FY 2024-25. Combining the effects of both the value exemption and the change in the ratio, the bill will reduce aircraft tax revenue to the State Aviation Fund by approximately $5,442,000 beginning in FY 2024-25 when accounting for the interaction of the two changes.

As the total estimated number of owner-occupied properties within the state that are owned by a civilian employed with DoD is less than 1.0 percent and this exemption applies only to those who are transferred by DoD for more than one year and choose to retain their property ownership within the state, RFA anticipates this bill may result in only a minimal decrease in property tax revenue annually beginning in FY 2024-25. Additionally, this bill allows for refunds for property taxes within three years. Therefore, this bill also will result in a one-time revenue decrease in FY

2024-25 for refunds. RFA also anticipates that local governments will increase millage, within the millage rate increase limitations, to offset any decrease in property tax revenue due to this bill. For reference, based on an estimated average owner-occupied property value of $219,611 and a statewide millage rate of 352.6, of which 49 percent is school operating millage, as of tax year 2024, the average increase in property taxes collected per property that is reassessed as commercial property at 6.0 percent from an owner-occupied property at 4.0 percent totals $3,066. This includes an additional $2,276 related to school operating millage and $790 for all other millage.

Explanation of Fiscal Impact

Amended by House Ways and Means on March 21, 2024
State Expenditure
This bill creates an exemption for 36.8421 percent of the fair market value of all aircraft of each airline company for the purposes of property taxes. The bill also changes the way time on the ground is determined for the purposes of calculating the ratio of time that an aircraft is in this state compared to total time in and out of state for the purposes of determining the value subject to property tax. The tax is administered and collected by the Department of Revenue (DOR). This bill is not expected to impact expenditures for DOR to administer the changes as we anticipate this can be accomplished with existing staff and resources.

State Revenue
This bill as amended exempts 36.8421 percent of the fair market value of all aircraft of each airline company for the purposes of property taxes. For reference, reducing the fair market value by 36.8421 percent would have the same effect as reducing the assessment ratio from 9.5 percent to 6 percent. The bill also changes the way time on the ground is determined for the purposes of calculating the ratio of time that an aircraft is in this state compared to total time in and out of state for the purposes of determining the value subject to property tax.

Currently, all airline companies operating in the state must pay property taxes on aircraft operated in the state. These aircraft are assessed at 9.5 percent of the fair market value allocated to the state and taxed at the statewide average millage rate. The fair market value of the aircraft allocated to the state is based on the average of two ratios:

- The ratio which the total time scheduled on the ground within this state of such aircraft during the preceding calendar or fiscal year bears to the total time scheduled on the ground within and without this state of such aircraft during the preceding calendar or fiscal year.
- The ratio which the total mileage scheduled within this state of such aircraft operated in this state during the preceding calendar or fiscal year bears to the total mileage scheduled within and without this state of such aircraft during the preceding calendar or fiscal year.

Beginning with FY 2022-23, total aircraft property taxes are distributed to the State Aviation Fund. The table below shows the recent history of collections and the estimated collections for

FY 2024-25. The estimate is based on historical growth in total fair market value of 4.84 percent and an expected statewide average millage rate of 349.2.

Aircraft Tax Revenue

	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24 (YTD)	FY 2024-25 (Current Estimate)
General Fund	$2,877,150	$1,250,000	$0	$0	$0
State Aviation Fund	$2,877,150	$3,373,007	$6,473,620	$6,660,807	$7,013,000
Total	**$5,754,300**	**$4,623,007**	**$6,473,620**	**$6,660,807**	**$7,013,000**

Based on the figures above, exempting 36.8421 percent of the fair market value of the aircraft of airline companies from property taxes is expected to reduce aircraft tax revenue by approximately $2,794,000 beginning in FY 2024-25.

Further, the bill changes the calculation of the ratio for total time on the ground. The bill specifies that for determining time on the ground, each landing equals 30 minutes, and each overnight stay or maintenance day equals 2 hours. Currently, DOR reports that the ratio of time on the ground is computed to be approximately 0.00683486, and the ratio of total mileage is computed to be 0.002273279, for an average of 0.00455407. Assuming that it takes approximately 60 minutes on average to turnaround a plane, reducing the time for each landing to 30 minutes would reduce the time by 50 percent.[1] Further, we assume that an overnight stay or maintenance day averages approximately 8 hours. Reducing an overnight stay from 8 hours to 2 hours would reduce this time by 75 percent. Based on these assumptions, we allocated 16 hours per day, or 66.7 percent, to landings, and the remaining 33.3 percent to overnight stays. This change would reduce the time allocation on the ground to 41.67 percent of the current allocation. Using this figure, the ratio for time on the ground would be reduced to 0.002847859. The new average ratio would then be 0.002560569, or 43.77 percent less than original average ratio. This reduction in value would lower the aircraft tax collected by $3,070,000 beginning in FY 2024-25.

Combining the effects of both the value exemption and the change in the ratio, the bill will reduce aircraft tax revenue to the State Aviation Fund by approximately $5,442,000 beginning in FY 2024-25 when accounting for the interaction of the two changes.

Local Expenditure
N/A

Local Revenue
This bill provides that a civilian homeowner within the state that is employed by DoD and receives orders for a change of station for at least one year retains his eligibility for a 4.0 percent assessment and applicable exemptions while the owner remains on such orders. This also applies

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[1] Grant, John, *Formula One Science in Aircraft Turnarounds*, OAG Aviation, April 12, 2023, retrieved March 26, 2024. https://www.oag.com/blog/science-aircraft-turnarounds

even if the property is rented. All owner-occupied property is assessed at 4.0 percent and is exempt from school operating millage. For purposes of this analysis, RFA assumes that an employee for DoD would not qualify for a homestead exemption. This bill applies to tax years beginning after 2023 and any open period less than three years.

Currently, if a civilian employed by DoD is transferred out of state for more than a year and retains ownership of his owner-occupied property within the state, the property is reassessed as a commercial property, which is assessed at 6.0 percent and subject to all millage. Further, renting the property would also trigger the change in assessment.

According to the U.S. Office of Personnel Management, as of September 2017, there were 9,335 civilians within the state employed by DoD[2]. According to the Census Bureau, the owner-occupied rate within South Carolina was 70.9 percent from 2018 to 2022. Therefore, approximately 6,600 of the state's homeowners may be civilians employed by DoD. This represents less than 1.0 percent of the 1,497,734 legal residences within the state as of 2022, according to the Department of Revenue. As the total estimated number of owner-occupied properties within the state that are owned by a civilian employed with DoD is less than 1.0 percent and this exemption applies only to those who are transferred by DoD for more than one year and choose to retain their property ownership within the state, RFA anticipates this bill may result in only a minimal decrease in property tax revenue annually beginning in FY 2024-25. Additionally, this bill allows for refunds for property taxes within three years. Therefore, this bill also will result in a one-time revenue decrease in FY 2024-25 for refunds. RFA also anticipates that local governments will increase millage, within the millage rate increase limitations, to offset any decrease in property tax revenue due to this bill.

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Introduced on January 23, 2024
State Expenditure
N/A

State Revenue
N/A

Local Expenditure
N/A

[2] https://www.opm.gov/policy-data-oversight/data-analysis-documentation/federal-employment-reports/reports-publications/federal-civilian-employment/, retrieved March 1, 2024

Local Revenue
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[3] https://www.opm.gov/policy-data-oversight/data-analysis-documentation/federal-employment-reports/reports-publications/federal-civilian-employment/, retrieved March 1, 2024

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