SERVICE INCENTIVES

JUNE 2019

South Carolina
Department of Commerce
Just right for business.

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WHY INVEST IN SOUTH CAROLINA?

South Carolina continues to experience significant growth in economic development. Companies - large and small, new or existing - are finding that the Palmetto State has unparalleled value, and is just right for business.

Growth incentives are an investment in our economic future. As a result, they must make good sense for all parties involved and be designed to target the needs of companies and local development plans. Successful businesses require growth, and South Carolina offers an array of grants and incentives to help businesses make a smart investment.

EXECUTIVE SUMMARY

Incentives for Service-Related Companies

South Carolina has a reputation as a superior business location, largely due to an exceptional economic climate that helps companies hold down operating costs and increase their return on investment. In addition, South Carolina's performance-based tax incentives reward companies for job creation and investment. The state's pro-business policies are demonstrated by the following:

- Numerous ways to potentially eliminate your entire corporate income taxes;
- Sales tax exemptions that will reduce annual operating costs;
- Property tax incentives that can be tailored to meet your company's needs; and
- Special discretionary incentives at the local and state level that may be used to meet specific needs of individual companies on a case-by-case basis.

The following pages describe incentives available to qualified service-related companies. Please note that state incentives are contingent upon submission of all required documentation, staff review, fulfillment of eligibility requirements and the conditions of each program. The relevant statutory provisions and agency guidelines must be reviewed for a full understanding of the terms and conditions of each incentive. The South Carolina Department of Commerce is not authorized to offer definitive commitments. Only the South Carolina Department of Revenue (Department of Revenue), local city and county councils and the South Carolina Coordinating Council for Economic Development (Coordinating Council) have the authority to offer definitive tax commitments under South Carolina law.

This booklet is provided to illustrate South Carolina's pro-business environment and to assist a service-related company in its evaluation of South Carolina taxes and incentives.

SOUTH CAROLINA'S TAX ADVANTAGE

South Carolina's positive business environment starts with its corporate income tax structure.

Businesses locating in South Carolina will benefit from:

- One of the lowest corporate income tax rates in the Southeast.
- A business-friendly method to determine income, subject to the state's corporate income tax rate.
- Numerous credits and methods to reduce and eliminate corporate income tax liability.

CORPORATE INCOME TAX & INCENTIVES

Corporate Income Tax

In South Carolina, single-factor apportionment is available for businesses that transact business partly within and partly outside of South Carolina so that such businesses are only taxed on the portion of income derived from their in-state operations. The process for determining the taxable income in South Carolina is described below.

Allocated Income: Certain corporate income not connected with the taxpayer's business is allocated for South Carolina tax purposes. This includes interest, dividends, royalties, rents, property sale gains and losses and personal services income associated with the South Carolina facility.

Apportioned Income: For companies engaged in manufacturing, selling or distributing tangible personal property, both within and partly outside of South Carolina, the state offers a single factor sales apportionment formula. A company's net income subject to apportionment will be apportioned to South Carolina by multiplying the net income by a fraction; the numerator of which is the value of sales made in South Carolina and the denominator is the total value of sales of the taxpayer.

A 5% corporate income tax rate is applied to the sum of the income allocated and apportioned to South Carolina. The resulting figure is the company's state corporate income taxes.

The following shows the corporate income tax liability for a company based on the following assumptions.

1. Total Sales	$10,000,000
2. Sales sourced to SC	$750,000
3. Net income subject to apportionment	$500,000

Based on those assumptions, the apportionment formula is:

$750,000/$10,000,000 = 7.5%

7.5% = Amount of income apportioned to SC

If 7.5% of the company's income is derived from its South Carolina operations, then the total South Carolina net income subject to tax will be $37,500. Applying the 5% corporate tax rate results in $1,875 of South Carolina income tax liability before credits.

($500,000 x 7.5%) x 5% = $1,875

In addition, South Carolina allows businesses a 20-year carry forward for net operating losses.

Corporate License Fee (Franchise Tax)

All corporations must pay an annual fee to the Department of Revenue. The rate is one mill per dollar ($0.001) of a proportion of total paid-in-capital and paid-in-surplus, plus $15. Earned surplus (retained earnings) is not included in the base when calculating this tax. For corporations doing business outside the state, the license fee is determined by apportionment—the same way South Carolina corporate income tax is computed. The minimum corporate license fee is $25.

Corporate Income Tax Credits

In addition to a low corporate income tax rate and a favorable formula for determining the income subject to that rate, South Carolina provides credits that, in some cases, can completely eliminate a company's corporate income tax liability for up to 10, or in some cases 15 years.

Jobs Tax Credits

The Jobs Tax Credit is a valuable financial incentive that rewards new and expanding companies for creating jobs in South Carolina. In order to qualify, companies must create and maintain a certain number of net new jobs in a taxable year. The number of new jobs is calculated as the increase in the average monthly employment from one year to the next.

A service-related business may qualify for Jobs Tax Credits by meeting the following criteria:

– In a Tier IV county, service facilities must create a monthly average of 10 net new jobs.

– In a Tier I, II, or III county, service facilities must create in a single taxable year:

- **>** 175 new jobs;
- **>** 150 new jobs in a building that has been vacant for at least 12 months;
- **>** 100 new jobs with an average salary 1.5 times the lower of the state or the county per capita income;
- **>** 50 new jobs with an average salary two times the lower of the state or the county per capita income; or
- **>** 25 new jobs with an average salary 2.5 times the lower of the state or the county per capita income.

The value of the credit depends on the county's development tier as set forth below:

COUNTY'S DEVELOPMENT TIER	
Tier I	$1,500
Tier II	$2,750
Tier III	$20,250
Tier IV	$25,000

A county may also join another county to form a "multi-county industrial park." Under this arrangement, a county agrees to share the property taxes with a "partner" county. This partnership raises the value of the credits by $1,000 per job, meaning credits from $2,500 to $26,000 per job may be available for qualifying companies.

The Jobs Tax Credit is available for a five-year period beginning with Year 2 (Year 1 is used to establish the created job levels). The credit can be applied against corporate income tax or premium tax, but cannot exceed 50% of the year's tax liability. Unused credits may be carried forward for 15 years from the year earned.

The following map identifies South Carolina's counties, their 2019 development designations, and the credit amount available per new job for Jobs Tax Credits. 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.

Research & Development Tax Credit

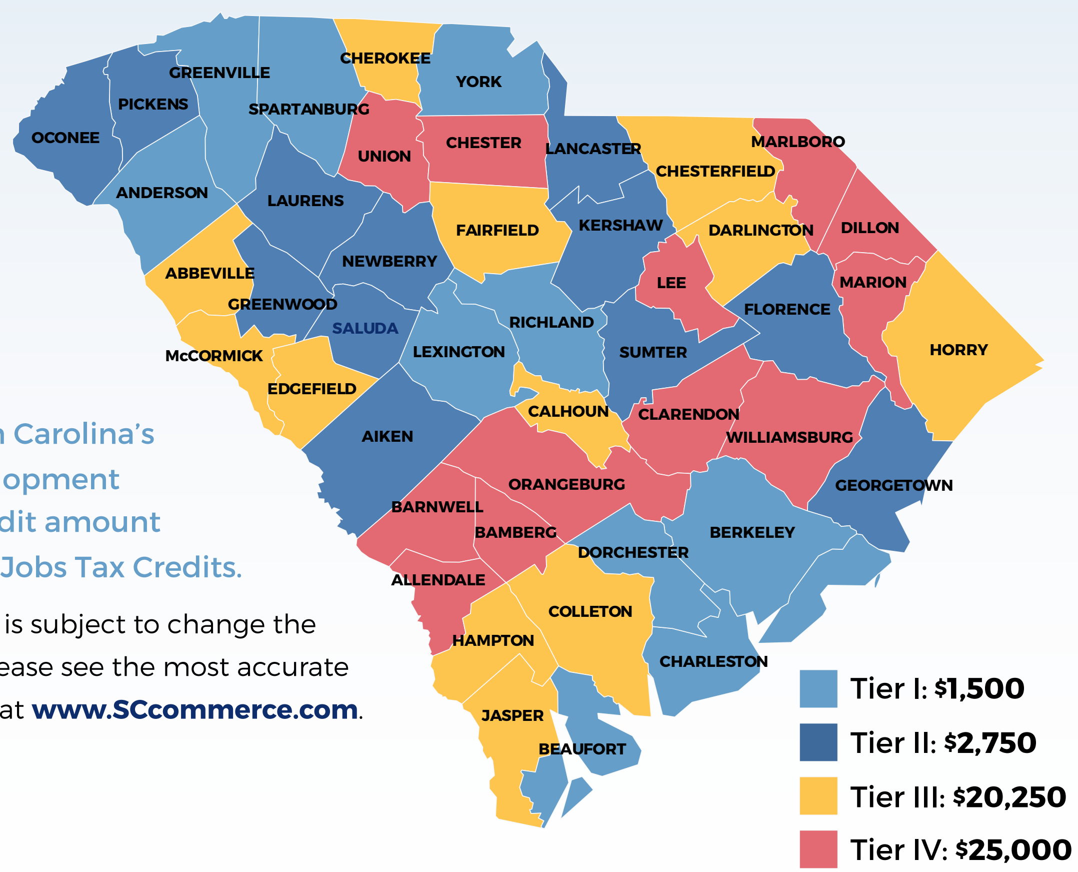
In order to reward companies for increasing research and development activities in a taxable year, South Carolina offers a credit equal to 5% of the taxpayer's qualified research expenses as defined in Section 41 of the Internal Revenue Code. The credit taken in any one taxable year may not exceed 50% of the company's remaining tax liability after all other credits have been applied. Any unused portion of the credit can be carried forward for 10 years from the date of the qualified expenditure.

Corporate Income Tax Moratorium

Service-related companies that meet the requirements for a Jobs Tax Credit and are creating net new jobs in certain of South Carolina's economically distressed counties will benefit from a corporate income tax moratorium. Companies that qualify for the moratorium will be able to entirely eliminate their state corporate income tax liability for a period of either 10 or 15 years. In order to qualify, at least 90% of the company's total investment in South Carolina must be in a county where the unemployment rate is twice the state average. The length of the moratorium depends on the number of net new full-time jobs created. Companies creating at least 100 net new full-time jobs in a five-year period qualify for a 10-year moratorium, and companies creating at least 200 net new full-time jobs in a five-year period qualify for a 15-year moratorium. The moratorium period begins once a company meets the required job target.

In order to qualify for the moratorium, a company must also obtain certification through an application process from the Coordinating Council that the project will have a significant beneficial effect on the region for which it is planned, and that the benefits of the project to the public exceed its costs. If a company is approved for the moratorium, it must enter into a contract with the Department of Revenue.

For 2019, only Dillon, Marlboro and Jasper Counties have been designated as moratorium counties.



This map identifies South Carolina's counties, their 2019 development designations and the credit amount available per new job for Jobs Tax Credits.

January 2019 | County map is subject to change the first quarter of every year. Please see the most accurate information on our website at **www.SCcommerce.com**.

DID YOU KNOW?

Datacententers locating or expanding in South Carolina may be exempt from some sales and use taxes when the new or expanding facility meets certain investment and job creation requirements.

Items such as computer equipment, software and electricity directly used in datacenter operations, may be exempt from sales and use tax.

SALES AND USE TAX & INCENTIVES

Sales and Use Tax

The sales and use tax rate in South Carolina is 6%. Some counties assess a local option sales tax and/or a capital project sales tax, which currently range from 1 to 3%. Proceeds of such local taxes go toward infrastructure improvements or a rollback of property taxes.

The sales tax applies to all retail sales, leases and rentals of tangible personal property, including the value of property purchased at wholesale and then used or consumed by the purchaser. The use tax is based on the sales price of such property.

Out-of-State Sales

South Carolina exempts sales tax on the gross proceeds of the sales of tangible personal property where the seller, by contract of sale, is obligated to deliver to the buyer, an agent of the buyer, or a donee of the buyer, at a point outside of South Carolina or to deliver it to a carrier or to the mail for transportation to a point outside of South Carolina.

Out-of-State Purchases

South Carolina provides a use tax credit for purchases of tangible personal property paid in another state, if the state in which the property is purchased and the sales and use taxes are paid allows substantially similar tax credits on tangible personal property purchased in this state. If the amount of the sales or use tax paid in the other state is less than the amount of use tax imposed in South Carolina, the user is required to pay the difference to this state.

Sales Tax Incentives

Sales Tax Exemptions

A service facility may benefit from the exemption to the sales tax (state and local) for long distance telephone calls and access charges, including 800 services.

Datacenter Materials. Datacenters locating or expanding in South Carolina may be exempt from some sales and use taxes when the new or expanding facility meets certain investment and job creation requirements. For a company to qualify for these exemptions, the expanding and/or new facility must:

- Be certified by the South Carolina Department of Commerce as a qualifying datacenter;
- Invest at least $50 million (or a combined $75 million with one or more other companies) in real or personal property at a single facility over a five-year period;
- Create at least 25 new jobs within a five-year period with an average wage that is at least 150% of the state or county per capita wage, whichever is lower; and
- Maintain the 25 jobs for at least three years. The items that may be exempt from sales and use tax are: computer equipment, software and electricity directly used in datacenter operations. Once qualified for this exemption, all future computer equipment purchases are exempt.

SALES TAX CAPS

South Carolina provides a max cap of $500 for sales tax or infrastructure maintenance fee, as applicable, on the sale or lease of aircraft, motor vehicles, motorcycles, boats, recreational vehicles and other items.

PROPERTY TAXES IN SOUTH CAROLINA

In South Carolina, only local governments levy property taxes. There is no state tax on real or personal property. In addition, there is no tax, state or local, on inventories or intangibles in South Carolina.

A company's property tax liability is a function of:
Property Value (less depreciation) x Assessment Ratio x Millage.

LOCAL PROPERTY TAXES & INCENTIVES

Property Tax

Valuation and Assessment

The Department of Revenue determines the fair market value of a business' real property (land and building) and personal property (machinery and equipment) to assure equitable local treatment. The fair market value is then assessed at rates established in the state constitution. For service facilities, the assessment ratio is 6% for real property and 10.5% for personal property. (For homeowners, primary residences are assessed at 4%.)

Depreciation

For service facilities, personal property is allowed to depreciate annually (once it is placed in service) at the rate claimed by the company for income-tax purposes. The company will be allowed to depreciate its personal property to a level of 10% of the original property value. Please note that the Department of Revenue makes the final determination of the allowable depreciation.

Millage

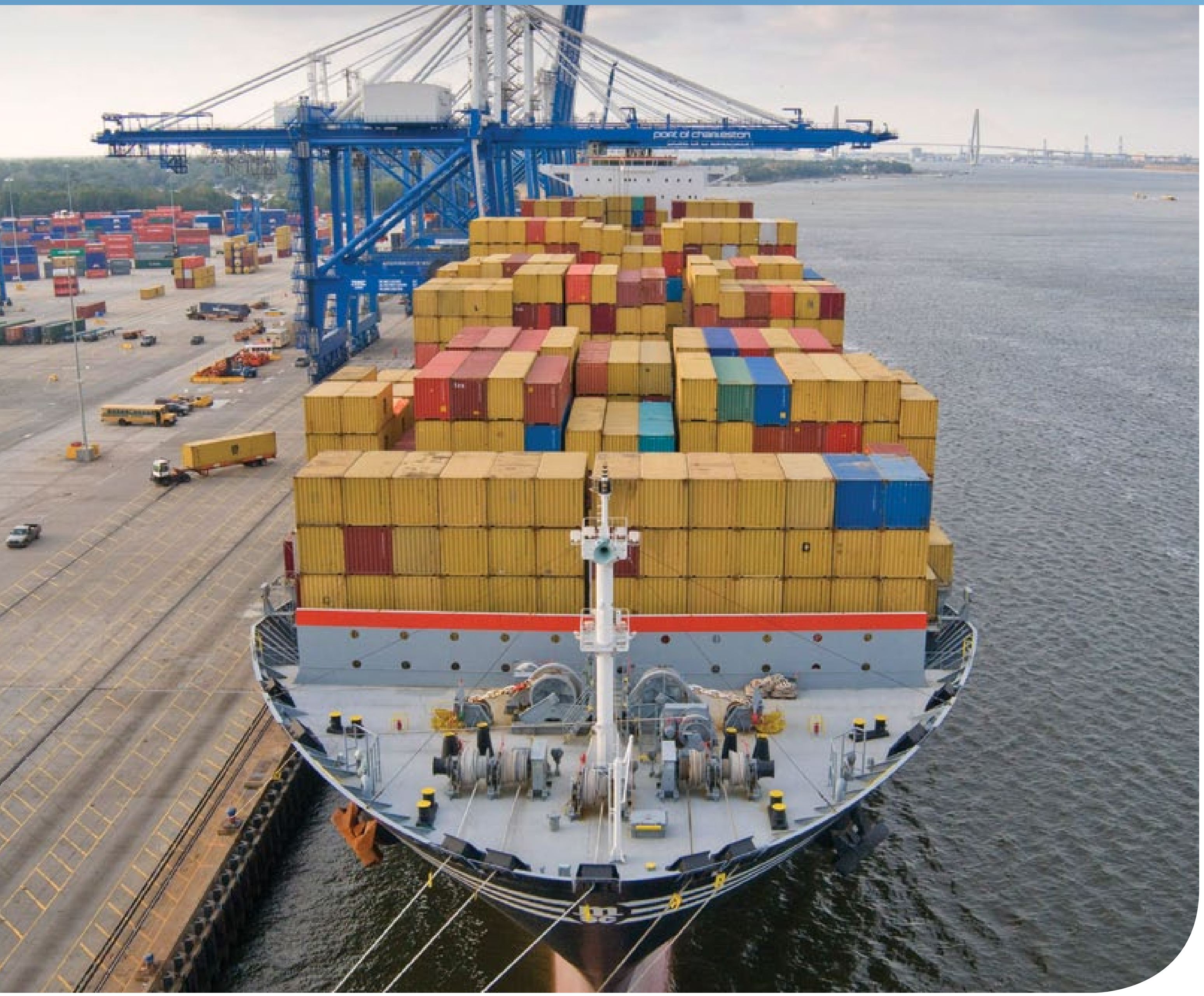
The local millage rate is applied to the assessed depreciated value to determine taxes. Millage rates in South Carolina are site specific and set annually by local government. A mill is equal to $0.001.

Property Tax Exemptions

In support of business, South Carolina exempts intangible property from local property taxation.

SOUTH CAROLINA'S DISCRETIONARY INCENTIVES

In addition to the statutory incentives explained in the previous sections, South Carolina also uses discretionary incentives at the state and local levels to address the specific needs of individual companies on a case-by-case basis.



DISCRETIONARY INCENTIVES

Fee-in-Lieu of Property Taxes (FILOT)

Under this program, companies making substantial capital investments may negotiate a lower assessment ratio and stabilize millage rates for up to 30 years. The long-term savings of the FILOT is based on the actual investment and is dependent on both the assessment and millage rates negotiated with the county.

South Carolina law allows a county to negotiate with a company for a FILOT agreement if total capital investment is $2.5 million or greater. By law, the company has five years to meet the minimum investment threshold, and the county can offer an additional five-year extension to complete the project. The company may include both real and personal property under the FILOT agreement. However, property that has been on the tax rolls in the state previously, including existing buildings, is not eligible for the FILOT. (This restriction is waived for companies investing an additional $45 million or more in new investment.)

The FILOT may result in substantial benefits for a company:

- ***Savings:*** Payments to local government are significantly reduced through the negotiation of a lower assessment rate (from 10.5% to as low as 6%).

  The company may also negotiate a locked-in millage rate for up to 30 years or a five-year adjustable rate for the property that is subject to the FILOT.

  With a FILOT, personal property depreciates, but real property is fixed at the original cost for the life of the fee. However, the county and the company may instead provide that any real property subject to the FILOT may be reported at its fair market value as determined by the appraisal of the Department of Revenue and may be reappraised every five years.

- ***Replacement Property:*** Property that is replacing property previously under the FILOT is allowed to go under the agreement up to the original income tax basis of the original fee property it is replacing at any time during the agreement.

- ***Additional Savings for Substantial Capital Investments:*** If a company is investing more than $400 million, or investing more than $150 million and creating at least 125 net new jobs, a "Super Fee" is negotiable. This fee can further lower the assessment rate to as low as 4%.

Job Development Credit

South Carolina's Enterprise Program is substantially different from the state's other tax incentives because it does not reduce a particular tax liability; instead, it provides companies with funds to offset the cost of locating or expanding a business facility in this state. Representing actual cash contributions to the project, this incentive allows South Carolina to lower the effective cost of investment and positively contribute to a company's bottom line and profitability.

The Job Development Credit effectively uses the personal withholding taxes of new employees to reimburse qualifying, approved companies that add

value to South Carolina and the community in which they locate. These reimbursements are for eligible capital expenditures (land, building, site development, pollution control equipment or infrastructure) associated with projects creating new full-time jobs that also provide healthcare benefits for South Carolina citizens.

The Coordinating Council administers the Enterprise Program. Funds for the Job Development Credits come from state personal income tax withholding that is paid by a company's employees. Employees receive a credit equal to the withholding used by the company; therefore, there is no financial impact on employees. No company will be allowed to claim a credit on any employee whose job was created in this state before the taxable year in which the company was approved for the program. In addition, the Coordinating Council generally caps annual collection at no more that $3,250 per employee per year.

To verify capital expenditures and qualifying jobs, a company is required to make its payroll books and records available for inspection by the Coordinating Council and the Department of Revenue. In addition, a company must furnish a report prepared by the company that itemizes the sources and uses of the funds, and such report must be filed by June 30 following the calendar year in which the refunds are received.

DID YOU KNOW?

Companies that rehabilitate abandoned facilities may be eligible for tax credits. These credits encourage businesses to renovate, improve and redevelop these abandoned areas.

Eligibility Requirements. To be eligible to apply for the Job Development Credit as a service related facility, a company must:

- Meet one of the following criteria within five years from the date the application is approved:
- If the facility is engaged in an activity listed under the North American Industry Classification System Manual Section 62, subsectors 621, 622 and 623 or Section 4881, subsector 488190, the facility must create at least 10 net new jobs;
- If the facility is located in a Tier IV county, the facility must create at least 10 net new jobs; or
- If the facility is located in a Tier I, II or III county the facility must create:
  - > 125 new jobs;
  - > 100 new jobs in a building that has been vacant for at least 12 months;
  - > 75 new jobs with an average salary 1.5 times the lower of the state or the county per capita income;
  - > 50 new jobs with an average salary 2 times the lower of the state or the county per capita income; or
  - > 25 new jobs with an average salary 2.5 times the lower of the state or the county per capita income.
- Provide full-time employees with a benefits package that includes a comprehensive health plan and pay at least 50% of an eligible employee's cost of health plan premiums; and
- Pay a non-refundable $4,000 application fee, receive a positive cost/benefit certification (the project is of greater benefit than cost to the state) from the Coordinating Council and pay a $500 annual renewal fee.

Please note that the Coordinating Council will generally only allow companies to collect credits for 10 years, and only on new full-time jobs with wages at or above the current county average wage for the county in which the project is located.

The Revitalization Agreement. Once a company's application for eligibility to receive Job Development Credits is approved by the Coordinating Council, the company will be required to enter into an agreement with the Coordinating Council called a Revitalization Agreement. The Revitalization Agreement is a contract with the state guaranteeing the company's participation in the program, assuming it stays current with state taxes and meets its commitments on job creation and investment. Under the terms of the Revitalization Agreement, the Coordinating Council and the company:

- Establish mutually agreeable investment and employment minimums that the company must meet and maintain in order to claim a Job Development Credit;
- Set a date by which the project's investment and employment will be completed (must be within five years of the date of the approval of the applicator); and
- Identify a maximum reimbursement amount.

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