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**CALCULATING LOCAL OPTION  
SALES TAX CREDIT FACTOR**

**Strategies for Success**

**Naomi Reed, Field Services Manager**




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Municipal Association  
of South Carolina


**Field Services Managers**



**Charle Barrineau**  
Field Services Manager  
cbarrineau@masc.sc | 803.354.4751

**Ashley Kellahan**  
Field Services Manager  
akellahan@masc.sc | 803.354.4795

**Naomi Reed**  
Field Services Manager  
nreed@masc.sc | 803.354.4750




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**Local Option Sales Tax: Strategies for Success**

**Session Topics:**

- 1. Refresher: What is Local Option Sales Tax**
- 2. How it Works: Calculating the L.O.S.T Credit Factor**
- 3. Strategies for Success**




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# What is Local Option Sales Tax?



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When someone ask you what is L.O.S.T....



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### Property Tax Terms

- **Appraised value** - fair market value of property
- **Assessment ratio** - percent of fair market value property upon which the tax rate will be applied
- **Assessed value** - taxable value of property = appraised value x assessment ratio
- **Mill** - one thousandth of one dollar (1/1,000 per \$1)
- **Millage or tax rate** - tax rate applied to assessed value



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### Local Option Sales Tax

- **Local Option Tax:** Authorized under Code Section 4-10-10.
  - This tax is a general sales and use tax on all sales at retail (with a few exceptions) taxable under the state sales and use tax.
  - This tax is imposed to reduce the property tax burden on persons in the counties where this tax is imposed.
  - The SCDOR collects this tax on behalf of these counties.




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### Local Option Sales Tax

Effective Date	County
July 1, 1991	Charleston, Colleton, Hampton, Jasper, Marion and McCormick
May 1, 1992	Abbeville, Allendale, Bamberg, Edgefield, Lancaster, Marlboro and Saluda
May 1, 1994	Chester and Florence
May 1, 1995	Pickens
May 1, 1996	Dillon, Lee and Sumter
May 1, 1997	Berkeley, Chesterfield, Clarendon, Darlington, Kershaw and Williamsburg
May 1, 1999	Barnwell, Laurens
May 1, 2005	Richland and Calhoun
May 1, 2006	Fairfield
May 1, 2009	Cherokee
May 1, 2017	Union

- 32 of 46 counties have implemented LOST
- Union County most recently implemented LOST- May 1, 2017




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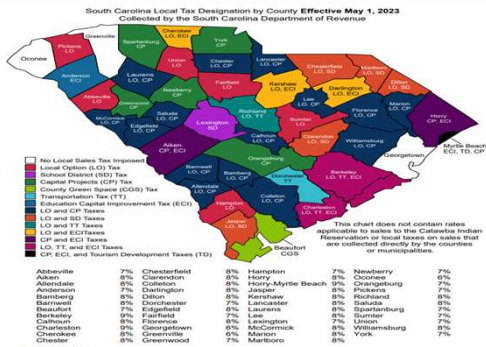
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# How it Works: Calculating the Local Option Sales Tax Credit Factor



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## Local Option Sales Tax (LOST)

- State Law Requires a county to allocate at least 71% of its LOST revenue to the **Property Tax Credit Fund**
- The Property Tax Credit Fund is then divided between the county and the municipalities within that county
- The County receives 67 percent and the Municipalities divide the remaining 33 percent based on their percentage of municipal population.

*This is the minimum which is applied as a credit against property tax bills.*



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## Local Option Sales Tax (LOST)

- The remaining 29 percent is allocated to the **Municipal Revenue Fund** and may be used for general fund purposes.
- Council can choose to credit a portion or the entire amount for additional property tax relief.
- The Municipal Revenue Fund must be distributed to the local governments within the county as follows:
  - 50% based on location of sale; and
  - 50% based on population.



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**Local Option Sales Tax (LOST)**

- If the state collects more than \$5 million from a county, the State Treasurer must withhold an amount not to exceed 5% of collections from that county and use that revenue (pooled from all counties exceeding \$5 million in annual collections) to supplement LOST revenues of those counties generating less than \$5 million annually.
- This pooled revenue is referred to as the Supplemental Fund and is distributed to counties collecting less than \$2 million annually based on the receiving counties population in relationship to the total population of counties collecting less than \$2 million.
- The State Treasurer’s Office issues two checks monthly to municipalities participating in LOST. The Larger check is the **Property Tax Credit Fund** allocation and the smaller check is the **Municipal Revenue Fund** allocation.




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**Local Option Sales Tax (LOST)**

- A city determines the amount of annual property tax relief provided with LOST revenue by calculating the city’s **Tax Credit Factor**. The first step in calculating the tax credit factor is to determine the total amount of money to be credited against property tax bills. At a minimum, this amount must equal the total projected collections in the Property Tax Credit Fund.
- Second, the sum of the projected Property Tax Credit Fund revenue plus the amount of additional LOST revenue that the city may wish to be credited as property tax relief is divided by the total appraised value of all taxable property. The resulting six-digit figure is the tax credit factor.

$$\text{Tax Credit Factor} = \frac{\text{LOST Revenue for Tax Relief}}{\text{Total Appraised Value of Property}}$$




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**Local Option Sales Tax (LOST)**

- To translate the tax credit factor into a dollar amount to be credited against the property taxes for a single parcel, the tax credit factor is multiplied by the appraised (market) value of the individual property for tax purposes. This credit is deducted on the tax bill from the gross amount of taxes due.
- If calculated properly and economic conditions remain stable, a city’s LOST revenues typically remain steady from year to year. If the tax credit factor is miscalculated or economic conditions change, a city could find itself in one of two situations:
  - If a city collects more in LOST revenues than it provided in property tax relief, the city has a liability. State law requires the city hold the additional revenue in an interest-bearing bank account until the next fiscal year and include the following year.
  - If a city collects less in LOST revenues than it provided in property tax relief, the city must absorb the shortfall.




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LOST CREDIT FACTOR CALCULATION			
TAX CREDIT FUND COLLECTION PERIOD	CREDIT 2020 TAX BILL	CREDIT 2021 TAX BILL	PROJECTED CREDIT 2023 TAX BILL
<b>PRIOR YEAR ADJUSTMENT</b>	\$ 6,321	\$ 1,781	\$ 1,477
JULY	\$ 49,183	\$ 49,921	\$ 51,418
AUGUST	\$ 46,708	\$ 47,409	\$ 48,831
SEPTEMBER	\$ 43,677	\$ 44,332	\$ 45,662
OCTOBER	\$ 42,465	\$ 43,102	\$ 44,395
NOVEMBER	\$ 39,752	\$ 40,348	\$ 41,559
DECEMBER	\$ 36,688	\$ 37,238	\$ 38,355
JANUARY	\$ 44,840	\$ 45,513	\$ 46,878
FEBRUARY	\$ 30,986	\$ 31,451	\$ 32,394
MARCH	\$ 44,382	\$ 45,048	\$ 46,399
APRIL	\$ 38,500	\$ 39,078	\$ 40,250
MAY	\$ 33,488	\$ 33,990	NA
JUNE	\$ 36,324	\$ 36,869	NA
YEAR END SUPPLEMENT	\$ 28,667	\$ 29,097	NA
ACTUAL TAX CREDIT FUND COLLECTIONS	\$ 521,981	\$ 525,176	
PROJECTED TAX CREDIT FUND COLLECTIONS	\$ 520,200	\$ 523,099	\$ 536,098
SURPLUS OR (DEFICIENCY) IN TAX CREDIT GRANTED	\$ (1,781)	\$ (1,477)	
2022 - 2023 Tax Credit Factor Calculation 2022 Assessed Value (from County Assessor) \$200,000,000 Projected Rollback Revenue \$ 536,098 Projected Rollback Revenue / Assessed Value 0.0026805			




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## Strategies for Success




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### Maintain Accurate Records

**Keep Detailed Records:**

1. Tax Credit Revenue
2. Calculation of L.O.S.T Credit Factor
3. Safeguard Spreadsheet Used to Calculate Credit Factor




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### Keep in Mind Revenue Restrictions

- 1. 100% of Property Tax Credit Fund must be given back in the form of property tax rollback.**
- 2. Includes Accrued Interest**
- 3. Projecting Total Funds to be received in property tax rollback fund is like shooting at a moving target.**




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### Summary

- 1. Conservatively Project Rollback Funds**
- 2. Perform Annual Reconciliation Between Actual Rollback Fund Collections and Estimated Revenues Used to Grant the Tax Credit**
- 3. If Council Committed 100% of all L.O.S.T revenue to rollback, staff cannot reduce credit unless proper approval method used.**




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### Resources



CITY OF CLINTON  
STATE OF SOUTH CAROLINA  
RESOLUTION

**A RESOLUTION PROVIDING FOR ADJUSTMENT OF THE LOCAL OPTION SALES TAX (L.O.S.T) PROPERTY TAX CREDIT PROGRAM**

**WHEREAS,** the Clinton City Council is elected by the people to provide those services, which are necessary and required to provide for the general well-being of its citizens and must provide for revenues necessary to fund the services; and

**WHEREAS,** the Clinton Departments of Police and Fire play a critical role in the safety and security of our community and one of the most important services provided to the citizens of our City; and

**WHEREAS,** an internal review conducted in 2013 revealed that in the future the Police and Fire Departments will require an amount of \$3 million in capital expenditures to maintain operations at its current level and seek for expenditures not forth before them to provide quality Police and Fire services to the citizens of our City; and

**WHEREAS,** the Local Option Sales Tax (L.O.S.T) was created by the State of South Carolina in 1990 to provide a level of property tax relief to the citizens of the State and state law requires that at least 75% of the fund be provided back to the citizens of a community in which it is generated to provide credit toward their property tax bill; and

**WHEREAS,** the City of Clinton adopted the Local Option Sales Tax Program (L.O.S.T) in 1999 and provided 100% of L.O.S.T revenue for a property tax relief program to the citizens of Clinton from 1999 to 2013; and

**WHEREAS,** Clinton City Council adjusted the L.O.S.T sales tax credit program in 2013 because they realized that property tax revenue to cover the cost of providing capital investments to the Police and Fire Departments would place an undue burden on the citizens of Clinton by raising property taxes to the level needed to cover the costs at the time; and

**WHEREAS,** Clinton City Council agrees that an adjustment to the Local Option Sales Tax Credit Program (L.O.S.T) of providing the State allowed amount of 75% of the current L.O.S.T tax credit be provided to the taxpayers and the remaining 25% be retained in the City's general fund to be used for capital equipment expenditures, training, and approved debt for the Police and Fire Departments in the most efficient manner of providing those revenues; and

**WHEREAS,** the L.O.S.T Tax credit adjustment would be reviewed annually by Clinton City Council to continue to provide revenue to maintain the quality of service the citizens of Clinton expect and desire.




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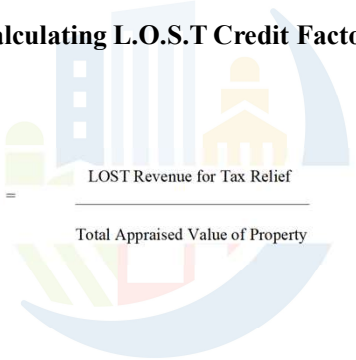
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### Calculating L.O.S.T Credit Factor



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