Recent Changes to Accommodations Tax Statutes to Promote Workforce Housing Development

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Under Act No. 57, which was just passed by the South Carolina General Assembly and signed into law by Governor Henry McMaster, counties and municipalities can now utilize a portion of the revenues generated from local accommodations taxes for, among other things, the development of workforce housing, which must include programs to promote home ownership. For purposes of the new legislation, "workforce housing" means residential housing for rent or sale that is appropriately priced for rent or sale to a person or family whose income falls within 30% and 120% of the median income for the local area, with adjustments for household size, according to the latest figures available from the United States Department of Housing and Urban Development (HUD).

As an example, for Richland County, in which the median family income for 2023 is estimated to be $83,900, this would include renters or purchasers with annual incomes between $25,170 and $100,680, subject to adjustment based on household size. The following table shows the estimated median family incomes for 2023 for Beaufort, Charleston, Greenville and Horry Counties, and persons with the associated annual income ranges (subject to adjustment based on household size) who would be eligible to be included in this definition:

County

Median Family Income

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30% of MFI

120% of MFI

Beaufort

$111,300

$33,390

$133,560

Charleston

101,300

30,390

121,560

Greenville

89,000

26,700

106,800

Horry

73,700

22,110

88,440

Local Accommodations Taxes and Limitations

The legislation applies to accommodations taxes, which are sales taxes paid upon the rental or charge of accommodations to transients (or "tourists"), which accommodations include any rooms, campground spaces, lodgings, or sleeping accommodations furnished to tourists by any hotel, inn, tourist court, tourist camp, motel, campground, residence, or any place in which rooms, lodgings, or sleeping accommodations are furnished to tourist. Temporary accommodations such as those supplied for a period of 90 continuous days or those smaller than six bedrooms that are used as an individual's residence are excluded from the scope of these taxes.

This new legislation also applies to two separate sources of accommodations taxes generated within a jurisdiction. The first source comes from the state sales tax, which includes a 2% local accommodations tax applicable to eligible rented accommodations, that is required to be imposed under general state law. The second source of accommodations taxes are approved locally by individual counties or municipalities (in most cases up to a maximum of 3%). This means that (1) a county or municipality may be able to tap both sources of accommodations tax collections for workforce housing development, if it has approved its own accommodations tax and (2) even if a county or municipality has not directly approved an accommodations tax, it is still able to take advantage of this legislation because it can allocate a portion of the accommodations taxes it receives from the State of South Carolina for the development of workforce housing. However, this legislation does not affect the utilization of revenues collected from the imposition of beach preservation fees, approved by local referendum, upon the rental of similar accommodations or from hospitality taxes under state law.

Regardless of the source of the local accommodations tax collections, it is the local county or municipality that is responsible for allocating funds for the development of workforce housing, and may include their annual allocations of funds to developers or other third parties, internal transfers for capital projects or debt service on bonds issued for such projects or annual allocations to government-sponsored housing programs. However, the legislation limits the amount of local accommodations tax revenue that may be utilized or dedicated for workforce housing development to 15% of annual revenues and contains a sunset provision making this new authorization ineffective after December 31, 2030.

Housing Impact Analysis

It may be necessary for a local government to produce a housing impact analysis prior to the disbursement of certain local accommodations tax revenues for the purposes of development of workforce housing, which housing impact analysis should include certain information about the costs of developing, constructing, rehabilitating, improving, maintaining or owning single family and multifamily dwellings, purchase prices of new homes or fair market values of existing houses, the cost and availability of purchasing or developing housing, housing costs and certain legal land restrictions, and be approved by ordinance adopted by the governing body of the local government, together with an analysis of the relative impact of such ordinance on low- and moderate-income individuals.

For purposes of the housing impact analysis, “housing costs” for housing occupied by the owner means the principal and interest on a mortgage loan that finances the purchase of the housing; the closing costs and other costs associated with a mortgage loan; mortgage insurance; property insurance; utility-related costs; property taxes; and fees paid to a person for managing the housing. Housing costs for rented housing means rent and utility-related costs, if not included in the rent.

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Areas of the State that Could Utilize the New Law to Address Workforce Housing

While all areas of the State of South Carolina can utilize the new law to alleviate workforce housing shortages, the top five counties in the State that collected statewide accommodations taxes for FY 2021-22 and that could likely benefit the most from the new legislation are Charleston, Horry, Beaufort, Greenville, and Richland counties. Additionally, these five counties along with 23 other counties and 89 municipalities also collect a local accommodations tax.

For example, under the new law and historical data Charleston County could spend or dedicate approximately $7.1 million of annual accommodations taxes on workforce housing development while Horry County could use $5.1 million, Beaufort County could use $3.1 million, Greenville County could use $815,685, and Richland County could use $730,000 approximately each year.[1]

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[1] Estimates based on state accommodations tax collections for FY 2021-22 and local accommodation tax collections for FY 2020-21.