



Town of Hilton Head Island

Business License Standardization

Introduction

Business License Standardization

Town of Hilton Head Island

Municipal Code Title 10: Business and Professional Licensing

▶ Business License Required

Every person engaged or intending to engage in any calling, business, occupation or profession, in whole or in part, within the limits of the town, is required to pay an annual license fee and obtain a business license.

▶ Gross Income Definition

The total gross receipts of a business, received or accrued, for one (1) calendar year collected or to be collected by a business excepting therefrom gross income taxed in another county or municipality.

▶ Major Revenue Source for the Town

Business license revenue makes up over 20% of the Town's annual budget or \$10 million dollars of income in the general fund.

Business License Standardization Is the Law

- ▶ **SC General Assembly passed Act 176, the SC Business License Tax Standardization Act in September 2020.**
- ▶ **The law requires every local government with a business license tax to administer the tax in the same way across the state starting January 1, 2022.**
- ▶ **The law prevents municipalities from receiving a revenue windfall in the first year of implementation as a result of the required changes.**
- ▶ **Standardizing business license tax administration state wide will make doing business in municipalities easier for businesses, especially those who must obtain licenses in multiple jurisdictions.**
- ▶ **Standardization will also ensure the tax's stability as a municipal revenue source against possible future efforts to eliminate it.**

What Does the Law Require?

- ▶ **Business license due date of April 30th**
- ✓ The Town moved the due date for business license taxes to April 30th in 2019.
- ▶ **Calculate the tax based on a business' gross income for the previous calendar year (or its previous fiscal year)**
- ✓ The Town has always used this method for calculating taxes.
- ▶ **Use the law's definition of gross income**
- ✓ The Town uses the definition of gross income as stated in the law.
- ▶ **Accept a standardization application approved by the SC Revenue and Fiscal Affairs Office**
- ✓ The Town has accepted the standardized application for many years.
- ▶ **Use the 2017 edition of the North American Industry Classification System (NAICS) for business classifications and assign each business a six-digit NAICS code**
- ✓ The Town completed the project in 2018.
- ▶ **Establish a minimum base rate on first \$2000 of gross income**
- ✓ The Town updated the base rate in 2018.

Action Items for Town Compliance

- ▶ **Allow businesses to make renewal payments through an online payment system hosted by SC Revenue and Fiscal Affairs Office**

The Town will work with the Municipal Association of South Carolina to implement the payment portal as required by law. Our current online payment portal will remain active to collect other local taxes including accommodation taxes, beach preservation fees and hospitality taxes.

- ▶ **Use the law's standardized appeals process**

The Town will adopt the model ordinance with the standardized appeals process.

- ▶ **Use the law's standardized business license class schedule**

The Town will adopt the model ordinance with the standardized business license class schedule.

- ▶ **Rebalance the Town's business license tax rates to ensure revenue neutrality during the 2022 business license cycle**

What is Business License Rebalancing?

- ▶ The law requires the Town to update their current business license rate class schedule to MASC's latest rate class schedule to include a rebalancing of rates.
- ▶ The purpose of “rebalancing” the Town’s business license rate class schedule is to ensure that a municipality does not collect more business license revenue in 2022 than it did in the 2020 business license year.
- ▶ If a municipality projects it will lose revenue as a result of rebalancing, it may adjust its rates to be revenue neutral.
- ▶ After 2022, a municipality may set business license tax rates to meet its fiscal needs.
- ▶ The Town completed a data analysis and rate study comparing the 2020 business license revenue to MASC’s 2021 Business License Class Schedule as required by law.
- ▶ The study revealed a shortfall of business license revenue of \$339,892.
- ▶ Staff recommends a rate increase across all business license class rates of 7.2% to achieve a revenue-neutral result.
- ▶ The law requires the Town to adopt MASC’s latest rate class schedule every odd-numbered year. The next rebalancing will occur in 2023.

Town of Hilton Head Island

Data Analysis and Rate Study

Business Types	Group/NAICS Name	From		To		Initial	Rate Adjustment
		RC	Amount	RC	Amount	Variance	7.22900%
1150	Support Activities for Agriculture	1	78.20	2	95.40	17.20	6.90
2100	Mining, Quarrying, Oil and Gas Extraction	3	145.00	4	165.40	20.40	11.96
3100	Manufacturing: Food, Textile, Apparel, Leather and Related Pr	1	2,468.40	2	3,111.43	643.03	224.93
3200	Manufacturing: Petroleum, Non-Metal and Printing/Paper	1	12,375.60	2	15,791.83	3,416.23	1,141.59
3310	Primary Metal Industries	1	100.60	2	123.99	23.39	8.96
3320	Fabricated Metal Product Manufacturing	1	951.00	2	1,171.80	220.80	84.71
3370	Furniture and Related Product Manufacturing	1	9,083.60	2	11,548.26	2,464.66	834.82
4800	Transportation Industry	1	18,185.80	2	22,814.88	4,629.08	1,649.29
4853/4859/4871	Vehicle for Hire	8E/8F	5,261.70	2	3,001.57	(2,260.13)	216.98
4920	Messengers and Couriers	1	1,805.30	2	2,227.74	422.44	161.04
5100	Information	2	21,024.90	4	27,934.96	6,910.06	2,019.42
5200	Finance	4	20,957.60	7	24,503.22	3,545.62	1,771.34
5320	Rental and Leasing Other Than Real Estate	2	34,851.60	7	54,271.93	19,420.33	3,923.32
5500	Management of Companies Enterprises	4	4,157.40	7	4,872.00	714.60	352.20
5610	Administrative and Support Services	2	256,000.10	4	343,721.26	87,721.16	24,847.61
5620	Waste Management and Remediation Services	1	6,232.30	4	10,318.46	4,086.16	745.92
6100	Educational Services	2	9,795.60	4	12,915.22	3,119.62	933.64
6200	Healthcare and Social Assistance	8.2	534,530.90	4	400,918.43	(133,612.47)	28,982.39
446199	All Other Health and Personal Care Services	8.2	2,148.60	1	950.71	(1,197.89)	68.73
7100	Arts and Entertainment	2	10,614.30	3	11,788.43	1,174.13	852.19
7211	Accommodations	8.15	124,105.50	3	137,926.50	13,821.00	9,970.71
8110	Other Repair and Maintenance	1	36,043.90	5	65,239.58	29,195.68	4,716.17
8120	Other Services	3	64,942.00	5	83,317.93	18,375.93	6,023.05
8130	Civic, Professional and Similar Services	3	1,665.00	5	2,157.67	492.67	155.98
444110	Other Builder Dealers	8.1	25,840.30	1	18,190.14	(7,650.16)	1,314.97
444190	Other Building Materials	8.1	41,667.50	1	29,263.81	(12,403.69)	2,115.48
446110	Pharmacies and Drug Stores	8.16	59,717.90	1	32,181.39	(27,536.51)	2,326.39
4542	Vending Operator	8L/8M	2,070.00	1	842.40	(1,227.60)	60.90
562111	Solid Waste Collection Services	8.41	54,699.00	4	29,007.72	(25,691.28)	2,096.97
713910	Golf Course/ Country Clubs	8	41,091.30	3	45,681.23	4,589.93	3,302.30
722330	Mobile Food Services	8.6	1,101.60	1	692.50	(409.10)	50.06
722511	Full Service Restaurant	8.9	558,148.50	1	229,526.12	(328,622.38)	16,592.44
813990	Property Owners Association	7	25,172.10	5	20,878.59	(4,293.51)	1,509.31
			1,987,033.10		1,647,152.50	(339,880.60)	119,072.65
	All other businesses (without a class change)	various	3,054,148.61		3,054,137.15	(11.46)	220,783.57
			5,041,181.71		4,701,289.65	(339,892.06)	339,856.23

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MASC Business License Model Ordinance

Adoption of the Business License Model Ordinance

- ▶ The Municipal Association of South Carolina created a business license model ordinance to assist with the process of complying with the new law.
- ▶ The model ordinance addresses the specific requirements found in the new law.
- ▶ The model ordinance was created by MASC to be used as a base model and can be customized to meet the individual municipality's needs.
- ▶ Because of the new law's complexities, the **Association strongly encourages municipalities to repeal their existing ordinance and replace them with the model ordinance**, rather than altering and correcting their current ordinance.
- ▶ Adoption of business license ordinances that comply with Act 176 *must take place by January 1, 2022*.
- ▶ Staff recommends repealing and replacing the Town's current business license ordinance.

Considerations for Town Council

- ▶ The model ordinance does not allow the business license exemption for a person owning and renting one (1) residential property.
Staff recommends following the model ordinance and requiring a business license for all property owners that are renting.
- ▶ The model ordinance does not allow penalties to be waived on delinquent business license tax.
Staff recommends the Town Manager or designee the authority to adjust late fees if justified.
- ▶ The model ordinance includes a declining rate schedule to businesses reporting gross revenue in excess of \$1,000,000.
Staff recommends not adopting the declining rate schedule. An additional 11.3% rate increase across all rates will be required to balance the revenue shortfall of \$614,580.
- ▶ MASC and the model ordinance do not mandate business license rates for the Town. The Town must establish its own rates.
Staff recommends adopting 7.2% rate increase across all business license class rates to achieve revenue neutrality.

Current Business License Rate Schedule

Rate Class/Charge Code	Base Rate	Per Thousand Rate
01A	\$ 43.20	\$ 0.70
01B	\$ 86.30	\$ 1.40
02A	\$ 50.40	\$ 0.90
02B	\$ 100.80	\$ 1.80
03A	\$ 57.50	\$ 1.00
03B	\$ 115.00	\$ 2.00
04A	\$ 64.70	\$ 1.20
04B	\$ 129.40	\$ 2.40
05A	\$ 71.90	\$ 1.30
05B	\$ 143.80	\$ 2.60
06A	\$ 79.10	\$ 1.40
06B	\$ 158.20	\$ 2.80
07A	\$ 86.30	\$ 1.60
07B	\$ 172.60	\$ 3.20
08A	\$ 50.40	\$ 0.90
08B	\$ 100.80	\$ 1.80

08.1A Construction, Bldg	\$57.50	\$1.00
08.1B Construction, Bldg N	\$115.00	\$2.00
08.2 A Healthcare	\$86.30	\$1.60
08.2B Healthcare	\$172.60	\$3.20
08.3A Wireless	\$64.70	\$1.20
08.3B Wireless	\$129.40	\$2.30
08.41A Recycle	\$115.00	\$2.00
08.41B Recycle	\$230.00	\$4.00
08.42 Pawn shop	\$107.90	\$1.70
08.5 Auto/ Dealerships	\$50.40	\$0.90
08.6A Other Direct Selling	\$50.40	\$0.90
08.6B Other Direct Selling	\$100.80	\$1.80
08.7A Insurance	\$86.30	\$1.60
08.7B Insurance	\$172.50	\$3.20
08.8 Amusement Distribut	\$187.50	\$2.88
08.10 Amusement Operato	\$12.50	NA
08.11 Per Amusement Mac	\$12.50	
08.12 Per Billiard/Pool Tab	\$5.00	
08.13 Per Amusement Mac	\$180.00	

08.9 Drinking Places	\$107.90	\$1.70
08.14A Marine and Relate	\$57.50	\$1.00
08.14B Marine and Relate	\$115.00	\$2.00
08.15A Hotels and Related	\$50.40	\$0.90
08.15B Hotels and Related	\$100.80	\$1.80
08.16A Professional, Scientific,	\$71.90	\$1.30
08.16B Professional, Scientific,	\$143.80	\$2.60
08.17A Fitness & ReCreatio	\$57.50	\$1.00
08.17B Fitness & ReCreatio	\$115.00	\$2.00
08C- OTA-Expedia Group O	\$187.50	\$3.24
08D- Exempt	\$0.00	\$0.00
08E - Taxis- In Town	\$ 86.30	\$ 1.60
08EE- Taxi per sticker fee	\$ 25.00	
08F- Taxi- Out of Town	\$ 172.60	\$ 3.20
08L - Vending Operator- I	\$ 107.90	\$ 1.70
08M - Vending Operator- C	\$ 215.70	\$ 3.40
08V - Carnival	\$ 215.70	\$ 3.40

Proposed Business License Rate Schedule

BUSINESS LICENSE RATE SCHEDULE (WITH 7.2% INCREASE)

RATE CLASS	INCOME: \$0 - \$2,000	INCOME OVER \$2,000
	BASE RATE	RATE PER \$1,000 OR FRACTION THEREOF
1	\$46.30	\$.75
2	\$54.00	\$1.00
3	\$61.60	\$1.10
4	\$69.40	\$1.30
5	\$77.10	\$1.40
6	\$84.80	\$1.50
7	\$95.50	\$1.70
8.1	\$61.60	\$1.10
8.2	Set by state statute-Railroad Companies	
8.3	MASC Telecommunications	
8.4	MASC Insurance	
8.51	\$12.50 + \$12.50 per machine	
8.52	\$12.50 + \$180.00 per machine	
8.6	\$61.60 plus \$5.00 -OR- \$12.50 per table	\$1.10
9.10	\$187.50	\$3.24
9.30	\$54.00	\$1.00
9.40	\$54.00	\$1.00
9.70	\$107.90	\$1.70

NON-RESIDENT RATES

Unless otherwise specifically provided, all taxes and rates shall be doubled for nonresidents and itinerants having no fixed principal place of business within the Municipality.

Business License Class Schedule by NAICS Code for 2022

<u>NAICS SECTOR/SUBSECTOR</u>	<u>INDUSTRY SECTOR</u>	<u>CLASS</u>
1100	Agriculture, Forestry, Fishing and Hunting	2
1150	Support Activities for Agriculture, Animals and Forestry	2
2100	Mining, Quarrying, and Oil and Gas Extraction	4
2300	Construction	8.10
3100-3300	Manufacturing	2
4200	Wholesale Trade	1
4400-4500	Retail Trade	1
4411	Automobile Dealers	9.30
4412	Other Motor Vehicle Dealers	9.30
454390	Other Direct Selling Establishments (Peddlers)	9.40
4800-4900	Transportation and Warehousing	2
482	Rail Transportation	8.2
5100	Information	4
517311/517312	MASC Telephone Companies	8.30
5200	Finance and Insurance	7
5241/5242	MASC Insurance Companies	8.40
5300	Real Estate and Rental Leasing	7
5400	Professional, Scientific and Technical Services	5
5500	Management Companies	7
5600	Administrative and Support Services	4
6100	Educational Services	4
6200	Health Care and Social Assistance	4
7100	Arts, Entertainment and Recreation	3
713120	Amusement Machines, Coin Operated	8.51
713290	Amusement Machines, Non-Payout	8.52
713990	Billiard or Pool Rooms	8.60
7210	Accommodations	3
7220	Food Services and Drinking Places	1
722410	Drinking Places	9.70

Business License Model Ordinance Adoption Schedule

- ▶ June 15, 2021 **Finance Committee presentation**
- ▶ July 20, 2021 Town Council Workshop presentation
- ▶ July 20, 2021 Town Council Meeting- First Reading
- ▶ August 3, 2021 Public Workshop
- ▶ August 17, 2021 Town Council Meeting- Second Reading
- ▶ August 2021 Public Education Campaign begins
- ▶ September 1, 2021 Effective date for Business License Model Ordinance
- ▶ October/November 2021 Complete project to convert over 1000 short term rental accounts to business license accounts
- ▶ November 2021 Prepare over 8000 accounts for 2022 business license renewals
- ▶ November 2021-April 2022 Begin project to notify over 2500 property owners of business license requirements in 2022
- ▶ December 2021 Process and prepare business license renewals
- ▶ January 1, 2022 Effective date for SC Business License Tax Standardization Act
- ▶ January 15, 2022 Business license renewals are mailed to customer

SUMMARY



MASOC Municipal Association
of South CarolinaSM

Standardization: New Law, New Action

- ▶ Step 1: Convert to the standard business license year.
- ▶ Step 2: Review all business license tax data for accuracy.
- ▶ Step 3: Rebalance rates to prevent windfall or loss.
- ▶ Step 4: Adopt MASOC's 2021 class schedule.
- ▶ Step 5: Repeal and replace the business license ordinance.
- ▶ Step 6: Set up an online portal account.
- ▶ Step 7: Communicate changes about the law to those that are affected by it.

Next Steps

- ▶ Information will be shared with Town Council to review:
 - Draft of the Town's Business License Model Ordinance.
 - Copy of Act 176.
 - Copy of presentation.
- ▶ A Town Council Workshop presentation is scheduled for July 20, 2021 with the First Reading of the Business License Model Ordinance to follow at the Town Council Meeting on the same day.

Questions

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Thank you

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