

The information provided here is for informational and educational purposes and current as of the date of publication. The information is not a substitute for legal advice and does not necessarily reflect the opinion or policy position of the Municipal Association of South Carolina.  
Consult your attorney for advice concerning specific situations.



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### CLASSIFICATION-WHAT DOES THAT MEAN?

- The type of industry for their business activity
  - Construction
  - Retail
  - Food Service
  - Accommodation
  - Healthcare
  - Convenience Store
- In City OR Out of City
  - Out of City rates are doubled
    - This should be defined in the local ordinance




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### CLASSIFICATION TOOLS

1. NAICS-North American Industry Classification System
  - Codes developed for use by Federal Statistical Agencies for the collection, analysis and publication of statistical data related to the US Economy
  - <https://www.census.gov/naics/>
  - The company selects the code that best depicts its primary business activity in your jurisdiction
  - The US Census Bureau is the authority

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### CLASSIFICATION TOOLS

2. The business license application
  - <https://hardeevillesc.gov/DocumentCenter/View/15572/B-L-New-Business-License-2024-PDF>

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# CLASSIFICATION TOOLS

## 3. Google the industry or name of the company

- Ex. What is the NAICS code for Tractor Supply




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# CLASSIFICATION- WHAT IF'S

- They don't provide their NAICS code
- They don't know their code
- The NAICS code they provide doesn't adequately reflect the specific activity in your jurisdiction
- They have more than one activity

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# CLASSIFICATION

- Act 176 requires all jurisdictions to use a standardized class schedule
  - The schedule gets updated every other year by the Municipal Association
    - Then your council adopts it by December 31 of every odd year
  - Appendix B of your Ordinance
  - Tells you the class for each NAICS code sector
  - <https://harddevillesc.gov/DocumentCenter/View/15575/Appendix-B-Class-Schedule-FY2024-PDF>

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## CLASSIFICATION

- Rate Schedule
  - Appendix A of your ordinance
  - Tells you the rate for each class
  - Council sets and approves the rates by ordinance
  - Updated whenever your jurisdiction wants to change rates
    - Cannot use two rate schedules in the same license year
    - Must be consistent and fair
  - <https://hardeevillesc.gov/DocumentCenter/View/12665/Appendix-A-Rates-Quick-Reference-FY2022-PDF>

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## GROSS INCOME

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### GROSS INCOME – WHAT IS THE MEANING?

- The Business License Handbook states it is "gross receipts or gross revenue of a business, received or accrued for one calendar year".
- It is NOT the number after deductions, contrary to what some businesses will argue. This is considered "net" receipts.
- It should be called gross receipts; gross income confuses the customer and makes them think they are paying an income tax.

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## Gross Income - What is the meaning?

- For some it is called gross commissions, gross sales, etc.
  - This depends on the industry
- “My problem is reconciling my gross habits with my net income” - Errol Flynn

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### GROSS INCOME

#### • Manufacturers - In Jurisdiction

- The company must show a manufacturing NAICS code on their federal tax return.
- They can choose the lesser of gross
  - Income collected from location
  - Income allocated and apportioned from location for purposes of state income taxes
  - Or the amount of expenses attributable to the location as a cost center
- They cannot choose \$0. You still have the authority to require documentation as proof of the option they select.

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### GROSS INCOME

#### Insurance Agents-Independent Agents and Brokers

- License tax is based on gross commissions
- Agents are a separate business from the insurance companies

#### Wholesalers

- Only wholesalers that are domiciled in your jurisdiction are required to maintain a business license for all gross receipts
- If they are out of your jurisdiction then you can require them to get a license based on “retail” gross sales ONLY

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**GROSS INCOME**

**Real Estate Brokers**

- License tax is based on gross commissions from the sale, not the sale amount
- The broker-in-charge should pay on all gross commissions for the agency

**Contractors**

- Every contractor is required to have a business license for all construction/installation
- Contractor performing a one-time repair
  - Does it meet the "test for doing business"
  - Does it require a building permit

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**GROSS INCOME**

**Sub-contractors**

- All require licensing, even though the GC's gross income/contract amount includes the amounts paid to the sub as part of his expenses.
- It is two separate revenue streams.

**All residential jobs over \$500 require state licensing from Labor, Licensing and Regulation (LLR)**

**All commercial jobs over \$10,000 require state licensing from LLR**

- The only exception would be those categories that the SC LLR doesn't regulate.

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**GROSS INCOME - ZERO**

What if the business states they don't collect revenue at the location?

- Provide the revenue allocated to the location in the city for state income tax purposes
- Require them to provide their annual operating expenses and use that amount

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**GROSS INCOME**

The Dorchester County Ordinance states the following:

*"The gross receipts or gross revenue of a business, received or accrued, for one calendar or fiscal year collected or to be collected from business done within the County. If the licensee has a domicile within the County, business done within the County shall include all gross receipts or revenue received by such licensee. If the licensee does not have a domicile within the County, business done within the County shall include only gross receipts or revenue received or accrued within the County. In all cases, if the licensee pays a business license tax to another municipality or County, then the licensee's gross income for the purpose of computing the tax within the County must be reduced by the amount of revenues or receipts taxed in the other municipality or County and fully reported to the County. Gross income for business license tax purposes shall not include taxes collected for a governmental entity, escrow funds, or funds that are the property of a third party. The value of bartered goods or trade-in merchandise shall be included in gross income. The gross receipts of gross revenues for business license purposes may be verified by inspection of returns and reports filed with the Internal Revenue Service, the South Carolina Department of Revenue, the South Carolina Department of Insurance, or other government agencies."*

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**ALLOWED DEDUCTIONS**

- Any revenue paid to the government
  - Sales tax
  - Gas excise tax paid by consumer
  - Lottery sales
- Gross income reported and paid to other jurisdictions
- Pass-thru to 3<sup>rd</sup> parties- royalty revenue from a licensed product

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**DEDUCTIONS**

**Not Allowed**

Gasoline Sales	Cigarette tax	Lottery Commissions	Gas tax paid to the distributor	Any other expenses •Sub-contractors •Operating exp. •Cost of goods sold
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**It is the burden of the business to prove entitlement**

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•  $NAICS + Class + Rate + Gross\ Income - Allowable\ Deductions =$



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QUESTION

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Can a general contractor deduct the money he pays to his subs from what he reports to the jurisdiction?

No

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QUESTION

Does a convenience store report their lottery sales to the jurisdiction?

No

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QUESTION

Where can I find NAICS codes?

<https://www.census.gov/naics>

<https://www.naics.com/search/>



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BLOA Listserv

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