



**SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE**  
**STATEMENT OF ESTIMATED FISCAL IMPACT**  
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**Bill Number:** H.4857    Introduced on February 7, 2018  
**Author:** Cole  
**Subject:** Abandoned Building Tax Credit Limits  
**Requestor:** House Ways and Means  
**RFA Analyst(s):** R. Martin  
**Impact Date:** March 25, 2018 - Updated for Revised Information

**Estimate of Fiscal Impact**

|                                  | <b>FY 2018-19</b> | <b>FY 2019-20</b> |
|----------------------------------|-------------------|-------------------|
| <b>State Expenditure</b>         |                   |                   |
| General Fund                     | \$0               | \$0               |
| Other and Federal                | \$0               | \$0               |
| Full-Time Equivalent Position(s) | 0.00              | 0.00              |
| <b>State Revenue</b>             |                   |                   |
| General Fund                     | Undeterminable    | \$0               |
| Other and Federal                | \$0               | \$0               |
| <b>Local Expenditure</b>         | \$0               | \$0               |
| <b>Local Revenue</b>             | \$0               | \$0               |

**Fiscal Impact Summary**

This bill, as amended, would have an undeterminable effect on state General Fund revenue in FY2018-19.

**Explanation of Fiscal Impact**

**Introduced on February 7, 2018**

**Updated on March 25, 2018 for Revised Information**

**State Expenditure**

The Department of Revenue has indicated that this bill would have no expenditure impact on the General Fund, Federal Funds, and Other Funds.

**State Revenue**

The South Carolina Abandoned Buildings Revitalization Act was enacted in Act 57 of 2013 and has been amended since that time. Currently, a taxpayer may claim a nonrefundable state income tax credit equal to twenty-five percent of actual rehabilitation expenses of an abandoned building. The tax credit may be applied against individual and corporate income taxes, bank taxes, savings and loan taxes, corporate license fees, insurance premium taxes (including retaliatory taxes), or any combination thereof. The tax credit may also be applied against real property taxes as levied by local taxing entities. The tax credit must be taken in equal installments over a three-year period and may not exceed \$500,000 for any taxpayer in a tax year. The credit is earned in the tax year in which the applicable phase or portion of the building site is placed in service. Unused tax credits may be carried forward for five years. The South

Carolina Abandoned Buildings Revitalization Act is repealed on December 31, 2019. Any credit carryforward will continue to be allowed until the five-year time period is completed.

The table below describes a summary of the abandoned building tax credit showing the number of taxpayers claiming the nonrefundable tax credit and the value of the tax credits claimed over the first four years of actual data filed by taxpayers. Through FY2016-17, the latest year for which there is data, a total of 288 taxpayers have claimed \$11,038,274 in nonrefundable tax credits.

#### History of the Abandoned Building Tax Credit

| Fiscal Year  | Tax Year | Taxpayers  | Credits Claimed     | Avg. Credits Claimed Per Taxpayer |
|--------------|----------|------------|---------------------|-----------------------------------|
| FY2013-14    | TY2013   | 19         | \$390,135           | \$20,533                          |
| FY2014-15    | TY2014   | 27         | \$1,127,443         | \$41,757                          |
| FY2015-16    | TY2015   | 79         | \$2,253,044         | \$28,520                          |
| FY2016-17    | TY2016   | 163        | \$7,267,652         | \$44,587                          |
| <b>Total</b> |          | <b>288</b> | <b>\$11,038,274</b> | <b>\$38,327</b>                   |

Source: Board of Economic Advisors from data provided by the SC Department of Revenue

**Section 1.** This section amends Chapter 67 of Title 12 to add Section 12-67-145 to include language that states notwithstanding Section 12-67-140 or any other provision of this chapter, for building sites entirely placed in service after June 30, 2018, the income tax credit allowed pursuant to this chapter is equal to the following schedule:

- Twenty-five percent of the first \$10,000,000 in actual rehabilitation expenses incurred at the building site
- Twenty percent of the next \$10,000,000 in actual rehabilitation expenses incurred at the building site
- Fifteen percent of any actual rehabilitation expenses over \$20,000,000 incurred at the building site

This bill makes several significant changes to the abandoned building revitalization tax credit:

- The entire credit earned cannot exceed \$6,000,000 for any taxpayer for each abandoned building site
- An abandoned unit must not be subdivided into separate parcels or units
- A “Notice of Intent to Rehabilitate” is not required, but the Department of Revenue must be notified in writing prior to the date the building will be placed in service

- This section only applies to building sites entirely placed in service after June 30, 2018

Each of the items noted above poses a significant change to the abandoned building revitalization tax credit statute. These changes include the following:

- This bill would increase the annual tax credit limitation from \$500,000 per taxpayer per tax year to a credit limitation of \$6,000,000 for any taxpayer for each abandoned building site. Currently, an abandoned building may be subdivided into parcels.
- This bill would not allow the subdivision of an abandoned building property into separate parcels or units. This section would apply only to one complete structure.
- Currently, a taxpayer must file a “Notice of Intent to Rehabilitate” with the Department of Revenue if the taxpayer intends to claim an abandoned building tax credit. In the “Notice of Intent to Rehabilitate” there must be a stated total amount of the estimated cost to rehabilitate an abandoned building project. The actual costs of the qualified rehabilitation expenditures may come within as low as 80 percent of the actual expenditure amount and as high as 125 percent of the actual expenditure amount. Any amounts outside of these expenditure limits would not be included as qualified rehabilitative expenditures in order to claim the tax credit. The suspension of the requirement to file a “Notice of Intent to Rehabilitate” allows for cost overruns associated with an abandoned building project to be included as qualified rehabilitation expenses to be used in the calculation of the tax credits to be claimed by the taxpayer.
- Also, currently a taxpayer may claim a tax credit as phases of an abandoned building project are completed and placed in service in accordance with the “Notice of Intent to Rehabilitate” filed with the Department of Revenue. This bill would only apply to building sites entirely placed in service after June 30, 2018.

Based on additional information received from the Department of Revenue, the impact of this bill is undetermined. This bill changes the calculation of the income tax credit for abandoned buildings and imposes a limit on the total credits for each site. Currently, multiple units on one site could qualify for separate credits. The impact of this bill is undeterminable, because the number of units on each site can vary which could increase or decrease the total available credits.

According to the Department of Revenue’s Revenue Ruling #15-7, each abandoned building site could contain multiple units and each unit could qualify for the credit. Despite this revenue ruling, some controversy still exists regarding the qualification of a unit and this bill attempts to resolve this issue by imposing a maximum credit on the entire site, regardless of the number of qualifying units. The cap imposed under this bill may increase or decrease the total credits for each site depending how many units might currently qualify for the current credit. Since no data is available for the number and type of projects that might be placed in service after June 30, 2018, the net impact on the General Fund for any change in credits is undeterminable.

**Section 2.** This act takes effect upon approval by the Governor.

**Local Expenditure**

N/A

**Local Revenue**

N/A

**Introduced on February 7, 2018****State Expenditure**

The Department of Revenue has indicated that this bill would have no expenditure impact on the General Fund, Federal Funds, and Other Funds.

**State Revenue**

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The table below describes a summary of the abandoned building tax credit showing the number of taxpayers claiming the nonrefundable tax credit and the value of the tax credits claimed over the first four years of actual data filed by taxpayers. Through FY2016-17, the latest year for which there is data, a total of 288 taxpayers have claimed \$11,038,274 in nonrefundable tax credits.

**History of the Abandoned Building Tax Credit**

| <b>Fiscal Year</b> | <b>Tax Year</b> | <b>Taxpayers</b> | <b>Credits Claimed</b> | <b>Avg. Credits Claimed Per Taxpayer</b> |
|--------------------|-----------------|------------------|------------------------|--|
| <b>FY2013-14</b>   | <b>TY2013</b>   | 19               | \$390,135              | \$20,533                                 |
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| <b>FY2016-17</b>   | <b>TY2016</b>   | 163              | \$7,267,652            | \$44,587                                 |
| <b>Total</b>       |                 | <b>288</b>       | <b>\$11,038,274</b>    | <b>\$38,327</b>                          |

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building sites entirely placed in service after June 30, 2018, the income tax credit allowed pursuant to this chapter is equal to the following schedule:

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Each of the items noted above poses a significant change to the abandoned building revitalization tax credit statute. These changes include the following:

- This bill would increase the annual tax credit limitation from \$500,000 per taxpayer per tax year to a credit limitation of \$6,000,000 for any taxpayer for each abandoned building site. Currently, an abandoned building may be subdivided into parcels.
- This bill would not allow the subdivision of an abandoned building property into separate parcels or units. This section would apply only to one complete structure.
- Currently, a taxpayer must file a “Notice of Intent to Rehabilitate” with the Department of Revenue if the taxpayer intends to claim an abandoned building tax credit. In the “Notice of Intent to Rehabilitate” there must be a stated total amount of the estimated cost to rehabilitate an abandoned building project. The actual costs of the qualified rehabilitation expenditures may come within as low as 80 percent of the actual expenditure amount and as high as 125 percent of the actual expenditure amount. Any amounts outside of these expenditure limits would not be included as qualified rehabilitative expenditures in order to claim the tax credit. The suspension of the requirement to file a “Notice of Intent to Rehabilitate” allows for cost overruns associated with an abandoned building project to be included as qualified rehabilitation expenses to be used in the calculation of the tax credits to be claimed by the taxpayer.

- Also, currently a taxpayer may claim a tax credit as phases of an abandoned building project are completed and placed in service in accordance with the “Notice of Intent to Rehabilitate” filed with the Department of Revenue. This bill would only apply to building sites entirely placed in service after June 30, 2018.

There is currently a property located in Spartanburg County that is undergoing extensive renovations and qualifies as an abandoned building site. The Montgomery Building located on Church Street in downtown Spartanburg is being renovated for mixed-use including apartments, offices, and retail establishments. The ten-story building was built in 1924 and once housed the offices of textile companies, cotton brokers, factories, as well as a theater, radio, and television station. The \$29,000,000 building renovation project is scheduled to be fully restored and completed in Fall 2018.

The proposed changes to the tax credit qualifications and the application of the abandoned building tax credit rate schedule can be shown in the following table using the Montgomery Building project as an example. The table below describes an analysis of the abandoned building revitalization tax credits that may be claimed for a proposed \$29,000,000 abandoned building project under current law and under the proposed changes to current law offered by this bill. Under current law, the \$29,000,000 project is multiplied by a twenty-five percent tax credit rate and is claimed in three equal installments over three years, or \$2,416,667 per tax year. The taxpayer, however, is limited to claiming a maximum of \$500,000 per tax year resulting in a tax credit carry forward to future tax years of \$1,916,667 each tax year.

**Analysis of Abandoned Building Tax Credit  
Proposed \$29,000,000 Rehabilitation Project**

| Abandoned Building Revitalization Tax Credit |          |                    |                    |                    |                    |
|--|----------|--------------------|--------------------|--------------------|--------------------|
|  | Tax Rate | Year 1             | Year 2             | Year 3             | Total              |
| <b>Current Law</b>                           |          |                    |                    |                    |                    |
| State Tax Credit 1/                          | 25%      | -\$2,416,667       | -\$2,416,667       | -\$2,416,667       |                    |
| Limitation 2/                                |          | -\$500,000         | -\$500,000         | -\$500,000         | -\$1,500,000       |
| Carry Forward                                |          | -\$1,916,667       | -\$1,916,667       | -\$1,916,667       |                    |
| <b>Proposed Schedule (H.4857)</b>            |          |                    |                    |                    |                    |
| Less Than \$10 Mil.                          | 25%      | -\$833,333         | -\$833,333         | -\$833,333         | -\$2,500,000       |
| \$10 Mil. to \$20 Mil.                       | 20%      | -\$666,667         | -\$666,667         | -\$666,667         | -\$2,000,000       |
| Greater Than \$20 Mil.                       | 15%      | -\$450,000         | -\$450,000         | -\$450,000         | -\$1,350,000       |
| Limitation 2/                                |          | \$0                | \$0                | \$0                |                    |
| Subtotal                                     |          | -\$1,950,000       | -\$1,950,000       | -\$1,950,000       | -\$5,850,000       |
| <b>Difference (Current Less Proposed)</b>    |          | <b>\$1,450,000</b> | <b>\$1,450,000</b> | <b>\$1,450,000</b> | <b>\$4,350,000</b> |

Notes:

1/ Section 12-67-140(B)(2), (3)(a)

2/ Section 12-67-140(B)(3)(b)

The proposed tax credit rate schedule contained in the bill allows the tax credit rate to decline as the total amount of qualified expenditures increases. Under the proposed changes in the bill, the

\$29,000,000 project is multiplied by the appropriate tax credit rate and is claimed in three equal installments over three years, or \$1,950,000 per tax year. The taxpayer is limited to claiming a maximum of \$6,000,000 per abandoned building site. Therefore, there is no \$500,000 tax credit limitation per tax year resulting in no tax credit carry forwards to future tax years.

This bill would result in the difference between the calculation of the tax credit under current law and the proposed changes to existing law under the bill. This bill would allow a taxpayer to claim an abandoned building revitalization tax credit of an estimated \$1,450,000 more each tax year for three successive tax years than under the current statute. Over three tax years, the taxpayer would claim a total of \$5,850,000 in abandoned building tax credits. This is under the \$6,000,000 limitation for a single taxpayer at a single abandoned building site. Over three tax years, the taxpayer would claim an estimated \$4,350,000 more in abandoned building tax credits than under current law. This bill would, therefore, reduce state General Fund individual and corporate income taxes, bank taxes, savings and loan taxes, corporate license fees, insurance premium taxes (including retaliatory taxes), or any combination thereof by a minimum of an estimated \$1,450,000 in FY2018-19, FY2019-20, and FY2020-21.

**Section 2.** This act takes effect upon approval by the Governor.

**Local Expenditure**

N/A

**Local Revenue**

N/A



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Frank A. Rainwater, Executive Director