COMMITTEE REPORT

April 6, 2011

**H. 3346**

Introduced by Reps. Loftis, Limehouse, Corbin, Ballentine, Atwater, Mitchell, Quinn, Alexander, Bannister, Horne, Norman, J.E. Smith, Henderson, Brady, Erickson, Herbkersman, McCoy, Sottile, Allen, Stavrinakis, Williams, Jefferson, Sellers, Pinson, Huggins and Bales

S. Printed 4/6/11--H.

Read the first time January 18, 2011.

**THE COMMITTEE ON WAYS AND MEANS**

To whom was referred a Bill (H. 3346) to amend the Code of Laws of South Carolina, 1976, by adding Section 12‑6‑3586 so as to allow a state tax credit for the installation of solar energy equipment, etc., respectfully

**REPORT:**

That they have duly and carefully considered the same and recommend that the same do pass:

DANIEL T. COOPER for Committee.

**STATEMENT OF ESTIMATED FISCAL IMPACT**

**REVENUE IMPACT 1/**

This bill would reduce general fund income tax revenue by $271,000 in FY2011-12.

## Explanation

This bill would add Section 12-6-3586 granting a tax credit equal to thirty-five percent of the costs of solar energy equipment used for water heating, space heating or cooling, generating electricity, distillation, desalination, detoxification, or the production of industrial or commercial process heat placed into service by a taxpayer. The credit may be claimed against a taxpayer’s individual income, corporate income, bank tax, license fees, or insurance premiums taxes, or any combination of them. This bill also provides ceilings on the amount of credit that can be claimed per installation. For solar energy equipment placed into service for residential purposes, the ceilings range from $1,400 to $10,500 based upon the purpose of the solar energy equipment. For solar energy systems placed into service for any purpose except residential, the ceiling amount equals $2,500,000 and must be taken in five equal annual installments. Any unused credits may be carried forward for taxable years six through fifteen succeeding the year the equipment was placed into service. The tax credit may not exceed one-half of a taxpayer’s tax liability for a taxable year. Currently, Section 12-6-3587 allows an income tax credit equal to twenty-five percent for not only the costs of purchasing certain solar energy system, but also allows the income tax credit to be applied to installation costs. The income tax credit pursuant to Section 12-6-3587 is capped at $3,500 per facility. According to a database of solar installations in South Carolina compiled by the South Carolina Energy Office, nearly 400 residential solar heating and photovoltaic systems, or an average of 100 solar energy systems per year, were installed in South Carolina between 2007 and 2010. Based upon an analysis of the solar installations in South Carolina using estimated costs of solar energy equipment, it is estimated that twenty-five percent of taxpayers that install solar energy equipment would benefit more from the thirty-five percent income tax credit allowed under this bill than the existing twenty-five percent income tax credit. According to the Department of Revenue, 100 taxpayers claimed the solar energy tax credit for a total of $208,930 in credits, or approximately $2,100 per taxpayer, in 2009. If the same number of taxpayers claims the solar energy credit in 2012, and twenty-five percent of those taxpayers claim the thirty-five percent tax credit under this bill instead of the existing twenty-five percent income tax credit, the amount of credits claimed is expected to increase by $21,000. Regarding non-residential installations, five commercial firms claimed a similar renewable energy equipment income tax credit in North Carolina that expands the income tax credit to include wind, hydroelectric, biomass, and geothermal equipment installations. We estimate that one of the five commercial firms that claimed the similar renewable energy equipment income tax credit in North Carolina installed solar energy equipment. We anticipate that one commercial taxpayer will place into service solar energy equipment in South Carolina in FY2011-12, for a total of $2,500,000 in credits. Adjusting for the fact that the tax credit is to be taken in five equal annual installments and applying a fifty percent tax liability limitation, it is estimated that this bill would reduce state general fund income tax, bank tax, license fees, or insurance premium tax revenue by an estimated $250,000 in FY2011-12 for commercial installations. In total, we estimate that this bill will reduce general fund income tax revenue by an estimated $271,000 in FY2011-12.

*Approved By:*

William C. Gillespie

Board of Economic Advisors

1/ This statement meets the requirement of Section 2-7-71 for a state revenue impact by the BEA, or Section 2-7-76 for a local revenue impact or Section 6-1-85(B) for an estimate of the shift in local property tax incidence by the Office of Economic Research.

**A** **BILL**

TO AMEND THE CODE OF LAWS OF SOUTH CAROLINA, 1976, BY ADDING SECTION 12‑6‑3586 SO AS TO ALLOW A STATE TAX CREDIT FOR THE INSTALLATION OF SOLAR ENERGY EQUIPMENT IN AN AMOUNT EQUAL TO THIRTY‑FIVE PERCENT OF THE AMOUNTS FOR SPECIFIC INSTALLATIONS AND FOR SPECIFIC PURPOSES, TO DEFINE SOLAR ENERGY EQUIPMENT, TO PROVIDE FOR THE TIMING OF CREDITS AND THE CARRY FORWARD OF UNUSED CREDITS, TO PROVIDE THOSE TAXES AGAINST WHICH THIS CREDIT IS ALLOWED, AND TO PROHIBIT DOUBLE CREDITS.

Be it enacted by the General Assembly of the State of South Carolina:

SECTION 1. Article 25, Chapter 6, Title 12 of the 1976 Code is amended by adding:

“Section 12‑6‑3586. (A) As used in this section:

(1) ‘Solar energy equipment’ is equipment that uses solar radiation as a substitute for traditional energy for water heating, active space heating and cooling, passive heating, daylighting, generating electricity, distillation, desalination, detoxification, or the production of industrial or commercial process heat. The term also includes related devices necessary for collecting, storing, exchanging, conditioning, or converting solar energy to other useful forms of energy.

(2) ‘Tax liability’ includes income taxes imposed pursuant to this chapter, license taxes imposed pursuant to Chapter 20 of this title, bank and building and loan taxes imposed pursuant to Chapters 11 and 13 of this title, and premium taxes imposed pursuant to Title 38.

(B) If a taxpayer that has purchased solar energy equipment places it in service in this State during the taxable year, the taxpayer is allowed a credit against his tax liability equal to thirty‑five percent of the cost of the equipment. In the case of solar energy equipment that serves a single‑family dwelling, the credit must be taken for the taxable year in which the equipment is placed in service. Unused credit with respect to a single family dwelling may be carried forward to the ten succeeding taxable years. For all other solar energy equipment, the entire credit may not be taken for the taxable year in which the equipment is placed in service but must be taken in five equal annual installments beginning with the taxable year in which the equipment is placed in service and subject to this annual limit, unused credit may be carried forward for taxable years six through fifteen succeeding the year the equipment was placed in service.

(C) If, in one of the years in which the installment of a credit accrues, the solar energy equipment with respect to which the credit was claimed is disposed of, taken out of service, or moved out of State, the credit expires and the taxpayer may not take any remaining installment of the credit. The taxpayer however, may take the portion of an installment that accrued in a previous year and was carried forward to the extent permitted pursuant to subsection (B) of this section. No credit is allowed pursuant to this section to the extent the cost of the solar energy equipment was provided by public funds and the amount of any credit allowed pursuant to this section must be reduced by any credit claimed pursuant to Section 12‑6‑3587 or any other credit allowed pursuant to this title for solar energy equipment. In no case may a credit allowed pursuant to this section exceed one half of the taxpayer’s tax liability for a taxable year.

(D) The credit allowed by this section may not exceed the applicable ceilings provided in this subsection.

(1) A ceiling of two million five hundred thousand dollars for each installation applies to solar energy equipment placed in service for any purpose other than residential.

(2) The following ceilings apply to solar energy equipment placed in service for residential purposes:

(a) one thousand four hundred dollars for each dwelling unit for solar energy equipment for domestic water heating, including pool heating;

(b) three thousand five hundred dollars for each dwelling unit for solar energy equipment for active space heating, combined active space and domestic hot water systems, and passive space heating;

(c) ten thousand five hundred dollars for each installation for any other solar energy equipment for residential purposes.”

SECTION 2. This act takes effect upon approval by the Governor and applies for installations of solar energy equipment placed in service in taxable years beginning after 2010.

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