COMMITTEE REPORT

March 28, 2012

**H. 4802**

Introduced by Reps. J.E. Smith, Quinn, Munnerlyn, Williams, Jefferson, Johnson, McEachern, Brannon, Dillard, McLeod, Stavrinakis, Sellers, Sabb, Brady, Ott, Vick, H.B. Brown, Branham, Bingham, Bowers, Cobb‑Hunter, Erickson, Harrison, Hart, Hayes, Herbkersman, Merrill, J.H. Neal, Pitts, G.M. Smith and Whipper

S. Printed 3/28/12--H.

Read the first time February 22, 2012.

**THE COMMITTEE ON WAYS AND MEANS**

To whom was referred a Bill (H. 4802) to amend the Code of Laws of South Carolina, 1976, by adding Chapter 67 to Title 12 so as to enact the “South Carolina Abandoned Buildings Revitalization Act” which, etc., respectfully

**REPORT:**

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

W. BRIAN WHITE for Committee.

**STATEMENT OF ESTIMATED FISCAL IMPACT**

**REVENUE IMPACT 1/**

This bill is expected to reduce general fund individual income tax, corporate income tax, bank tax, or corporate license fee revenue by an estimated $937,500 in FY2012-13 and by an estimated $3,750,000 in FY2013-14, and for each fiscal year thereafter until FY2016-17. If all taxpayers elect the property tax option, local property tax revenue would be reduced by an estimated $3,750,000 annually.

## Explanation

This bill would add Chapter 67 to Title 12 to extend a nonrefundable tax credit to create an incentive for the rehabilitation, renovation, and redevelopment of abandoned buildings located in South Carolina. An “abandoned building” means a building or structure on which at least sixty-six percent of the space has been closed continuously to business for a period of at least five years. This bill would add Section 12-67-140(B)(2) to allow a taxpayer a nonrefundable credit of twenty-five percent of the actual rehabilitation expenses incurred at the building site. To be eligible for the tax credit, the actual rehabilitation expenses must be between eighty percent and one hundred twenty-five percent of the estimated rehabilitation expenses set forth in the Notice of Intent to Rehabilitate. The entire credit is earned when the building is placed in service, but the tax credit must be taken in equal installments over five years. Any unused credits may be carried forward for the succeeding five years. The tax credit is limited in use to fifty percent of a taxpayer’s income tax liability against income tax, bank tax, or corporate license fees. The tax credits are transferrable.

The taxpayer may also choose to elect a credit against real property taxes levied by local taxing entities. The taxpayer must elect the nonrefundable tax credit to be applied against either the income or corporate license taxes, or against property taxes, but not both. The “real property tax credit” is equal to twenty-five percent of the qualified rehabilitation expenses made to the eligible site up to seventy-five percent of the real property taxes due on the site each year. The municipality or the county must determine the eligibility of the site and the proposed project. The ordinance shall allow the property tax credit to be taken against up to seventy-five percent of the real property taxes due on the site each year not to exceed eight years. The credit vests in the taxpayer in the year in which the eligible site is placed in service. The credit may be carried forward up to eight years.

Eligible abandoned buildings, both private and public, may include, but are not limited to, abandoned residences, retail stores, hotels and motels, office space, health care facilities, schools, amusement and recreational facilities, warehouses, manufacturing facilities, fire towers, National Guard armories, military and defense buildings, college and university buildings, and state office buildings. For example, the 165-acre state Department of Mental Health facility located on Bull Street in Columbia recently was sold to a private developer for $15,000,000. The developer has since estimated and revised renovation expenses to $40,000,000. Multiplying $40,000,000 in renovation expenses by a nonrefundable tax credit of twenty-five percent and applying the tax credit in equal installments over five taxable years, yields a reduction in general fund tax revenue of an estimated $2,000,000 annually for the next five fiscal years.

According to the National Trust for Historic Places, the Palmetto Trust for Historic Preservation, the SC Department of Archives and History, the U.S. Department of General Services, and the South Carolina Budget and Control, there is an estimated 500,000 square feet of abandoned building space throughout the state of South Carolina. Multiplying 500,000 square feet of abandoned income producing space by an average renovation cost of $150 per square foot equals an estimated $75,000,000 of renovation expense that may be undertaken. Applying a twenty-five percent nonrefundable tax credit to $75,000,000 of renovation expense and spreading out the tax credit over five equal installments yields an estimated reduction of general fund individual and corporate income tax and corporation license tax revenue of $3,750,000 in FY2012-13, and for each successive fiscal year for five years to FY2016-17. It is reasonable; however, to estimate that twenty-five percent of rehabilitative projects would qualify in FY2012-13 since it takes time to file a Notice of Intent to Rehabilitate, undertake the renovation, and subsequently inhabit the structure. This bill is expected, therefore, to reduce general fund individual and corporate income tax and corporation license tax revenue by an estimated $937,500 in FY2012-13 and by an estimated $3,750,000 in each successive fiscal year through FY2016-17.

The taxpayer has the option of applying to a county council or city council for a reduction in local property taxes against the value of the rehabilitated structure. If all taxpayers elect the property tax option, local property tax revenue would be reduced by an estimated $3,750,000 annually. This act takes effect upon approval of the Governor.

*Approved By:*

Frank A. Rainwater

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 CHAPTER 67 TO TITLE 12 SO AS TO ENACT THE “SOUTH CAROLINA ABANDONED BUILDINGS REVITALIZATION ACT” WHICH PROVIDES THAT A TAXPAYER MAKING INVESTMENTS OF A CERTAIN SIZE IN REHABILITATING AN ABANDONED BUILDING MAY AT HIS OPTION RECEIVE SPECIFIED INCOME TAX CREDITS OR CREDITS AGAINST THE PROPERTY TAX LIABILITY.

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

SECTION 1. Title 12 of the 1976 Code is amended by adding:

“CHAPTER 67

South Carolina Abandoned Buildings

Revitalization Act

Section 12‑67‑100. This chapter may be cited as the ‘South Carolina Abandoned Buildings Revitalization Act’.

Section 12‑67‑110. (A) The purpose of this chapter is to create an incentive for the rehabilitation, renovation, and redevelopment of abandoned buildings located in South Carolina.

(B) The abandonment of buildings has resulted in the disruption of communities and increased the cost to local governments by requiring additional police and fire services due to excessive vacancies. Many abandoned buildings pose safety concerns. A public and corporate purpose is served by restoring these buildings to productive assets for the communities in which they are located and result in increased job opportunities.

(C) There exists in many communities of this State abandoned buildings. The stable economic and physical development of these communities is endangered by the presence of these abandoned buildings as manifested by their progressive and advanced deterioration. As a result of the existence of these abandoned buildings, there is an excessive and disproportionate expenditure of public funds, inadequate public and private investment, unmarketability of property, growth in delinquencies and crime in the areas, together with an abnormal exodus of families and businesses, so that the decline of these areas impairs the value of private investments, threatens the sound growth and the tax base of taxing districts in these areas, and threatens the health, safety, morals, and welfare of the public. To remove and alleviate these adverse conditions, it is necessary to encourage private investment and restore and enhance the tax base of the taxing districts in which such buildings are located by the redevelopment of abandoned buildings.

Section 12‑67‑120. For the purposes of this chapter, unless the context requires otherwise:

(1) ‘Abandoned building’ means a building or structure, which clearly may be delineated from other buildings or structures, at least sixty‑six percent of the space in which has been closed continuously to business or otherwise nonoperational for income producing purposes for a period of at least five years immediately preceding the date on which the taxpayer files a ‘Notice of Intent to Rehabilitate’. For purposes of this item, a building or structure that otherwise qualifies as an ‘abandoned building’ may be subdivided into separate units or parcels, which units or parcels may be owned by the same taxpayer or different taxpayers, and each unit or parcel is deemed to be an abandoned building site for purposes of determining whether each subdivided parcel is considered to be abandoned.

(2) ‘Building site’ means the abandoned building together with the parcel of land upon which it is located and other improvements located on the parcel. However, the area of the building site is limited to the land upon which the abandoned building is located and the land immediately surrounding such building used for parking and other similar purposes directly related to the building’s income producing use.

(3) ‘Local taxing entities’ means a county, municipality, school district, special purpose district, and other entity or district with the power to levy ad valorem property taxes against the building site.

(6) ‘Local taxing entity ratio’ means that percentage computed by dividing the millage rate of each local taxing entity by the total millage rate for the building site.

(4) ‘Placed in service’ means the date upon which the building site is completed and ready for its intended use. If the building site is completed and ready for use in phases or portions, each phase or portion is considered to be placed in service when it is completed and ready for its intended use.

(5) ‘Rehabilitation expenses’ means the expenses or capital expenditures incurred in the rehabilitation, renovation, or redevelopment of the building site, including without limitations, the renovation or redevelopment of existing buildings, environmental remediation, site improvements, and the construction of new buildings and other improvements on the building site, but excluding the cost of acquiring the building site or the cost of personal property located at the building site. For expenses associated with a building site to qualify for the tax credit, the abandoned buildings on the building site must be either renovated or redeveloped.

(6) ‘Notice of Intent to Rehabilitate’ means a letter submitted by the taxpayer to the department or the municipality or county as specified in this chapter, indicating the taxpayer’s intent to rehabilitate the building site, the location of the building site, the amount of acreage involved in the building site, and the estimated expenses to be incurred in connection with rehabilitation of the building site. The notice also must set forth information as to which buildings the taxpayer intends to renovate and whether new construction is to be involved.

Section 12‑67‑130. This chapter only applies to abandoned building sites or phases or portions thereof put into operation in which a taxpayer incurs more than five hundred thousand dollars in rehabilitation expenses.

Section 12‑67‑140. (A) Subject to the terms and conditions of this chapter, a taxpayer who rehabilitates an abandoned building is eligible for either:

(1) a credit against income taxes imposed pursuant to Chapter 6 and Chapter 11 of this title or corporate license fees pursuant to Chapter 20 of this title, or both; or

(2) a credit against real property taxes levied by local taxing entities.

(B) If the taxpayer elects to receive the credit pursuant to subsection (A)(1), the following provisions apply:

(1) The taxpayer shall file with the department a Notice of Intent to Rehabilitate before incurring its first rehabilitation expenses at the building site. Failure to provide the Notice of Intent to Rehabilitate results in qualification of only those rehabilitation expenses incurred after the notice is provided.

(2) The amount of the credit is equal to twenty‑five percent of the actual rehabilitation expenses incurred at the building site if the actual rehabilitation expenses incurred in rehabilitating the building site are between eighty percent and one hundred twenty‑five percent of the estimated rehabilitation expenses set forth in the Notice of Intent to Rehabilitate. If the actual rehabilitation expenses exceed one hundred twenty‑five percent of the estimated expenses set forth in the Notice of Intent to Rehabilitate, the taxpayer qualifies for the credit based on one hundred twenty‑five percent of the estimated expenses as opposed to the actual expenses it incurred in rehabilitating the building site. If the actual rehabilitation expenses are below eighty percent of the estimated rehabilitation expenses, the credit is not allowed.

(3) The entire credit is earned in the taxable year in which the applicable phase or portion of the building site is placed in service but must be taken in equal installments over a five‑year period beginning with the tax year in which the applicable phase or portion of the building site is placed in service. Unused credit may be carried forward for the succeeding five years.

(4) If the taxpayer qualifies for both the credit allowed by this section and the credit allowed pursuant to the Textiles Communities Revitalization Act, the taxpayer only may claim one of the two credits. However, the taxpayer is not disqualified from claiming any other tax credit in conjunction with the credit allowed by this section.

(5) The credit allowed by this subsection is limited in use to fifty percent of either:

(a) the taxpayer’s income tax liability for the taxable year if taxpayer claims the credit allowed by this section as a credit against income tax imposed pursuant to Chapter 6 or Chapter 11 of this title; or

(b) the taxpayer’s corporate license fees for the taxable year if the taxpayer claims the credit allowed by this section as a credit against license fees imposed pursuant to Chapter 20.

(6)(a) If the taxpayer leases the building site, or part of the building site, the taxpayer may transfer any applicable remaining credit associated with the rehabilitation expenses incurred with respect to that part of the site to the lessee of the site. If a taxpayer sells the building site, or any phase or portion of the building site, the taxpayer may transfer all or part of the remaining credit, associated with the rehabilitation expenses incurred with respect to that phase or portion of the site, to the purchaser of the applicable portion of the building site.

(b) To the extent that the taxpayer transfers the credit, the taxpayer shall notify the department of the transfer in the manner the department prescribes.

(7) To the extent that the taxpayer is a partnership or a limited liability company taxed as a partnership, the credit may be passed through to the partners or members and may be allocated among any of its partners or members including, without limitation, an allocation of the entire credit to one partner or member, without regard to any provision of the Internal Revenue Code or regulations promulgated pursuant thereto, that may be interpreted as contrary to the allocation, including, without limitation, the treatment of the allocation as a disguised sale.

(C) If the taxpayer elects to receive the credit pursuant to subsection (A)(2), the following provisions apply:

(1) The taxpayer shall file a Notice of Intent to Rehabilitate with the municipality, or the county if the building site is located in an unincorporated area, in which the building site is located before incurring its first rehabilitation expenses at the building site. Failure to provide the Notice of Intent to Rehabilitate results in qualification of only those rehabilitation expenses incurred after notice is provided.

(2) Once the Notice of Intent to Rehabilitate has been provided to the county or municipality, the municipality or the county first shall determine, by resolution, the eligibility of the building site and the proposed rehabilitation expenses for the credit. A proposed rehabilitation of a building site must be approved by a positive majority vote of the local governing body. For purposes of this subsection, ‘positive majority vote’ is as defined in Section 6‑1‑300(5). If the county or municipality determines that the building site and the proposed rehabilitation expenses are eligible for the credit, there must be a public hearing and the municipality or county shall approve the building site for the credit by ordinance. Before approving a building site for the credit, the municipality or county shall make a finding that the credit does not violate a covenant, representation, or warranty in any of its tax increment financing transactions or an outstanding general obligation bond issued by the county or municipality.

(3)(a) The amount of the credit is equal to twenty‑five percent of the actual rehabilitation expenses incurred at the building site times the local taxing entity ratio of each local taxing entity that has consented to the credit pursuant to item (4), if the actual rehabilitation expenses incurred in rehabilitating the building site are between eighty percent and one hundred twenty‑five percent of the estimated rehabilitation expenses set forth in the Notice of Intent to Rehabilitate. If the actual rehabilitation expenses exceed one hundred twenty‑five percent of the estimated expenses set forth in the Notice of Intent to Rehabilitate, the taxpayer qualifies for the credit based on one hundred twenty‑five percent of the estimated expenses as opposed to the actual expenses it incurred in rehabilitating the building site. If the actual rehabilitation expenses are below eighty percent of the estimated rehabilitation expenses, the credit is not allowed. The ordinance must provide for the credit to be taken as a credit against up to seventy‑five percent of the real property taxes due on the building site each year for up to eight years.

(b) The local taxing entity ratio is set as of the time the Notice of Intent to Rehabilitate is filed and remains set for the entire period that the credit may be claimed by the taxpayer.

(4) Not fewer than forty‑five days before holding the public hearing required by subsection (C)(2), the governing body of the municipality or county shall give notice to all affected local taxing entities in which the building site is located of its intention to grant a credit against real property taxes for the building site and the amount of estimated credit proposed to be granted based on the estimated rehabilitation expenses. If a local taxing entity does not file an objection to the tax credit with the municipality or county on or before the date of the public hearing, the local taxing entity is considered to have consented to the tax credit.

(5) The credit against real property taxes for each applicable phase or portion of the building site may be claimed beginning for the property tax year in which the applicable phase or portion of the building site is first placed in service.

(D) A taxpayer is not eligible for the credit if the taxpayer owned the otherwise eligible building site when the site was operational and immediately prior to its abandonment.

Section 12‑67‑150. The provisions of Chapter 31, Title 6 also apply to this chapter, except that the requirements of Section 6‑31‑40 do not apply.”

SECTION 2. This act takes effect upon approval by the Governor.

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