Bill Number:	H. 3725
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Requestor:	House Ways and Means
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Subject:	Solar energy systems
RFA Analyst(s):	Martin and Wren

Estimate of Fiscal Impact

	FY 2015-16	FY 2016-17	FY 2017-18
State Expenditure			
General Fund	N/A	N/A	N/A
Other and Federal	N/A	N/A	N/A
Full-Time Equivalent Position(s)	0.00	0.00	0.00
State Revenue			
General Fund	$0	($14,133,333)	($14,133,333)
Other and Federal	$0	$12,500	N/A
Local Expenditure	N/A	N/A	N/A
Local Revenue	N/A	N/A	N/A

Fiscal Impact Summary
This bill would reduce General Fund individual income tax, corporate income tax, bank tax, savings and loan tax, and corporate license fees by an estimated $13,300,000 in FY2016-17 and by an estimated $13,300,000 in FY2017-18. Additionally, this bill would reduce General Fund individual income tax revenue by $833,333 and increase Other Funds of the State Energy Office by $12,500 in FY 2016-17. When the tax credits expire in 2019, we expect an increase in General Fund income tax revenue of $312,814 in FY 2019-20.

Explanation of Fiscal Impact

State Expenditure
Since this legislation makes no substantive changes to existing programs or resources, the Department of Revenue and the State Energy Office can administer the legislative changes with existing resources.

State Revenue
The following is a section-by-section analysis of the bill.

Section 1. This section would amend Section 12-67-120 to add the definition of a "state-owned abandoned building". The definition consists of one or more abandoned buildings that total more than 40,000 square feet, have been abandoned for more than five years, and not less than half of the property were recently owned by the State, or an agency, instrumentality, or political subdivision of the State, prior to a taxpayer's acquisition of the property.

Section 2. The South Carolina Abandoned Buildings Revitalization Act was enacted in Act 57 of 2013. 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 income taxes, bank taxes, savings and loan taxes, corporate license fees, or a combination of them. 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 five-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.

This section would amend Section 12-67-140 to also allow a credit earned in connection with a state-owned abandoned building to be claimed over a two year period instead of over a five year period for other qualified abandoned buildings, while removing the annual tax limitation of $500,000 for the rehabilitation of a state-owned abandoned building. These provisions would accelerate the use of the tax credit. This section would also allow the taxpayer to transfer all or part of any remaining tax credit to the purchaser of the portion of the building being rehabilitated or the building site.

Section 3. Currently, a taxpayer is allowed a nonrefundable state income tax credit equal to ten percent against qualifying rehabilitation expenditures of a certified historic structure if the taxpayer qualifies for the comparable federal income tax credit. If the taxpayer is not eligible for the federal income tax credit, the taxpayer is eligible to claim a nonrefundable state income tax credit equal to twenty-five percent of qualifying rehabilitation expenditures. The state credit may be taken in equal installments over a five-year period and any unused credits may be carried forward for five years.

This section amends Section 12-6-3535 to allow a taxpayer that claims a federal income tax credit for qualified rehabilitation expenditures on a certified historic structure to claim a state nonrefundable tax credit against individual and corporate income taxes. This section would also allow a taxpayer who is allowed a federal income tax credit pursuant to IRS Code Section 47 to elect a twenty-five percent tax credit instead of the current ten percent tax credit. If a taxpayer elects a twenty-five percent tax credit the total amount that may be claimed shall not exceed $1,000,000 for each certified historic structure. This limitation does not apply to credits claimed for qualified rehabilitation expenditures related to any state-owned abandoned building. This section, however, would also amend Section 12-6-3535(C)(1) to allow a credit earned in connection with a state-owned certified historic building to be claimed over a two year period instead of over a five year period for other qualified certified historic buildings, beginning with the year in which the property is placed in service. This provision would accelerate the use of the tax credit.

The most well-known example of a state-owned abandoned building is the Babcock Building located off Bull Street in Columbia, South Carolina. Built between 1858 and 1885, it was the home of the South Carolina State Hospital. On October 30, 1981, the Babcock Building was added to the National Register of Historic Places. The property was sold for $15,000,000 in July 2013, and the total renovation costs of the Babcock Building and the ancillary out-buildings are estimated at $60,000,000.

As a result, the Bull Street property would be eligible for two tax credits – the abandoned buildings revitalization tax credit and the certified historic building tax credit. This bill amends language in each statute. Table 1 summarizes the net changes affecting the tax credits regarding this property under current law and the tax credits under the amended language to current law.

Table 1. Analysis of Abandoned Building and Certified Historic Structure Tax Credits
Proposed $60,000,000 Rehabilitation Project

Abandoned Buildings Revitalization Tax Credit	Year 1	Year 2	Year 3	Year 4	Year 5
Current Law					
State (25%) 1/	$3,000,000	$3,000,000	$3,000,000	$3,000,000	$3,000,000
Limitation 2/	$500,000	$500,000	$500,000	$500,000	$500,000
H.3725 Proposal	$7,500,000	$7,500,000	$0	$0	$0
Limitation	None	None			
Difference	**$7,000,000**	**$7,000,000**			
Tax Credit for a Certified Historic Structure	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**
Current Law					
Federal (20%) 3/	$2,400,000	$2,400,000	$2,400,000	$2,400,000	$2,400,000
State (10%) 4/	$1,200,000	$1,200,000	$1,200,000	$1,200,000	$1,200,000
Total Tax Credits	$3,600,000	$3,600,000	$3,600,000	$3,600,000	$3,600,000
H.3725 Proposal					
Federal (20%) 3/	$2,400,000	$2,400,000	$2,400,000	$2,400,000	$2,400,000
State (25%)	$7,500,000	$7,500,000	$0	$0	$0
Limitation - Non State-Owned	$1,000,000	$1,000,000			
Limitation - State-Owned	None	None			
Total Tax Credits	$9,900,000	$9,900,000	$2,400,000	$2,400,000	$2,400,000
Difference	**$6,300,000**	**$6,300,000**			
TOTAL DIFFERENCE	**$13,300,000**	**$13,300,000**			

Notes:

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

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

3/ 26 USC Sec. 47(a)(2)

4/ Section 12-6-3535(A), (C)(1)

In general, this bill removes the $500,000 tax credit limitation that each taxpayer may claim each year for a state-owned abandoned building, and accelerates the time period the tax credits may be claimed from five years down to two years. This amendment would also affect the amount of tax credits for renovating a certified historic structure. Pursuant to IRS Code 47, a taxpayer may claim a twenty percent federal tax credit against qualified rehabilitation expenditures. Current state law allows the same taxpayer that is eligible for the federal tax credit to also claim a ten percent state tax credit for rehabilitating a certified historic structure. This is a combined federal-state subsidy of thirty percent of the total cost of rehabilitation expenses. This bill would allow a state taxpayer to claim a state tax credit of twenty-five percent in lieu of the current ten percent state tax credit. This amendment would increase the combined federal-state subsidy to forty-five percent of the total cost of rehabilitation expenses, and accelerates the time period the tax credits may be claimed from five years down to two years.

Although it is difficult to predict the exact timing of the completion of each phase of the redevelopment project, it is reasonable to expect that the majority of the project would be completed in the early years of development. After combining the net effects of the state-owned abandoned building tax credit and the tax credit for rehabilitation expenses of a certified historic structure, this bill would reduce General Fund individual income tax, corporate income tax, bank tax, savings and loan tax, and corporate license fees by an estimated $13,300,000 in FY2016-17 and by an estimated $13,300,000 in FY2017-18.

Section 4. This section would add Section 12-67-160 to allow a taxpayer of a rehabilitated abandoned building to apply to the municipality or county in which the abandoned building is located for a certification of the abandoned building site made by ordinance or binding resolution of the governing body of the municipality or county. The taxpayer should include a copy of the certification with the first tax return in which the credit is claimed to aid in determining the credit allowed. This section is not expected to affect state General Fund revenue in FY2015-16.

Section 5. This bill adds Section 12-6-3586, which grants an income and other specified tax credits for twenty-five percent of the cost of a non-residential solar energy system that uses solar radiation as a substitute for traditional energy used 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. Also included are related devises necessary for collecting, storing, exchanging, conditioning, or converting solar energy to other useful forms of energy. The credit applies to systems placed in service beginning after 2015 and before 2019. The credit must be taken in three equal annual installments. The credit may not exceed three hundred thirty-three thousand dollars for each solar energy system installation and the credit may not exceed one million dollars for any taxpayer. The credit allowed pursuant to this section may not exceed one-half of the taxpayer's tax liability for a taxable year. The total amount of credits allocated for all taxpayers in a taxable year may not exceed five million dollars in the aggregate. The credit is allowed on a first come first serve basis and is monitored by the State Energy Office, with assistance from the Department of Revenue. Taxpayers wishing to claim the credit must submit an application fee equal to one percent of the credit applied for, but no more than two thousand five hundred dollars. The application fee will be credited to the State Energy Office and must be used to meet the requirements of this Section.

The Department of Revenue reports that five commercial firms claimed the solar energy tax credit in 2013. Based upon our analysis of solar energy equipment tax credits for non-residential purposes over the past three years, we estimate that five commercial firms will claim the tax credit in FY 2016-17, for a total of $5,000,000. Adjusting for the fact that the tax credit is to be taken in three equal annual installments and applying the fifty percent tax liability limitation, it is estimated that this bill would reduce General Fund income tax, bank tax, license fees, or insurance premium tax revenue by an estimated $833,333 in FY 2016-17. Also, since the application fee is capped at two thousand five hundred dollars, Other Funds of the State Energy Office would increase by $12,500 in FY 2016-17.

Section 6. Additionally, this bill amends Section 12-6-3587 by adding a subsection which applies to solar energy systems placed in service after tax year 2007 and before tax year 2019. Currently, Section 12-6-3587 allows for a credit not to exceed three thousand five hundred dollars for each facility, or fifty percent of the taxpayer's liability for that taxable year, whichever is less. If the amount of the credit exceeds three thousand five hundred dollars per facility, the taxpayer may carry forward the excess for up to ten years. Based on data from the Department of Revenue, two hundred fifty-six taxpayers claimed the existing solar energy tax credit for a total of $625,628 in 2013. Assuming this trend continues, we expect a similar number of tax credits in 2019. We estimate fifty percent of these credits, or $312,814 may be carried forward. Therefore, we expect an increase of $312,814 in General Fund income tax revenue in FY 2019-20.

Section 7. Unless specified otherwise, this act takes effect upon approval by the Governor and applies for tax years beginning after 2015.

Frank A. Rainwater, Executive Director