



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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Bill Number: H. 3874 As signed by the Governor on February 16, 2016
Author: Mitchell
Subject: Renewable energy property
Requestor: Senate
RFA Analyst(s): Wren
Impact Date: February 23, 2016

Estimate of Fiscal Impact

	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
State Expenditure					
General Fund	\$0	\$0	\$0	\$0	\$0
Other and Federal	\$0	\$0	\$0	\$0	\$0
Full-Time Equivalent Position(s)	0.00	0.00	0.00	0.00	0.00
State Revenue					
General Fund	\$3,495,000	\$3,495,000	\$3,495,000	\$2,500,000	\$2,500,000
Other and Federal	\$0	\$0	\$0	\$0	\$0
Local Expenditure	\$0	\$0	\$0	\$0	\$0
Local Revenue	\$0	\$0	\$0	\$0	\$0

Fiscal Impact Summary

This bill would reduce General Fund income tax revenue by \$3,495,000 in FY 2016-17, FY 2017-18, and FY 2018-19 and \$2,500,000 in FY 2019-20 and FY 2020-21.

Explanation of Fiscal Impact

Explanation of Amendment by the Senate on January 28, 2016

State Expenditure

N/A

State Revenue

This amendment made minor technical changes to the language of the bill as amended on January 26, 2016. The amendment changes the provision in Section 12-6-3770 that taxpayers may not claim any other credits with respect to solar energy property to specify that they may not claim other state credits. This clarifies that taxpayers are not precluded from claiming federal credits along with the state credit. Also, this amendment removes the reference in Section 12-6-3587 to real property as it relates to geothermal machinery and equipment. Because the definition of the system already excluded land and buildings, in our analysis we assumed taxpayers would not be allowed to claim the tax credit on the real property associated with geothermal machinery and equipment. As such, these changes are not expected to have a significant impact on the credits claimed. Therefore, the impact of the bill as amended is unchanged from the bill as amended on January 26, 2016.

Local Expenditure

N/A

Local Revenue

N/A

Explanation of Amendment by the Senate on January 26, 2016**State Expenditure**

N/A

State Revenue

This amendment adds Section 12-6-3770, which reduces the credit for renewable energy property from thirty-five percent to twenty-five percent. Additionally, the credit is limited to property that is located on the Environmental Protection Agency's National Priority List, National Priority List Equivalent Sites, or on a list of related removal actions and certified by the Department of Health and Environmental Control. The credit must be taken in five equal annual installments on a first-come, first-served basis, and the aggregate of credits may not exceed \$2,500,000 in a taxable year for all taxpayers. Also, the type of equipment has been limited to equipment for non-residential purposes with a nameplate capacity of at least two thousand kilowatts 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. Also included are related devices necessary for collecting, storing, exchanging, conditioning, or converting solar energy to other useful forms of energy. The provisions of this act are repealed on December 31, 2016.

The Department of Revenue reports that five businesses claimed the existing solar energy equipment tax credit in 2013. Additionally, the Environmental Protection Agency's National Priority List references approximately thirty sites in South Carolina. Based upon our analysis of existing solar energy equipment tax credits for business purposes over the past three years, we estimate that five businesses will claim the proposed renewable energy property tax credit in FY 2016-17. Since the credit for each installation of renewable energy property placed in service for business purposes may not exceed \$2,500,000, must be taken in five equal installments, and the aggregate of credits for all taxpayers may not exceed \$2,500,000 in a taxable year, we estimate that this amendment would reduce General Fund income tax revenue by \$2,500,000 in FY 2016-17. Additionally, General Fund income tax revenue would also be reduced by \$2,500,000 in FY 2017-18 and each year thereafter until FY 2020-21.

Additionally, this amendment amends Section 12-6-3587, which states that a taxpayer who purchases and installs geothermal machinery and equipment or real property is allowed a tax credit of twenty-five percent of the costs incurred by the taxpayer. This equipment is in addition to the current solar energy system and small hydropower system currently allowed by this section. The geothermal equipment and machinery or real property must be for use at the taxpayer's residence and is defined as a heat pump that uses the ground or groundwater as a thermal energy source to heat or cool a structure or equipment that uses the internal heat of the earth as a substitute for traditional energy for water heating or active space heating or cooling. Also, the equipment must meet or exceed applicable federal Energy Star requirements on the

date of installation. The amount of the credit in any year may not exceed three thousand five hundred dollars for each facility or fifty percent of the taxpayer's tax liability, whichever is less. If the amount of the credit exceeds three thousand five hundred dollars for each facility, the taxpayer may carry forward the excess for up to ten years. The provisions contained in this section related to geothermal machinery and equipment or real property are repealed January 1, 2019.

The Internal Revenue Service reports that in tax year 2013, 43,400 South Carolina taxpayers claimed \$17,059,000 in federal residential renewable energy tax credits, an average of \$391 per tax return. The federal tax credit is a thirty percent credit and applies to solar electric, solar water, small wind energy, and geothermal heat pump property costs. The U. S. Energy Information Administration's 2014 Annual Energy Outlook projects that geothermal energy comprises approximately seven percent of all residential renewable energy generated. Applying the seven percent estimate, the amount of geothermal credits is estimated at \$1,194,000. Since the South Carolina tax credit is for twenty-five percent of the cost, we estimate that 3,038 taxpayers will each claim a credit of \$328 per year. Based upon an average projected South Carolina resident tax liability of \$1,509 for 2016 and given the distribution of the federal tax credits across federal AGI, we anticipate that taxpayers will be able to take the full tax credit despite the fifty percent tax liability limitation. Federal residential energy tax credits claimed by South Carolina residents declined by five percent from 2011 to 2013. However, we anticipate that the South Carolina tax credit may encourage new installations, and we assume installations will remain at the 2013 level instead of continuing to decline. Therefore, we estimate that the addition of geothermal machinery and equipment or real property as allowed in this section of the amendment will reduce General Fund income tax revenue by \$995,000 in FY 2016-17, FY 2017-18, and FY 2018-19.

Local Expenditure

N/A

Local Revenue

N/A

Explanation of Bill as Recalled From Senate Finance Committee on June 3, 2015

State Expenditure

N/A

State Revenue

Since this bill was recalled from the Senate Finance Committee, the current version of the bill reverts back to the amendment adopted by the House on April 29, 2015. This amendment limits the thirty-five percent tax credit for renewable energy property that is located on the Environmental Protection Agency's National Priority List, National Priority List Equivalent Sites, and related removal actions. This amendment also removes the requirement that the credit must be taken in five installments and removes the reference of renewable energy systems used for non-business purposes.

The Department of Revenue reports that five businesses claimed the existing solar energy equipment tax credit in 2013. Additionally, the Environmental Protection Agency's list

references approximately thirty sites in South Carolina. Based upon our analysis of existing solar energy equipment tax credits for business purposes over the past three years, we estimate that five businesses will claim the proposed renewable energy property tax credit in FY 2016-17. Since the credit for each installation of renewable energy property placed in service for business purposes may not exceed \$2,500,000, we estimate that this amendment would reduce General Fund income tax revenue by \$12,500,000 in FY 2016-17 only as this amendment has a year one effective date.

Local Expenditure

N/A

Local Revenue

N/A

Explanation of Amendment by Senate Finance Subcommittee on May 19, 2015

State Expenditure

N/A

State Revenue

This amendment reduces the credit for renewable energy property from thirty-five percent to twenty-five percent. Additionally, the credit is limited to property that is located on the Environmental Protection Agency's National Priority List, National Priority List Equivalent Sites, or on a list of related removal actions and certified by the Department of Health and Environmental Control. The credit must be taken in five equal annual installments on a first come first serve basis and the aggregate of credits may not exceed \$2,500,000 in a taxable year for all taxpayers. Also, the type of equipment has been limited for non-residential purposes with a nameplate capacity of at least two thousand kilowatts 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. Also included are related devices necessary for collecting, storing, exchanging, conditioning, or converting solar energy to other useful forms of energy.

The Department of Revenue reports that five businesses claimed the existing solar energy equipment tax credit in 2013. Additionally, the Environmental Protection Agency's National Priority List references approximately thirty sites in South Carolina. Based upon our analysis of existing solar energy equipment tax credits for business purposes over the past three years, we estimate that five businesses will claim the proposed renewable energy property tax credit in FY 2016-17. Since the credit for each installation of renewable energy property placed in service for business purposes may not exceed \$2,500,000, must be taken in five equal installments, and the aggregate of credits for all taxpayers may not exceed \$2,500,000 in a taxable year, we estimate that this amendment would reduce General Fund income tax revenue by \$2,500,000 in FY 2016-17. Additionally, General Fund income tax revenue would also be reduced by \$2,500,000 in FY 2017-18 and each year thereafter for a total of \$12,500,000 in FY 2020-21.

Local Expenditure

N/A

Local Revenue

N/A

Explanation of Amendment by the House on April 29, 2015**State Expenditure**

N/A

State Revenue

This amendment limits the thirty-five percent tax credit for renewable energy property that is located on the Environmental Protection Agency's National Priority List, National Priority List Equivalent Sites, and related removal actions. This amendment also removes the requirement that the credit must be taken in five installments and removes the reference of renewable energy systems used for non-business purposes.

The Department of Revenue reports that five businesses claimed the existing solar energy equipment tax credit in 2013. Additionally, the Environmental Protection Agency's list references approximately thirty sites in South Carolina. Based upon our analysis of existing solar energy equipment tax credits for business purposes over the past three years, we estimate that five businesses will claim the proposed renewable energy property tax credit in FY 2016-17. Since the credit for each installation of renewable energy property placed in service for business purposes may not exceed \$2,500,000, we estimate that this amendment would reduce General Fund income tax revenue by \$12,500,000 in FY 2016-17 only as this amendment has a year one effective date.

Local Expenditure

N/A

Local Revenue

N/A

Explanation of Bill Filed on March 19, 2015**State Expenditure**

N/A

State Revenue

This bill adds Section 12-6-3370, which provides for a thirty-five percent income tax credit to a business or individual that constructs, purchases, or leases renewable energy property. For business renewable energy property, the credit must be taken in five equal installments beginning with the taxable year in which the property is placed in service. A taxpayer who owns renewable energy property that serves a non-business purpose must take the credit in the taxable year in which the property is placed in service. Renewable energy property is defined as biomass equipment, combined heat and power system property, geothermal equipment, hydroelectric generators, wind equipment, and solar energy equipment that uses solar radiation as a substitute for traditional energy. The credit for each installation of renewable energy property placed in service for a business purpose may not exceed \$2,500,000. Credits for renewable energy property placed in service for non-business purposes range from \$1,400 to \$10,500 based on the type of renewable energy equipment. No credit is allowed for renewable energy property

provided by public funds. Additionally, a taxpayer who claims another credit allowed with respect to renewable energy property may not take the credit allowed in this Section for the same property.

The Department of Revenue reports that five businesses claimed the existing solar energy equipment tax credit in 2013. Based upon our analysis of existing solar energy equipment tax credits for business purposes over the past three years, we estimate that five businesses will claim the proposed renewable energy property tax credit in FY 2016-17 and an additional five businesses will claim the credit each year thereafter through FY 2020-21. Since the credit for each installation of renewable energy property placed in service for a business purpose may not exceed \$2,500,000 and must be taken in five equal installments, we estimate that this bill would reduce General Fund income tax revenue by \$2,500,000 in FY 2016-17 and each year thereafter for a total of \$37,500,000 in FY 2020-21.

Based on data from the Department of Revenue, two hundred fifty-six taxpayers claimed the existing non-business solar energy equipment tax credit for a total of \$625,628 in 2013. Since the credit for non-business renewable energy property must be taken in the taxable year in which the property is placed in service and assuming a similar trend, we estimate this bill would reduce General Fund income tax revenue by \$628,628 in FY 2016-17.

In summary, this bill would reduce General Fund income tax revenue by \$3,125,628 in FY 2016-17. Additionally, General Fund income tax revenue would be reduced by an additional \$2,500,000 in FY 2017-18 and each year thereafter for a total of \$38,125,628 in FY 2020-21.

The estimates represented above are for data on renewable energy equipment. Data on real property eligible under the new renewable energy equipment credit is not available.

Local Expenditure

N/A

Local Revenue

N/A

Frank A. Rainwater, Executive Director