



**SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE**  
**STATEMENT OF ESTIMATED FISCAL IMPACT**  
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Bill Number: H.3908  
 Author: Lowe  
 Requestor: House Ways and Means  
 Date: April 15, 2015  
 Subject: Abandoned Buildings and Revitalization Act  
 RFA Analyst(s): Martin

**Estimate of Fiscal Impact**

	<b>FY 2015-16</b>	<b>FY 2016-17</b>
<b>State Expenditure</b>		
General Fund	N/A	N/A
Other and Federal	N/A	N/A
Full-Time Equivalent Position(s)	0.00	0.00
<b>State Revenue</b>		
General Fund	N/A	N/A
Other and Federal	N/A	N/A
<b>Local Expenditure</b>	N/A	N/A
<b>Local Revenue</b>	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, corporate license fees, and insurance premium tax revenue by an estimated \$6,800,000 in FY2015-16 and by an estimated \$6,800,000 in FY2016-17. The provisions of this act terminate after December 31, 2019; however, any credit earned before the termination may continue to be claimed.

**Explanation of Fiscal Impact**

**State Expenditure**

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

**State Revenue**

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

**Section 1.** 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 to include commercial bank taxes, corporate license fees, and insurance taxes, including retaliatory insurance taxes, or a combination of them. 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.

**Section 2.** 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 50,000 square feet, have been abandoned for more than five years, and were recently owned by the State prior to a taxpayer’s acquisition of the property.

**Section 3.** 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 expand the taxes that a taxpayer may claim a tax credit for actual rehabilitation expenses against to include insurance premium taxes and retaliatory insurance taxes. This section would 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 increasing the annual tax limitation from \$500,000 to \$1,000,000 for the rehabilitation of a state-owned abandoned building. 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**

<b>Abandoned Buildings Revitalization Tax Credit</b>					
	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>
<b>Current</b>					
<b>State (25%) 1/     Limitation 2/</b>	\$3,000,000	\$3,000,000	\$3,000,000	\$3,000,000	\$3,000,000
	<b>\$500,000</b>	<b>\$500,000</b>	<b>\$500,000</b>	<b>\$500,000</b>	<b>\$500,000</b>
<b>H.3908 Proposal</b>	\$7,500,000	\$7,500,000	\$0	\$0	\$0
<b>Limitation Increased</b>	<b>\$1,000,000</b>	<b>\$1,000,000</b>			
<b>Difference</b>	<b>\$500,000</b>	<b>\$500,000</b>			
<b>Tax Credit for a Certified Historic Structure</b>					
	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>
<b>Current</b>					
<b>Federal (20%) 3/     State (10%) 4/     Total Tax Credits</b>	\$2,400,000 \$1,200,000 \$3,600,000	\$2,400,000 \$1,200,000 \$3,600,000	\$2,400,000 \$1,200,000 \$3,600,000	\$2,400,000 \$1,200,000 \$3,600,000	\$2,400,000 \$1,200,000 \$3,600,000
<b>H.3908 Proposal</b>					
<b>Federal (20%) 3/     State (25%)     Total Tax Credits</b>	\$2,400,000 \$7,500,000 \$9,900,000	\$2,400,000 \$7,500,000 \$9,900,000	\$2,400,000 \$0 \$2,400,000	\$2,400,000 \$0 \$2,400,000	\$2,400,000 \$0 \$2,400,000
<b>Difference</b>	<b>\$6,300,000</b>	<b>\$6,300,000</b>			
<b>TOTAL DIFFERENCE</b>	<b>\$6,800,000</b>	<b>\$6,800,000</b>			

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)

This bill increases the \$500,000 tax credit limitation that each taxpayer may claim each year to \$1,000,000 for a state-owned abandoned building, and accelerates the time period the tax credits may be claimed from five years down to two years. Based on the analysis in Table 1, this would result in additional tax credits of \$500,000 claimed in Year 1 and Year 2 of a proposed \$60,000,000 rehabilitation project. 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, corporate license fees, and insurance premium tax revenue by an estimated \$6,800,000 in FY2015-16 and by an estimated \$6,800,000 in FY2016-17.

**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.** The provisions of this act terminate after December 31, 2019; however, any credit earned before the termination may continue to be claimed.

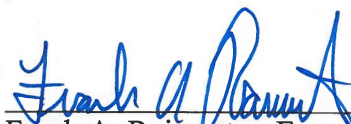
**Section 6.** This act takes effect upon approval by the Governor.

**Local Expenditure**

N/A

**Local Revenue**

N/A

  
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Frank A. Rainwater, Executive Director