



**SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE**  
**STATEMENT OF ESTIMATED FISCAL IMPACT**  
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**Bill Number:** S. 0626 As amended by the House Ways and Means Revenue Policy Subcommittee on May 17, 2016

**Author:** Gregory

**Subject:** Property tax exemption

**Requestor:** House Ways and Means

**RFA Analyst(s):** Jolliff and Wren

**Impact Date:** May 18, 2016

**Estimate of Fiscal Impact**

	<b>FY 2016-17</b>	<b>FY 2017-18</b>
<b>State Expenditure</b>		
General Fund	\$0	\$0
Other and Federal	\$0	\$0
Full-Time Equivalent Position(s)	0.00	0.00
<b>State Revenue</b>		
General Fund	\$0	\$0
Other and Federal	\$0	\$0
<b>Local Expenditure</b>	\$0	\$0
<b>Local Revenue</b>	(\$303,000)	\$0

**Fiscal Impact Summary**

The bill as amended is not expected to impact state expenditures for the General Fund, Federal Funds, or Other Funds.

The bill as amended is not expected to impact General Fund individual income tax revenue as the income tax credit as expanded by Section 12-6-3770(A) of this amendment is limited to an aggregate of \$2,500,000 per tax year. In our analysis of the revenue impact of this section as enacted in Act 134 of 2016 we estimated that the total tax credits for this section would reach the \$2,500,000 aggregate limit.

The bill as amended is not expected to impact local expenditures. We estimate that it will reduce local property tax revenue by \$303,000 in FY 2016-17. The annual property tax revenue loss would be incrementally increased each year based upon the anticipated high growth in the number of renewable energy generation property installations.

**Explanation of Fiscal Impact**

**Explanation of Amendment by the House Ways and Means Revenue Policy Subcommittee on May 17, 2016**

**State Expenditure**

The Department of Revenue (DOR) has responded that the bill is not expected to impact expenditures for the General Fund, Federal Funds, or Other Funds.

## **State Revenue**

The bill as amended amends Section 12-6-3770(A) as enacted by Act 134 of 2016. This act created an income tax credit for solar energy property. The section is amended to include solar energy property located on property owned by the Pinewood Site Custodial Trust. The aggregate of all income tax credits for this section may not exceed \$2,500,000 in a tax year. In our analysis of the revenue impact of Act 134 of 2016 we estimated that the total tax credits for this section would reach the \$2,500,000 aggregate limit. As such, expanding the list of qualifying properties is not expected to have an additional impact on General Fund individual income tax revenue.

## **Local Expenditure**

This bill creates property tax exemptions for renewable energy property. Because we expect that the exemption will impact utility, manufacturing, or business personal property taxes, all of which are assessed by DOR, we do not expect a local expenditure impact from the bill.

## **Local Revenue**

The bill as amended adds two subitems to the property tax exemptions under Section 12-37-220(B). New Subitem 52 exempts 80% of the value of renewable energy property and applies to property taxed as business personal property, manufacturing, or utility property. The exemption applies for ten consecutive property tax years after the facility becomes operational for those in operation between January 1, 2013, and December 31, 2020. For facilities in service in tax year 2013, 2014, or 2015, the exemption applies for ten consecutive years beginning in tax year 2016. Property that became operational in 2013 or 2014 only qualifies for the exemption if the property was not subject to a fee in lieu agreement as of December 31, 2014. Properties that became operational in 2013, 2014, or 2015 and were subject to a fee in lieu agreement as of December 31, 2015, may elect this exemption and must notify the other parties of the agreement within thirty days of the effective date of this item. Further, the amendment specifies that a taxpayer may not claim both the exemption allowed by this item and the manufacturer's exemption in Section 12-37-220(A)(7).

The bill also adds Subitem 53 that provides a full exemption for distributed renewable energy generation property for residential use. In the case of a residential installation, the energy resource property would not be specifically taxed separately from the owner-occupied home. As such, in order for property to qualify for the residential exemption, the renewable energy property would have to be under a lease agreement or other situation in which a business retains ownership.

Based upon data from the SC Energy Office, approximately 831 solar installations are currently in existence with a total capacity of 5,106 kW and may qualify for an exemption as of July 2015. The number of installations is expected to increase dramatically in response to Act 236 of 2014 in upcoming years, and we have anticipated this increase in our estimate. Duke Energy and SCE&G have reported on their expectations for renewable energy property in filings with the Public Service Commission (PSC) in response to the requirements of Act 236 of 2014. Combined, these utilities anticipate approximately 110 commercial installations in calendar year 2015 and an additional 348 in 2016.

For residential installations, Duke and SCE&G are projecting 518 installations for 2015 and 1,693 for 2016. Further, we have assumed that the estimated installations for 2015 are most likely not already captured in the existing installations through July 2015 because the programs implemented by Act 236 did not go into effect until October 2015, and therefore, we anticipate that projections by the utilities for 2015 are most likely for the latter half of 2015.

The value of the installations depends on the energy generation capacity of the property. According to the Energy Office, Duke Energy estimates for commercial property anticipate an average system capacity of 20 kW at a cost of \$3 per watt for an average system value of \$60,000. Residential systems are expected to average 4 kW at a cost of \$3.50 per watt for a cost of \$14,000 per system.

The Energy Office estimates that 66 of the 831 existing solar installations are commercial installations and 765 are residential based upon the capacity of the installations. As previously stated, we do not anticipate that the exemption will be utilized by privately owned residential installations. We have determined from discussions with assessors that residential installations owned by a homeowner are not taxed separately and cannot feasibly be valued separately from a residence.

For the estimated 66 existing commercial installations and using the value projections provided above, we estimate that the total value is approximately \$3,960,000. At an estimated tax year 2016 statewide average millage rate of 341.5 and an assessment ratio of 10.5%, exempting 80% of the value of these properties would reduce property tax revenue for tax year 2016 by approximately \$114,000 in FY 2016-17. This amount may be reduced for any properties placed in service in 2013 or 2014 that were in a fee in lieu agreement as of December 31, 2014, and would not qualify for the exemption. However, we do not have sufficient information to determine which, if any, properties may be impacted.

The value of the 110 additional new commercial installations in 2015 is expected to be \$6,600,000. These properties then would be included in tax filings for tax year 2016. Exempting 80% of this value would reduce property tax revenue by an additional \$189,000 in FY 2016-17. Adding this figure to the projected \$114,000 for existing installations, the total local revenue impact is expected to be \$303,000 in FY 2016-17.

For information, 348 new installations in 2016 are expected to increase the total property value impacted by an additional \$20,880,000. The estimated property tax revenue impact will increase by an additional \$610,000 in FY 2017-18. The annual property tax revenue reduction would be incrementally increased each year based upon the anticipated high growth in the number of installations.

The local property tax reduction estimates provided are for all expected commercial installations. Depending upon the taxpayer, there may be some that would qualify for the manufacturer's property tax abatement in Section 12-37-220(A)(7). To the extent that any of the installations are already exempt manufacturing property, this would reduce the estimated property tax reduction provided.

Assuming that the projected residential installations are privately owned, we do not anticipate a property tax revenue reduction for the new installations in 2015 and 2016. However, businesses could claim the exemption for residential installations that are leased. Although unlikely, if the existing 765 residential installations were all under leases, the total local property tax revenue reduction for these installations would be \$307,000 for FY 2016-17. If all anticipated 518 new residential installations were leased, the total local property tax revenue reduction would be \$260,000 for FY 2016-17. This would increase by \$865,000 in FY 2017-18 for the anticipated 1,693 additional new installations.

### **Explanation of Amendment by the Senate on March 1, 2016**

#### **State Expenditure**

The Department of Revenue (DOR) has responded that the bill is not expected to impact expenditures for the General Fund, Federal Funds, or Other Funds.

#### **State Revenue**

N/A

#### **Local Expenditure**

This bill as amended creates property tax exemptions for renewable energy property. Because we expect that the exemption will impact utility, manufacturing, or business personal property taxes, all of which are assessed by DOR, we do not expect a local expenditure impact from the bill.

#### **Local Revenue**

The amendment adds further qualifications to the requirements in new Subitem 52 of 12-37-220(B) for taxpayers to utilize the exemption for renewable energy generation property. The amendment stipulates that property that became operational in 2013 or 2014 only qualifies for the exemption if the property was not subject to a fee in lieu agreement as of December 31, 2014. Properties placed in service in 2015 and subject to a fee in lieu agreement electing this exemption must notify the other parties of the agreement within thirty days of the effective date of this item.

As outlined in our impact explanation below dated February 17, 2016, we anticipate that this exemption will reduce local property taxes for the estimated 66 commercial installations in existence by approximately \$114,000 in FY 2016-17. This amount may be reduced for any properties placed in service in 2013 or 2014 that were in a fee in lieu agreement and would not qualify for the exemption. However, we do not have sufficient information to determine which, if any, properties may be impacted. The total local revenue impact of the bill as amended of \$303,000 for FY 2016-17 is unchanged from the impact of the bill as amended by the Senate Finance Committee on February 17, 2016.

### **Explanation of Amendment by the Senate Finance Committee on February 17, 2016**

#### **State Expenditure**

The Department of Revenue (DOR) has responded that the bill is not expected to impact expenditures for the General Fund, Federal Funds, or Other Funds.

#### **State Revenue**

N/A

### **Local Expenditure**

This bill as amended creates property tax exemptions for renewable energy property. Because we expect that the exemption will impact utility, manufacturing, or business personal property taxes, all of which are assessed by DOR, we do not expect a local expenditure impact from the bill.

### **Local Revenue**

The bill as amended adds two subitems to the property tax exemptions under Section 12-37-220(B). New Subitem 52 exempts 80% of the value of renewable energy property and applies to property taxed as business personal property, manufacturing, or utility property. The exemption applies for ten consecutive property tax years after the facility becomes operational for those in operation between January 1, 2013, and December 31, 2020. For facilities in service in tax year 2013 and 2014, the exemption applies for ten consecutive years beginning in tax year 2016. Further, the amendment specifies that a taxpayer may not claim both the exemption allowed by this item and the manufacturer's exemption in Section 12-37-220(A)(7).

The bill also adds Subitem 53 that provides a full exemption for distributed renewable energy generation property for residential use. In the case of a residential installation, the energy resource property would not be specifically taxed separately from the owner-occupied home. As such, in order for property to qualify for the residential exemption, the renewable energy property would have to be under a lease agreement or other situation in which a business retains ownership.

Additionally we have updated the revenue impact to reflect the most recent data available. Based upon data from the SC Energy Office, approximately 831 solar installations are currently in existence with a total capacity of 5,106 kW and may qualify for an exemption as of July 2015. The number of installations is expected to increase dramatically in response to Act 236 of 2014 in upcoming years and we have anticipated this increase in our estimate. Based upon information from the SC Energy Office, Duke Energy and SCE&G have reported on their expectations for renewable energy property in filings with the Public Service Commission (PSC) in response to the requirements of Act 236 of 2014. Combined, these utilities anticipate approximately 110 commercial installations in calendar year 2015 and an additional 348 in 2016.

For residential installations, Duke and SCE&G are projecting 518 installations for 2015 and 1,693 for 2016. Further, we have assumed that the estimated installations for 2015 are most likely not already captured in the existing installations through July 2015 because the programs implemented by Act 236 did not go into effect until October 2015, and therefore, we anticipate that projections by the utilities for 2015 are most likely for the latter half of 2015.

The value of the installations depends on the energy generation capacity of the property. According to the Energy Office, Duke Energy estimates for commercial property anticipate an average system capacity of 20 kW at a cost of \$3 per watt for an average system value of \$60,000. Residential systems are expected to average 4 kW at a cost of \$3.50 per watt for a cost of \$14,000 per system.

The Energy Office estimates that 66 of the 831 existing solar installations are commercial installations and 765 are residential based upon the capacity of the installations. As previously stated, we do not anticipate that the exemption will be utilized by privately owned residential installations. We have determined from discussions with assessors that residential installations owned by a homeowner are not taxed separately and cannot feasibly be valued separately from a residence.

For the estimated 66 existing commercial installations and using the value projections provided above, we estimate that the total value is approximately \$3,960,000. At an estimated tax year 2016 statewide average millage rate of 341.5 and an assessment ratio of 10.5%, exempting 80% of the value of these properties would reduce property tax revenue for tax year 2016 by approximately \$114,000 FY 2016-17.

The value of the 110 additional new commercial installations in 2015 is expected to be \$6,600,000 and will increase by an additional \$20,880,000 for 348 new installations in 2016. These properties then would be included in tax filings for tax years 2016 and 2017. Exempting 80% of this value would reduce property tax revenue by an additional \$189,000 in FY 2016-17. The total local revenue impact based upon existing and new commercial installations is expected to be \$303,000 in FY 2016-17. The impact will increase by an additional \$610,000 in FY 2017-18. The annual property tax revenue loss would be incrementally increased each year based upon the anticipated high growth in the number of installations.

The local property tax reduction estimates provided are for all expected commercial installations. Depending upon the taxpayer, there may be some that would qualify for the manufacturer's property tax abatement in Section 12-37-220(A)(7). To the extent that any of the installations are already exempt manufacturing property, this would reduce the estimated property tax reduction provided.

Assuming that the projected residential installations are privately owned, we do not anticipate a property tax revenue reduction for the new installations in 2015 and 2016. However, businesses could claim the exemption for residential installations that are leased. Although unlikely, if the existing 765 residential installations were all under leases, the total local property tax revenue reduction for these installations would be \$307,000 for FY 2016-17. If all anticipated 518 new residential installations were leased, the total local property tax revenue reduction would be \$260,000 for FY 2016-17. This would increase by \$865,000 in FY 2017-18 for the anticipated 1,693 additional new installations.

### **Explanation of Bill Filed on March 26, 2015**

#### **State Expenditure**

The Department of Revenue (DOR) has responded that the bill is not expected to impact expenditures for the General Fund, Federal Funds, or Other Funds.

#### **State Revenue**

N/A

## **Local Expenditure**

This bill creates property tax exemptions for renewable energy property. Because we expect that the exemption will impact utility and/or business personal property taxes, both of which are assessed by DOR, we do not expect a local expenditure impact from the bill.

## **Local Revenue**

The bill adds subitem 52 to Section 12-37-220(B). This exemption is for 80% of the value of renewable energy property and applies to property taxed as business personal property or utility property. The exemption applies for ten consecutive property tax years after the facility becomes operational so long as the facility is in operation by December 31, 2020. The bill also adds subitem 53 that provides a full exemption for distributed renewable energy generation property for residential use. In the case of a residential installation, the energy resource property would not be specifically taxed separately from the owner-occupied home. As such, in order for property to qualify for the residential exemption, the renewable energy property would have to be under a lease agreement or other situation in which a business retains ownership.

Based upon the most recent data available from the SC Energy Office, approximately 581 solar installations are currently in existence with a total capacity of 3,682 kW and may qualify for an exemption. For your information, the number of installations is expected to increase dramatically in response to Act 236 of 2014 in upcoming years and in anticipation of the federal tax credit expiring in December 2016. Based upon information from the SC Energy Office, Duke Energy and SCE&G have reported on their expectations for renewable energy property in filings with the Public Service Commission (PSC) in response to the requirements of Act 236 of 2014. Combined, they anticipate approximately 110 commercial installations in calendar year 2015 and an additional 348 in 2016. For residential installations, Duke and SCE&G are projecting 518 installations for 2015 and 1,693 for 2016.

The value of the installations depends on the energy generation capacity of the property. According to the Energy Office, Duke Energy estimates for commercial property anticipate an average system capacity of 20 kW at a cost of \$3.50 per watt for an average system value of \$70,000. Residential systems are expected to average 4 kW at a cost of \$4 per watt for a cost of \$16,000 per system.

The Energy Office estimates that 42 of the 581 existing solar installations are commercial installations and 539 are residential based upon the capacity of the installations. As previously stated, we do not anticipate that the exemption will be utilized by privately owned residential installations. We have determined from discussions with assessors that residential installations owned by a homeowner are not taxed separately and cannot feasibly be valued separately from a residence. For the estimated 42 commercial installations and using the value projections provided above, we estimate that the total value is approximately \$2,940,000. At an estimated statewide average millage rate of 329.2 and an assessment ratio of 10.5%, exempting 80% of the value of these properties would reduce property tax revenue for tax year 2015 by approximately \$81,000 in FY 2015-16.

For information, the value of the 110 new commercial installations in 2015 is expected to be \$7,700,000 and will increase by an additional \$24,360,000 for 348 new installations in 2016.

These properties then would be included in tax filings for tax years 2016 and 2017. Exempting 80% of this value would reduce property tax revenue by an additional \$216,000 in FY 2016-17 and \$682,000 in FY 2017-18. The annual property tax revenue loss would be incrementally increased each year based upon the anticipated high growth in the number of installations.

Assuming that the projected residential installations are privately owned, we do not anticipate a property tax revenue reduction for the new installations in 2015 and 2016. However, businesses could claim the exemption for residential installations that are leased. If all 518 installations expected for 2015 were leased, the total local property tax revenue reduction would be \$290,000 for FY 2016-17. This would increase by \$948,000 in FY 2017-18 for the anticipated 1,693 additional installations.

A handwritten signature in blue ink, reading "Frank A. Rainwater". The signature is stylized and includes a flourish at the end.

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Frank A. Rainwater, Executive Director