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Indicates New Matter

COMMITTEE REPORT

March 23, 2016

**S. 1075**

Introduced by Senators Campbell, Hayes and Grooms

S. Printed 3/23/16--S. [SEC 3/31/16 2:57 PM]

Read the first time February 10, 2016.

**THE COMMITTEE ON FINANCE**

To whom was referred a Bill (S. 1075) to amend Section 12‑28‑110 of the 1976 Code, relating to definitions pertaining to motor fuels, to amend certain definitions; to amend Section 56‑5‑4160, etc., respectfully

**REPORT:**

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

Amend the bill, as and if amended, by striking all after the enacting words and inserting:

/ SECTION 1. A. Section 12‑28‑110(1) of the 1976 Code is amended to read:

“(1) ‘Alternative fuel’ means a liquefied petroleum gas, liquefied natural gas, compressed natural gas product, or a combination of liquefied petroleum gas and a compressed natural gas product used in an internal combustion engine or motor to propel any form of vehicle, machine, or mechanical contrivance. It includes all forms of fuel commonly or commercially known or sold as butane, propane, liquefied natural gas, or compressed natural gas.”

B. Section 12‑28‑110(39) of the 1976 Code is amended to read:

“(39) ‘Motor fuel’ means gasoline, diesel fuel, substitute fuel, renewable fuel, alternative fuel, and blended fuel.”

C. Section 12‑28‑110(55) of the 1976 Code is amended to read:

“(55) ‘Motor fuel subject to the user fee’ means gasoline, diesel fuel, kerosene, blended fuel, substitute fuel, alternative fuel and blends of them and any other substance blended with them.”

D. Section 12‑28‑110 of the 1976 Code is amended by adding two appropriately numbered items to read:

“( ) ‘Diesel gallon equivalent’ or ‘DGE’ means the amount of liquefied natural gas containing the same energy content as one gallon of diesel. For purposes of calculating the motor fuel user fee on liquefied natural gas that is used or consumed in this State in producing or generating power for propelling a motor vehicle, each 6.06 pounds of liquefied natural gas equals one gallon of motor fuel.

( ) ‘Gasoline gallon equivalent’ or ‘GGE’ means the amount of compressed natural gas or liquefied petroleum gas containing the same energy content as one gallon of gasoline. For purposes of calculating the motor fuel user fee on compressed natural gas or liquefied petroleum gas that is used or consumed in South Carolina in producing or generating power for propelling a motor vehicle, each 126.67 cubic feet of compressed natural gas, or 5.66 pounds if the compressed natural gas is dispensed via a mass flow meter, equals one gallon of motor fuel and each gallon of liquefied petroleum gas equals .73 of a gallon of motor fuel.”

E. Article 1, Chapter 28, Title 12 of the 1976 Code is amended by adding:

“Section 12‑28‑120. For purposes of this chapter, any reference to the term gallon with respect to liquefied natural gas means diesel gallon equivalent (DGE) and any reference to the term gallon with respect to compressed natural gas or liquefied petroleum gas means gasoline gallon equivalent (GGE). For any gaseous product for which a conversion factor is not provided for in this chapter, based on the best information available, the department shall establish a temporary conversion factor to determine the gallon equivalent. The department shall subsequently submit to the General Assembly a recommended legislative change for this conversion factor.”

F. Section 12‑36‑2120(15) of the 1976 Code is amended by adding two appropriately lettered subitems to read:

“( ) natural gas sold to a person with a miscellaneous motor fuel user fee license pursuant to Section 12‑28‑1139 who will compress it to produce compressed natural gas, or cool it to produce liquefied natural gas, for use as a motor fuel and remit the motor fuel user fees as required by law; and

( ) liquefied petroleum gas sold to a person with a miscellaneous motor fuel user fee license pursuant to Section 12‑28‑1139 who will use the liquefied petroleum gas as a motor fuel and remit the motor fuel user fees as required by law;”

G. Section 12‑28‑1125(A) of the 1976 Code is amended to read:

“(A) Each person who wishes to cause motor fuel subject to the user fee to be delivered into this State on his behalf, for his own account, or for resale to a purchaser in this State, from another state ~~in a fuel transport truck or in a pipeline or barge shipment~~ by any means into storage facilities other than a qualified terminal, shall apply and obtain an occasional importer’s license or a bonded importer’s license, at the discretion of the applicant.”

SECTION 2. Section 56‑5‑4160 of the 1976 Code, as last amended by Act 234 of 2008, is further amended by adding an appropriately lettered subsection to read:

“( ) Any motor vehicle that is fueled primarily by natural gas may exceed the gross, single axle, tandem axle, or bridge formula weight limits, including tolerances, by no more than 2,000 pounds each individually weighed, up to a maximum gross vehicle weight of 82,000 pounds on the interstate, by an amount that is equal to the difference between: the weight of the vehicle attributable to the natural gas tank and fueling system carried by that vehicle and the weight of a comparable diesel tank and fueling system. This subsection only applies if the operator of the vehicle can demonstrate that the vehicle is a natural gas vehicle, a biofuel vehicle using natural gas, or a vehicle that has been converted to a natural gas vehicle. The operator shall provide documentation which certifies the difference between the weight of the vehicle attributable to the natural gas tank and fueling system carried by that vehicle and the weight of a comparable diesel tank and fueling system.”

SECTION 3. A. Section 12‑37‑2820(B) of the 1976 Code is amended to read:

“(B) ‘Gross capitalized cost’, as used in this section, means the original cost upon acquisition for income tax purposes, not to include taxes, interest, or cab customizing. However, for a motor vehicle which is fueled wholly or partially by alternative fuel as defined in Section 12‑28‑110(1), and that was acquired after 2015 but before 2026, the gross capitalized cost is reduced by the differential costs of a comparable diesel or gasoline powered vehicle, not to exceed thirty percent of the total acquisition cost of the motor vehicle. This reduction shall apply for the first ten property tax years for which tax is due following the acquisition of the vehicle.”

B. This SECTION first applies to property tax years beginning after 2015.

SECTION 4. A. Article 25, Chapter 6, Title 12 of the 1976 Code is amended by adding:

“Section 12‑6‑3695. (A)(1) A taxpayer who purchases or constructs and installs and places in service in this State eligible property that is used for distribution, dispensing, or storing alternative fuel specified in this subsection, at a new or existing fuel distribution or dispensing facility, is allowed an income tax credit equal to twenty‑five percent of the cost to the taxpayer of purchasing, constructing, and installing the eligible property.

(2) The entire credit may not be taken in the taxable year in which the property is placed in service, but must be taken in three equal annual installments beginning with the taxable year in which the property is placed in service. If, in one of the years in which the installment of a credit accrues, property directly and exclusively used for distributing, dispensing, or storing alternative fuel is disposed of or taken out of service and is not replaced, the credit expires and the taxpayer may not claim any remaining installment of the credit.

(3) The unused portion of an unexpired credit may be carried forward for not more than ten succeeding taxable years.

(4) The taxpayer may transfer any applicable credit associated with this section. To the extent that the taxpayer transfers the credit, the taxpayer must notify the department of the transfer in the manner the department prescribes. Notwithstanding subsection (D), as used in this item, the term ‘taxpayer’ only applies to the State or any agency or instrumentality, authority, or political subdivision, including municipalities.

(5) A taxpayer who claims any other credit allowed pursuant to this article with respect to the costs of constructing and installing a facility may not take the credit allowed in this section with respect to the same costs.

(B) The Department of Revenue may require documentation that it considers necessary to administer the credit.

(C) To claim the credits allowed in this section, the taxpayer must place the property or facility in service before January 1, 2026.

(D) For purposes of this section:

(1) ‘Eligible property’ includes pumps, compressors, storage tanks, and related equipment that is directly and exclusively used for distribution, dispensing, or storing alternative fuel. The equipment used to store, distribute, or dispense alternative fuel must be labeled for this purpose and clearly identified as associated with alternative fuel.

(2) ‘Alternative fuel’ means compressed natural gas, liquefied natural gas, or liquefied petroleum gas, dispensed for use in motor vehicles and compressed natural gas, liquefied natural gas, or liquefied petroleum gas, dispensed by a distributor or facility.

(3) ‘Taxpayer’ means any sole proprietor, partnership, corporation of any classification, limited liability company, or association taxable as a business entity. Also, the word ‘taxpayer’ includes the State or any agency or instrumentality, authority, or political subdivision, including municipalities.”

B. This SECTION first applies to tax years beginning after 2015.

SECTION 5. A. Article 25, Chapter 6, Title 12 of the 1976 Code is amended by adding:

“Section 12‑6‑3697. (A) For purposes of this section:

(1) ‘Alternative fuel’ means liquified petroleum gas, liquified natural gas, or compressed natural gas fuel.

(2) ‘Alternative fuel heavy‑duty vehicle’ means a new or converted commercial vehicle, with a gross vehicle weight ratio equal to or more than 26,001 pounds, which is primarily fueled by an alternative fuel. As used in this paragraph, ‘primarily fueled by an alternative fuel’ means a vehicle that is produced by an original equipment manufacturer or converted by a third‑party equipment manufacturer and operates on ninety percent or more alternative fuel and on ten percent or less gasoline or diesel fuel.

(3) ‘Alternative fuel vehicle’ means a new or converted commercial vehicle, with a gross vehicle weight ratio less than 26,001 pounds, that is fueled solely by an alternative fuel and that is produced by an original equipment manufacturer or converted by a third‑party equipment manufacturer.

(4) ‘Bi‑fuel alternative fuel vehicle’ means a new or converted commercial vehicle with a gross vehicle weight ratio less than 26,001 pounds, that has two separate fuel systems, one of which is fueled by an alternative fuel and the other by conventional gasoline and that is produced by an original equipment manufacturer or a third‑party equipment manufacturer.

(5) ‘Conversion cost’ means the cost that results from modifying a motor vehicle which is propelled by gasoline or diesel to be propelled by an alternative fuel. In the case of a bi‑fuel alternative fuel vehicle, cost conversion means the cost that results from modifying a motor vehicle to be partially propelled by an alternative fuel.

(6) ‘Commercial vehicle’ means any vehicle used for commercial or business purposes owned by a taxpayer.

(7) ‘Incremental cost’ means the cost that results from subtracting the manufacturer’s list price of the motor vehicle operating on conventional gasoline or diesel fuel from the manufacturer’s list price of the same model motor vehicle designed to operate on an alternative fuel.

(8) ‘Taxpayer’ means any sole proprietor, partnership, corporation of any classification, limited liability company, or association taxable as a business entity. Also, the word ‘taxpayer’ includes the State or any agency or instrumentality, authority, or political subdivision, including municipalities.

(B)(1) A taxpayer is allowed an income tax credit of fifty percent of the incremental costs or conversion costs of the amount expended to purchase or convert an alternative fuel heavy‑duty vehicle. The credit may not exceed twelve thousand dollars for each vehicle.

(2) A taxpayer is allowed an income tax credit of fifty percent of the incremental costs or conversion costs of the amount expended to purchase or convert an alternative fuel vehicle. The credit may not exceed eight thousand dollars for each vehicle.

(3) A taxpayer is allowed an income tax credit of fifty percent of the incremental costs or conversion costs of the amount expended to purchase or convert a bi‑fuel alternative fuel vehicle. The credit may not exceed six thousand dollars for each vehicle.

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

(1) 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

(2) 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.

(D) The tax credit is nonrefundable but unused credits may be carried forward for seven years. The seven‑year carry forward period must not be extended due to periods of noncompliance.

(E) The taxpayer may transfer any applicable credit associated with this section. To the extent that the taxpayer transfers the credit, the taxpayer must notify the department of the transfer in the manner the department prescribes. Notwithstanding subsection (A), as used in this subsection, the term ‘taxpayer’ only applies to the State or any agency or instrumentality, authority, or political subdivision, including municipalities.

(F) The department shall produce an appropriate form for the taxpayer to submit certifying the following:

(1) certification from the manufacturer that the vehicle is an alternative fuel heavy‑duty vehicle, alternative fuel vehicle, a bi‑fuel alternative fuel vehicle, or a third‑party equipment manufacturer who possesses a current and legal Certificate of Conformity from the Environmental Protection Agency’s Office of Transportation and Air Quality specific to the qualified alternative fuel vehicle;

(2) a sworn affidavit from the taxpayer certifying that the vehicle will accumulate at least fifty‑one percent of its mileage in South Carolina in each year for a five‑year period, and that the vehicle is registered in this State and will remain registered in South Carolina for no less than five years; and

(3) any other information requested by the department.

(G) The department may promulgate rules and regulations necessary to implement and administer the provisions of this section, including provisions for repayment of any credit in the event any of the certifications are or become untrue during the five‑year period following the date of application.

(H) 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 by the taxpayer among any of its partners or members on an annual basis including, without limitation, an allocation of the entire credit to any partner or member who was a member or partner at any time during the year in which the credit is allocated.

(I) The credit authorized by this section is allowed for purchases or conversions made after December 31, 2015, but before January 1, 2021.”

B. This SECTION first applies to tax years beginning after 2015.

SECTION 6. This act takes effect upon approval by the Governor. /

Renumber sections to conform.

Amend title to conform.

HUGH K. LEATHERMAN, SR. for Committee.

**STATEMENT OF ESTIMATED FISCAL IMPACT**

**Fiscal Impact Summary**

This bill would have no expenditure impact to the general fund, federal funds, or other funds. The bill as amended is expected to reduce general fund revenue by $502,500 from allowing an income tax credit for purchasing or installing an alternative fueling station and $2,250,000 for allowing an income tax credit for the conversion cost or incremental cost of purchasing an alternative fuel vehicle. Motor carrier property tax revenue would be reduced by $72,727 from reducing the gross capitalized cost of alternative fueled vehicles by thirty percent. In sum, the bill would reduce general fund revenue by $2,752,500 and local revenue by $72,727 in FY 2016-17.

**Explanation of Fiscal Impact**

**State Expenditure**

The Department of Revenue indicates that this bill will have no expenditure impact to the general fund, federal funds, or other funds from this bill.

**State Revenue**

**Section 1.** This section amends Section 12-28-110 by adding the term liquefied natural gas to the definition of alternative fuel. It also adds the definition of diesel gallon equivalent to clarify the amount of liquefied natural gas that has the equivalent energy of one gallon of diesel fuel. The Department of Revenue reports that liquefied natural gas is currently taxed at the motor fuel user fee of $0.1675 per gallon, or at the equivalent diesel gallon rate. Therefore, this section of the bill would have no revenue impact.

**Section 2.** Section 56-5-4160, relating to vehicle and load weight, is amended to allow up to an additional two thousand pounds in gross, single axle, tandem axle, or bridge formula weight limits, for any motor vehicle that is fueled, wholly or partially, by natural gas. To be eligible for the exemption, the operator of the vehicle must be able to demonstrate that the vehicle is powered by natural gas. Based upon the most recent data from the U.S. Department of Energy, the number of vehicles that would qualify for the exemption is very small and varies from year to year. Most years zero vehicles would qualify. Therefore, the expected revenue generated from overweight fines from this section is minimal in FY 2016-17.

**Section 4.** This section allows an income tax credit equal to twenty-five percent of the cost to the taxpayer of purchasing, constructing, and installing property that is used for distributing, dispensing, or storing alternative fuel. The credit may be taken in three annual installments beginning with the taxable year in which the property is placed in service. Based upon the most recent information from the U.S. Department of Energy’s Alternative Fuels Data Center, there are currently fifty-six alternative fuel dispensing stations in South Carolina. Based upon data from the U.S. Department of Energy and the Natural Gas Vehicles for America Organization, the average cost of an alternative fuel station is $1,005,000. Applying the expected growth rate of alternative fuel vehicles in South Carolina to the number of alternative fueling stations would result in an additional six fueling stations at a total estimated cost of $6,030,000 in FY 2016-17. The coresponding reduction in income tax revenue from the twenty-five percent tax credit and the three-year installment requirement would be $502,500 in FY 2016-17.

**Section 5.** This section allows a nonrefundable income tax credit for the incremental costs or conversion costs of purchasing or converting an alternative fuel heavy-duty vehicle, alternative fuel vehicle, or bi-fuel alternative vehicle for commercial purposes. The taxpayer is allowed a credit of fifty percent of the incremental or conversion costs not to exceed twelve thousand dollars, eight thousand dollars, or six thousand dollars for an alternative fuel heavy-duty vehicle, alternative fuel vehicle, or bi-fuel alternative vehicle, respectively.

A taxpayer must weigh the options of buying a new qualified alternative vehicle or having an existing vehicle converted to accept the alternative fuel. There are several deciding factors including:

1. A new qualified alternative fueled motor vehicle will cost more up front. An alternative fueled motor vehicle will cost several thousand dollars more than a conventionally fueled motor vehicle.

2. The conversion of an existing motor vehicle to an alternative fueled motor vehicle can range from $8,000 to $12,000, or more, per vehicle.

3. Finding a mechanic that is fully trained and possess all of the necessary certifications and credentials may be difficult. It may cost a repair garage upward of $100,000 to become certified to make vehicle conversions.

4. Finding alternative fuel stations can be difficult. There are less than 1,000 CNG fueling stations across the country. This will hamper the ability of vehicles to take long trips or to reach particular parts of the country.

5. According to the latest figures from the U.S. Department of Energy, *Clean Cities Alternative Fuel Price Report*, the nationwide average price of regular gasoline is $1.98 per gallon and diesel gasoline is $2.23 per gallon. The average price of compressed natural gas is $2.09 per gasoline gallon equivalent.

Based on these points, we believe that a buyer of an alternative fueled vehicle would be better off buying a new alternative fuel vehicle rather than investing in the conversion of an existing conventionally fueled motor vehicle. A buyer would be indifferent to a $10,000 after market conversion by a third party with a ten percent conversion credit versus buying a new alternative fuel motor vehicle that is priced $10,000 higher than a conventional motor vehicle. Based upon the U.S. Department of Energy estimates, there will be 450 new alternative fuel vehicles purchased in FY 2016-17. The average incremental cost of an alternative fuel vehicle is $10,000 for a total of $4,500,000 in FY 2016-17. The corresponding reduction in income tax revenue due to the refundable credit is $2,250,000.

**Local Revenue**

**Section 3.** This section amends the definition of gross capitalized cost so that the valuation basis of a motor vehicle fueled wholly or partially by natural gas or propane is comparable to that of a diesel or gasoline powered vehicle. The gross capitalized cost of a motor vehicle fueled wholly or partially with natural gas or propane is reduced by a dollar amount of thirty percent of its original value. Based upon data from the U.S. Department of Energy, 1.13 % of motor carriers over 26,000 pounds are powered by alternative fuel. Based upon collections from the South Carolina Department of Revenue, the total estimated motor carrier property tax revenue is $21,394,000 for FY 2016-17. The corresponding amount of motor carrier property tax revenue due to alternative vehicles is $242,424 for FY 2016-17. Reducing the valuation basis of these vehicles by thirty percent would result in a $72,727 reduction in motor carrier property tax revenue..

Frank A. Rainwater, Executive Director

Revenue and Fiscal Affairs Office

**STATEMENT OF ESTIMATED FISCAL IMPACT**

**Fiscal Impact Summary**

This bill would have no expenditure impact to the general fund, federal funds, or other funds. The bill as amended is expected to reduce general fund revenue by $371,850 from allowing an income tax credit for purchasing or installing an alternative fueling station and $1,125,000 for allowing an income tax credit for the conversion cost or incremental cost of purchasing an alternative fuel vehicle. Motor carrier property tax revenue would be reduced by $7,253 from reducing the gross capitalized cost of alternative fueled vehicles by thirty percent. In sum, the bill as amended would reduce general fund revenue by $1,496,850 and local revenue by $7,253 in FY 2016-17.

**Explanation of Fiscal Impact**

**Explanation of Amendment by the Senate Finance Sales and Income Tax Subcommittee**

**on March 15, 2016**

**State Expenditure**

The Department of Revenue indicates that this bill will have no expenditure impact to the general fund, federal funds, or other funds.

**State Revenue**

**Section 1.** This section amends Section 12-28-110 by adding the term liquefied natural gas to the definition of alternative fuel. It also adds the definition of diesel gallon equivalent and gasoline gallon equivalent to clarify the amount of natural or petroleum gas that has the equivalent energy of one gallon of diesel or gasoline fuel, respectively. The Department of Revenue reports that liquefied natural gas is currently taxed at the motor fuel user fee of $0.1675 per gallon, or at the equivalent diesel gallon rate.

Section 12-28-120 is also added to clarify that a gallon of liquefied natural gas means diesel gallon equivalent (DGE), and that a gallon of compressed natural gas or liquefied petroleum gas means gasoline gallon equivalent (GGE). For any gaseous product that for which a conversion factor is not provided in this chapter, the Department of Revenue shall determine a conversion factor, based on the best information available, and notify the General Assembly that a legislative change is necessary.

Section 12-36-2120(15) is amended to exempt a taxpayer with a miscellaneous fuel user fee license from remitting the sales and use tax on natural gas and liquefied petroleum gas as an alternative fuel sold to the licensee. Currently, sales and use tax is not levied against the sale of motor fuel. According to the Department of Revenue, there are seventy miscellaneous fuel user fee licenses issued to taxpayers. This section is amended to remove the burden of remitting any motor fuel tax due as the result of withdrawal of motor fuel for personal use from being a statutory requirement to being a voluntary submission.

Section 12-28-1125(A) is amended to allow motor fuel shipped into this state “by any means” into storage facilities, and replaces language that describes several different types of shipping methods of motor fuel. The individual that brings motor fuel into this state would still have to be licensed be the Department of Revenue and obtain an occasional importer’s license or a bonded importer’s license. This section of the bill would have no revenue impact.

**Section 2.** Section 56-5-4160, relating to vehicle and load weight limit, is amended to allow up to an additional two thousand pounds in gross, single axle, tandem axle, or bridge formula weight limits, including tolerances, for any motor vehicle that is fueled primarily by natural gas up to a maximum gross weight of 82,000 pounds on the interstate. To be eligible for the exemption, the operator of the vehicle must be able to demonstrate that the vehicle is powered by natural gas. Based upon the most recent data from the U.S. Department of Energy, the number of vehicles that would qualify for the exemption is very small and varies from year to year. In most years, zero vehicles would qualify. Therefore, the expected revenue generated from overweight fines from this section is minimal in FY 2016-17.

**Section 4.** This section allows an income tax credit equal to twenty-five percent of the cost to the taxpayer of purchasing, constructing, and installing property that is used for distributing, dispensing, or storing alternative fuel. The credit may be taken in three annual installments beginning with the taxable year in which the property is placed in service. Based upon the most recent information from the U.S. Department of Energy’s Alternative Fuels Data Center, there are currently fifty-six alternative fuel dispensing stations in South Carolina. Based upon data from the U.S. Department of Energy and the Natural Gas Vehicles for America Organization, the average cost of an alternative fuel station is $1,005,000. Applying the expected growth rate of alternative fuel vehicles in South Carolina to the number of alternative fueling stations would result in an additional six fueling stations at a total estimated cost of $6,030,000 in FY 2016-17. The unused portion of any unexpired credit may be carried forward for no more than ten succeeding taxable years. Any state agency or instrumentality, authority, or political subdivision, including municipalities may transfer any applicable credit. Based on the corporate income tax credit data from the Department of Revenue’s FY 2013-14 Annual Report, we estimate that seventy-four percent of the earned credits will be used, with the remaining twenty-six percent carried forward. The corresponding reduction in income tax revenue from the twenty-five percent tax credit and the three-year installment requirement would be $371,850 in FY 2016-17.

**Section 5.** This section allows a nonrefundable income tax credit for the incremental cost or conversion cost of purchasing or converting an alternative fuel heavy-duty vehicle, alternative fuel vehicle, or bi-fuel alternative vehicle for commercial purposes. The taxpayer is allowed a credit of fifty percent of the incremental or conversion cost not to exceed twelve thousand dollars, eight thousand dollars, or six thousand dollars for an alternative fuel heavy-duty vehicle, alternative fuel vehicle, or bi-fuel alternative vehicle, respectively. The credit allowed in this section is limited to fifty percent of either the taxpayer’s income tax liability or the taxpayer’s corporate license fees.

A taxpayer must weigh the options of buying a new qualified alternative vehicle or having an existing vehicle converted to accept the alternative fuel. There are several deciding factors including:

1. A new qualified alternative fueled motor vehicle will cost more up front. An alternative fueled motor vehicle will cost several thousand dollars more than a conventionally fueled motor vehicle.

2. The conversion of an existing motor vehicle to an alternative fueled motor vehicle can range from $8,000 to $12,000, or more, per vehicle.

3. Finding a mechanic that is fully trained and possess all of the necessary certifications and credentials may be difficult. It may cost a repair garage upward of $100,000 to become certified to make vehicle conversions.

4. Finding alternative fuel stations can be difficult. There are less than 1,000 CNG fueling stations across the country. This will hamper the ability of vehicles to take long trips or to reach particular parts of the country.

5. According to the latest figures from the U.S. Department of Energy, *Clean Cities Alternative Fuel Price Report*, the nationwide average price of regular gasoline is $1.98 per gallon and diesel gasoline is $2.23 per gallon. The average price of compressed natural gas is $2.09 per gasoline gallon equivalent.

Based on these points, we believe that a buyer of an alternative fueled vehicle would be better off buying a new alternative fuel vehicle rather than investing in the conversion of an existing conventionally fueled motor vehicle. A buyer would be indifferent to a $10,000 after market conversion by a third party with a ten percent conversion credit versus buying a new alternative fuel motor vehicle that is priced $10,000 higher than a conventional motor vehicle. Based upon the U.S. Department of Energy estimates, there will be 450 new alternative fuel vehicles purchased in FY 2016-17. The average incremental cost of an alternative fuel vehicle is $10,000 for a total of $4,500,000 in FY 2016-17. The corresponding reduction in income tax revenue due to the refundable credit is $2,250,000, of which a tax payer may take fifty percent as a credit against either their income tax liability or their corporate license fees for the year. The total estimated reduction in income tax and corporate license fee revenue from this credit is $1,125,000 for FY 2016-17.

**Local Revenue**

**Section 3.** This section amends the definition of gross capitalized cost so that the valuation basis of a motor vehicle fueled wholly or partially by natural gas or propane is comparable to that of a diesel or gasoline powered vehicle. The gross capitalized cost of a motor vehicle fueled wholly or partially with natural gas or propane is reduced by a dollar amount of thirty percent of its original value. The amendment applies only to vehicles acquired after 2015 and before 2026. Based upon collections from the South Carolina Department of Revenue, the total estimated motor carrier property tax revenue is $21,394,000 for FY 2016-17. This estimate reflects flat growth in assessed value for motor carrier property and our anticipation that fleet replacement is slowing compared to recent years. Based upon flat growth in vehicle value and assuming that the value of the existing fleet declines by ten percent for the annual depreciation allowance, ten percent of the estimated revenue, or $2,139,400, is for fleet replacement. Based upon data from the U.S. Department of Energy, 1.13 percent of motor carriers over 26,000 pounds are powered by alternative fuel. Multiplying the estimated $2,139,400 revenue for new vehicles by 1.13 percent yields an estimated $24,175 in motor carrier property tax revenue due to new alternative vehicles for FY 2016-17. Reducing the valuation basis of these vehicles by thirty percent would result in a $7,253 reduction in motor carrier local property tax revenue in FY 2016-17.

**Explanation of Bill Filed February 10, 2016**

**State Expenditure**

The Department of Revenue indicates that this bill will have no expenditure impact on the general fund, federal funds, or other funds.

**State Revenue**

**Section 1.** This section amends Section 12-28-110 by adding the term liquefied natural gas to the definition of alternative fuel. It also adds the definition of diesel gallon equivalent to clarify the amount of liquefied natural gas that has the equivalent energy of one gallon of diesel fuel. The Department of Revenue reports that liquefied natural gas is currently taxed at the motor fuel user fee of $0.1675 per gallon, or at the equivalent diesel gallon rate. Therefore, this section of the bill would have no revenue impact.

**Section 2.** Section 56-5-4160, relating to vehicle and load weight, is amended to allow up to an additional two thousand pounds in gross, single axle, tandem axle, or bridge formula weight limits for any motor vehicle that is fueled, wholly or partially, by natural gas. To be eligible for the exemption, the operator of the vehicle must be able to demonstrate that the vehicle is powered by natural gas. Based upon the most recent data from the U.S. Department of Energy, the number of vehicles that would qualify for the exemption is very small and varies from year to year. In most years, zero vehicles would qualify. Therefore, the expected revenue generated from overweight fines from this section is minimal in FY 2016-17.

**Section 4.** This section allows an income tax credit equal to twenty-five percent of the cost to the taxpayer of purchasing, constructing, and installing property that is used for distributing, dispensing, or storing alternative fuel. The credit may be taken in three annual installments beginning with the taxable year in which the property is placed in service. Based upon the most recent information from the U.S. Department of Energy’s Alternative Fuels Data Center, there are currently fifty-six alternative fuel dispensing stations in South Carolina. Based upon data from the U.S. Department of Energy and the Natural Gas Vehicles for America Organization, the average cost of an alternative fuel station is $1,005,000. Applying the expected growth rate of alternative fuel vehicles in South Carolina to the number of alternative fueling stations would result in an additional six fueling stations for a total estimated cost of $6,030,000 in FY 2016-17. The corresponding reduction in income tax revenue from the twenty-five percent tax credit and the three-year installment requirement would be $502,500 in FY 2016-17.

**Section 5.** This section allows a nonrefundable income tax credit for the incremental costs or conversion costs of purchasing or converting an alternative fuel heavy-duty vehicle, alternative fuel vehicle, or bi-fuel alternative vehicle for commercial purposes. The taxpayer is allowed a credit of fifty percent of the incremental or conversion costs not to exceed twelve thousand dollars, eight thousand dollars, or six thousand dollars for an alternative fuel heavy-duty vehicle, alternative fuel vehicle, or bi-fuel alternative vehicle, respectively.

A taxpayer must weigh the options of buying a new qualified alternative vehicle or having an existing vehicle converted to accept the alternative fuel. There are several deciding factors including:

6. A new qualified alternative fueled motor vehicle will cost more up front. An alternative fueled motor vehicle will cost several thousand dollars more than a conventionally fueled motor vehicle.

7. The conversion of an existing motor vehicle to an alternative fueled motor vehicle can range from $8,000 to $12,000, or more, per vehicle.

8. Finding a mechanic that is fully trained and possess all of the necessary certifications and credentials may be difficult. It may cost a repair garage upward of $100,000 to become certified to make vehicle conversions.

9. Finding alternative fuel stations can be difficult. There are less than 1,000 CNG fueling stations across the country. This will hamper the ability of vehicles to take long trips or to reach particular parts of the country.

10. According to the latest figures from the U.S. Department of Energy, *Clean Cities Alternative Fuel Price Report*, the nationwide average price of regular gasoline is $1.98 per gallon and diesel gasoline is $2.23 per gallon. The average price of compressed natural gas is $2.09 per gasoline gallon equivalent.

Based on these points, we believe that a buyer of an alternative fueled vehicle would be better off buying a new alternative fuel vehicle rather than investing in the conversion of an existing conventionally fueled motor vehicle. A buyer would be indifferent to a $10,000 after market conversion by a third party with a ten percent conversion credit versus buying a new alternative fuel motor vehicle that is priced $10,000 higher than a conventional motor vehicle. Based upon the U.S. Department of Energy estimates, there will be 450 new alternative fuel vehicles purchased in FY 2016-17. The average incremental cost of an alternative fuel vehicle is $10,000 for a total of $4,500,000 in FY 2016-17. The corresponding reduction in income tax revenue due to the refundable credit is $2,250,000.

**Local Revenue**

**Section 3.** This section amends the definition of gross capitalized cost so that the valuation basis of a motor vehicle fueled wholly or partially by natural gas or propane is comparable to that of a diesel or gasoline powered vehicle. The gross capitalized cost of a motor vehicle fueled wholly or partially with natural gas or propane is reduced by a dollar amount of thirty percent of its original value. Based upon data from the U.S. Department of Energy, 1.13% of motor carriers over 26,000 pounds are powered by alternative fuel. Based upon collections from the South Carolina Department of Revenue, the total estimated motor carrier property tax revenue is $21,394,000 for FY 2016-17. The corresponding amount of motor carrier property tax revenue due to alternative vehicles is $242,424 for FY 2016-17. Reducing the valuation basis of these vehicles by thirty percent would result in a $72,727 reduction in motor carrier property tax revenue.

Frank A. Rainwater, Executive Director

Revenue and Fiscal Affairs Office

**A** **BILL**

TO AMEND SECTION 12‑28‑110 OF THE 1976 CODE, RELATING TO DEFINITIONS PERTAINING TO MOTOR FUELS, TO AMEND CERTAIN DEFINITIONS; TO AMEND SECTION 56‑5‑4160 OF THE 1976 CODE, RELATING TO VEHICLE WEIGHTS AND LOADS, TO PROVIDE ADDITIONAL WEIGHT ALLOWANCES FOR MOTOR VEHICLES FUELED BY ALTERNATIVE FUEL; TO AMEND SECTION 12‑37‑2820, RELATING TO THE ASSESSMENT OF MOTOR VEHICLES, TO CLARIFY A DEFINITION AS IT RELATES TO MOTOR VEHICLES FUELED BY ALTERNATIVE FUEL; TO ADD SECTION 12‑6‑3695, RELATING TO INCOME TAX CREDITS, TO ALLOW AN INCOME TAX CREDIT TO A TAXPAYER WHO PURCHASES OR CONSTRUCTS AND INSTALLS AND PLACES IN SERVICE IN THIS STATE ELIGIBLE PROPERTY THAT IS USED FOR DISTRIBUTION, DISPENSING, OR STORING ALTERNATIVE FUEL AT A NEW OR EXISTING FUEL DISTRIBUTION OR DISPENSING FACILITY, AND TO SPECIFY THE AMOUNT OF THE CREDIT AND THE REQUIREMENTS OF THE CREDIT; AND TO ADD SECTION 12‑6‑3697, RELATING TO INCOME TAX CREDITS, TO ALLOW FOR AN INCOME TAX CREDIT FOR THE INCREMENTAL COSTS OR CONVERSION COSTS OF THE AMOUNT EXPENDED TO PURCHASE OR CONVERT AN ALTERNATIVE FUEL HEAVY‑DUTY VEHICLE, ALTERNATIVE FUEL VEHICLE, AND A BI‑FUEL ALTERNATIVE FUEL VEHICLE, AND TO SPECIFY THE AMOUNT OF THE CREDITS AND THE REQUIREMENTS OF THE CREDIT.

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

SECTION 1. A. Section 12‑28‑110(1) of the 1976 Code is amended to read:

“(1) ‘Alternative fuel’ means a liquefied petroleum gas, liquefied natural gas, compressed natural gas product, or a combination of liquefied petroleum gas and a compressed natural gas product used in an internal combustion engine or motor to propel any form of vehicle, machine, or mechanical contrivance. It includes all forms of fuel commonly or commercially known or sold as butane, propane, liquefied natural gas, or compressed natural gas, including natural gas compressed by the purchaser to be used in an internal combustion engine or motor to propel any form of vehicle, machine, or mechanical device.”

B. Section 12‑28‑110(39) of the 1976 Code is amended to read:

“(39) ‘Motor fuel’ means gasoline, diesel fuel, substitute fuel, renewable fuel, alternative fuel, and blended fuel.”

C. Section 12‑28‑110(55) of the 1976 Code is amended to read:

“(55) ‘Motor fuel subject to the user fee’ means gasoline, diesel fuel, kerosene, blended fuel, substitute fuel, alternative fuel and blends of them and any other substance blended with them.”

SECTION 2. Section 56‑5‑4160 of the 1976 Code is amended by adding an appropriately lettered subsection at the end to read:

“( ) Notwithstanding any other provision of this section, a motor vehicle that is fueled, wholly or partially, by alternative fuel as defined by Section 12‑28‑110(1) must be allowed up to an additional two thousand pounds total in gross, single axle, tandem axle, or bridge formula weight limits. To be eligible for this exception, the operator of the vehicle must be able to demonstrate that the vehicle is an alternative fuel vehicle, a bi‑fuel vehicle using alternative fuel, or a vehicle that has been converted to an alternative fuel vehicle. The allowance may not authorize any extension of the limitations provided on federal Interstate highways in this State, unless the limitations or exceptions are authorized by the federal government.”

SECTION 3. Section 12‑37‑2820(B) of the 1976 Code is amended to read:

“(B) ‘Gross capitalized cost’, as used in this section, means the original cost upon acquisition for income tax purposes, not to include taxes, interest, or cab customizing, except for a motor vehicle which is fueled wholly or partially by alternative fuel as defined in Section 12‑28‑110(1), the gross capitalized cost is reduced by a dollar amount of thirty percent in order to equalize the valuation basis with a comparable diesel or gasoline powered vehicle.”

SECTION 4. Article 25, Chapter 6, Title 12 of the 1976 Code is amended by adding:

“Section 12‑6‑3695. (A)(1) A taxpayer who purchases or constructs and installs and places in service in this State eligible property that is used for distribution, dispensing, or storing alternative fuel specified in this subsection, at a new or existing fuel distribution or dispensing facility, is allowed an income tax credit equal to twenty‑five percent of the cost to the taxpayer of purchasing, constructing, and installing the eligible property.

(2) The entire credit may not be taken in the taxable year in which the property is placed in service, but must be taken in three equal annual installments beginning with the taxable year in which the property is placed in service. If, in one of the years in which the installment of a credit accrues, property directly and exclusively used for distributing, dispensing, or storing alternative fuel is disposed of or taken out of service and is not replaced, the credit expires and the taxpayer may not claim any remaining installment of the credit.

(3) The unused portion of an unexpired credit may be carried forward for not more than ten succeeding taxable years.

(4) The taxpayer may transfer any applicable credit associated with this section. To the extent that the taxpayer transfers the credit, the taxpayer must notify the department of the transfer in the manner the department prescribes.

(5) A taxpayer who claims any other credit allowed pursuant to this article with respect to the costs of constructing and installing a facility may not take the credit allowed in this section with respect to the same costs.

(B) The Department of Revenue may require documentation that it considers necessary to administer the credit.

(C) To claim the credits allowed in this section, the taxpayer must place the property or facility in service before January 1, 2026.

(D) For purposes of this section:

(1) ‘Eligible property’ includes pumps, compressors, storage tanks, and related equipment that is directly and exclusively used for distribution, dispensing, or storing alternative fuel. The equipment used to store, distribute, or dispense alternative fuel must be labeled for this purpose and clearly identified as associated with alternative fuel.

(2) ‘Alternative fuel’ means compressed natural gas, liquefied natural gas, or liquefied petroleum gas, dispensed for use in motor vehicles and compressed natural gas, liquefied natural gas, or liquefied petroleum gas, dispensed by a distributor or facility.

(3) ‘Taxpayer’ means any sole proprietor, partnership, corporation of any classification, limited liability company, or association taxable as a business entity. Also, the word ‘taxpayer’ includes the State or any agency or instrumentality, authority, or political subdivision, including municipalities.”

SECTION 5. Article 25, Chapter 6, Title 12 of the 1976 Code is amended by adding:

“Section 12‑6‑3697. (A) For purposes of this section:

(1) ‘Alternative fuel’ means liquid petroleum gas, liquid natural gas, or compressed natural gas fuel.

(2) ‘Alternative fuel heavy‑duty vehicle’ means a new or converted commercial vehicle, with a gross vehicle weight rating equal to or more than 26,001 pounds, which is primarily fueled by an alternative fuel. As used in this paragraph, ‘primarily fueled by an alternative fuel’ means a vehicle that is produced by an original equipment manufacturer or converted by a third‑party equipment manufacturer and operates on ninety percent or more alternative fuel and on ten percent or less gasoline or diesel fuel.

(3) ‘Alternative fuel vehicle’ means a new or converted commercial vehicle, with a gross vehicle weight ratio less than 26,001 pounds, that is fueled solely by an alternative fuel and that is produced by an original equipment manufacturer or converted by a third‑party equipment manufacturer.

(4) ‘Bi‑fuel alternative fuel vehicle’ means a new or converted commercial vehicle with a gross vehicle weight ratio less than 26,001 pounds, that has two separate fuel systems, one of which is fueled by an alternative fuel and the other by conventional gasoline and that is produced by an original equipment manufacturer or a third‑party equipment manufacturer.

(5) ‘Conversion cost’ means the cost that results from modifying a motor vehicle which is propelled by gasoline or diesel to be propelled by an alternative fuel. In the case of a bi‑fuel alternative fuel vehicle, the cost that results from modifying a motor vehicle to be partially propelled by an alternative fuel.

(6) ‘Commercial vehicle’ means any vehicle used for commercial or business purposes owned by a taxpayer.

(7) ‘Incremental cost’ means the cost that results from subtracting the manufacturer’s list price of the motor vehicle operating on conventional gasoline or diesel fuel from the manufacturer’s list price of the same model motor vehicle designed to operate on an alternative fuel.

(8) ‘Taxpayer’ means any sole proprietor, partnership, corporation of any classification, limited liability company, or association taxable as a business entity. Also, the word ‘taxpayer’ includes the State or any agency or instrumentality, authority, or political subdivision, including municipalities.

(B)(1) A taxpayer is allowed an income tax credit of fifty percent of the incremental costs or conversion costs of the amount expended to purchase or convert an alternative fuel heavy‑duty vehicle. The credit may not exceed twelve thousand dollars for each vehicle.

(2) A taxpayer is allowed an income tax credit of fifty percent of the incremental costs or conversion costs of the amount expended to purchase or convert an alternative fuel vehicle. The credit may not exceed eight thousand dollars for each vehicle.

(3) A taxpayer is allowed an income tax credit of fifty percent of the incremental costs or conversion costs of the amount expended to purchase or convert a bi‑fuel alternative fuel vehicle. The credit may not exceed six thousand dollars for each vehicle.

(C) The tax credit is nonrefundable but unused credits may be carried forward for ten years. The ten‑year carry forward period must not be extended due to periods of noncompliance.

(D) The taxpayer may transfer any applicable credit associated with this section. To the extent that the taxpayer transfers the credit, the taxpayer must notify the department of the transfer in the manner the department prescribes.

(E) The department shall produce an appropriate form for the taxpayer to submit certifying the following:

(1) certification from the manufacturer that the vehicle is an alternative fuel heavy‑duty vehicle, alternative fuel vehicle, or a bi‑fuel alternative fuel vehicle or a third‑party equipment manufacturer who possesses a current and legal Certificate of Conformity from the Environmental Protection Agency’s Office of Transportation and Air Quality specific to the qualified alternative fuel vehicle;

(2) a sworn affidavit from the taxpayer certifying that the vehicle is registered in this State and remains registered in South Carolina for no less than five years; and

(3) any other information requested by the department.

(F) The department may promulgate rules and regulations necessary to implement and administer the provisions of this section, including provisions for repayment of any credit in the event any of the certifications are or become untrue during the ten‑year period following the date of application.

(G) The credit authorized by this section is allowed for purchases or conversions made after December 31, 2015, but before January 1, 2026.”

SECTION 6. This act takes effect upon approval by the Governor, with SECTION 3 applying to property tax years after 2015, and SECTION 4 and 5 applying for tax years after 2015.

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