



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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|------------------------|------------------|-------------------------------|
| Bill Number: | S. 0329 | Introduced on January 8, 2019 |
| Author: | Cromer | |
| Subject: | Tax Credits | |
| Requestor: | Senate Finance | |
| RFA Analyst(s): | Gallagher | |
| Impact Date: | February 1, 2019 | |

Fiscal Impact Summary

This bill will reduce General Fund income tax revenue by \$1,978,351 in FY 2019-20, \$2,024,843 in FY 2020-21 and \$2,127,300 in FY 2021-22, at which time the credit will be repealed. This is due to the extension of the sunset provision from January 1, 2019, to January 1, 2022, for the income tax credit for the purchase and installation of geothermal machinery and equipment.

Explanation of Fiscal Impact

Introduced on January 8, 2019

State Expenditure

This bill will not have an expenditure impact on the General Fund, Other Funds, or Federal Funds for the Department of Revenue. Section 12-6-3587 allows a twenty-five percent income tax credit for the costs incurred by the taxpayer in the purchase and installation of specific residential renewable energy equipment, including geothermal machinery and equipment. As the tax credit is already in place, extending the sunset provision will not have an operational or fiscal impact on the agency.

State Revenue

This bill extends the sunset provision related to the 25 percent state tax credit allowed for the purchase and installation of geothermal machinery and equipment from January 1, 2019, to January 1, 2022.

Based on individual income tax data from the Department of Revenue, the number of state taxpayers claiming residential renewable energy tax credits was 2,281 in 2016 for a total of \$8,911,537. The tax credit on the 2016 state income form reports the combined total for solar, small hydropower, and geothermal machinery and equipment systems. According to the U.S. Energy Information Administration's (EIA) Monthly Energy Review, geothermal energy consumption accounts for approximately 20.6 percent of total residential renewable energy from solar and geothermal sources. Utilizing this figure, we estimate that the credit for geothermal machinery and equipment totaled \$1,835,820 for 470 credits in tax year 2016, an average tax credit of \$3,906.

The EIA's Monthly Energy Review reports that geothermal energy consumption increased by approximately 6 percent in 2016 and 2017, and 5 percent in 2018. The EIA's Annual Energy Outlook Report projects similar growth in the sector in upcoming years. Applying the EIA's

growth projections in Table 1, the amount of geothermal credits is estimated to remain fairly consistent from FY 2019-20 through FY 2021-22.

| ESTIMATE OF TOTAL CREDIT AMOUNT | | | | | |
|---------------------------------|----------|-------------|---------|--------------------|---------------|
| Fiscal Year | Tax Year | Growth Rate | Credits | Average tax credit | Credit Amount |
| FY 2016-17 | TY 2016 | - | 470 | \$3,906 | \$1,835,820 |
| FY 2017-18 | TY 2017 | 5.93% | 498 | \$3,906 | \$1,944,684 |
| FY 2018-19 | TY 2018 | 5.04% | 523 | \$3,906 | \$2,042,696 |
| FY 2019-20 | TY 2019 | -3.15% | 506 | \$3,906 | \$1,978,351 |
| FY 2020-21 | TY 2020 | 2.35% | 518 | \$3,906 | \$2,024,843 |
| FY 2021-22 | TY 2021 | 5.06% | 545 | \$3,906 | \$2,127,300 |

Source: U.S. Energy Information Administration growth rates and RFA estimates

Without this extension, no additional tax credits would be expected, thereby increasing General Fund revenues. Therefore, extending the tax credit is expected to reduce General Fund individual tax revenue by \$1,978,351 in FY 2019-20, \$2,024,843 in FY 2020-21 and \$2,127,300 in FY 2021-22, at which time the credit will be repealed.

Local Expenditure

N/A

Local Revenue

N/A

Frank A. Rainwater, Executive Director