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COMMITTEE REPORT

February 20, 2019

**S. 329**

Introduced by Senators Cromer, Scott, Verdin, Reese and Nicholson

S. Printed 2/20/19--S.

Read the first time January 8, 2019.

**THE COMMITTEE ON FINANCE**

To whom was referred a Bill (S. 329)

to provide that tax credits for the purchase of geothermal machinery and equipment shall be repealed on January 1, 2022., etc., respectfully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 SECTION 2 and inserting:

/ SECTION 2. This act takes effect upon approval by the Governor and applies to tax years beginning after 2018. The provisions of Section 12-6-3587, as they existed on December 31, 2018, are re-enacted, and the tax credits earned pursuant to this act shall be earned and claimed under the same terms and conditions as they existed on December 31, 2018. This act shall continue to apply until such time as Section 12-6-3587, or parts thereof, are otherwise repealed, mutatis mutandis. /

Renumber sections to conform.

Amend title to conform.

HUGH K. LEATHERMAN, SR. for Committee.

**STATEMENT OF ESTIMATED FISCAL IMPACT**

**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 Reve**n**ue**

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 Credits Average Credit

Rate tax 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.

Frank A. Rainwater, Executive Director

Revenue and Fiscal Affairs Office

**A** **BILL**

TO PROVIDE THAT TAX CREDITS FOR THE PURCHASE OF GEOTHERMAL MACHINERY AND EQUIPMENT SHALL BE REPEALED ON JANUARY 1, 2022.

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

SECTION 1. SECTION 2.B. of Act 134 of 2016 is amended to read:

“B. The provisions contained in this section related to geothermal machinery and equipment are repealed January 1, ~~2019~~ 2022.”

SECTION 2. This act takes effect upon approval by the Governor.

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