



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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This fiscal impact statement is produced in compliance with the South Carolina Code of Laws and House and Senate rules. The focus of the analysis is on governmental expenditure and revenue impacts and may not provide a comprehensive summary of the legislation.

Bill Number:	H. 3340	Introduced on January 12, 2021
Author:	Bailey	
Subject:	License tax credits	
Requestor:	House Ways and Means	
RFA Analyst(s):	Coomer	
Impact Date:	September 10, 2021	

Fiscal Impact Summary

This bill increases the maximum annual license tax credit amount for eligible infrastructure projects for utility companies beginning in tax year 2021 from \$400,000 to \$600,000, increases the carryforward period for this credit, and provides for an additional higher maximum license tax credit limit for projects in Tier II, III, and IV counties of up to \$750,000. Because this is an increase to an existing credit, the bill is not expected to impact expenditures for the Department of Revenue (DOR) to administer the change.

This bill is expected to decrease General Fund revenues by an undetermined amount if utilities claim the increased maximum credit amount or if utilities claim additional credits due to the change in the carryforward period from one year to three years. From tax year 2017 to 2019, the average total credit amount claimed was \$7,985,000 per year for 31 tax returns, and the average credit per return was \$260,000. Because all utilities are not claiming the maximum license tax credit of \$400,000 currently, it is unlikely that the increase in the maximum allowable credit will increase claims for all tax returns. However, data are not available to determine the number of companies that will reach the new maximum, locations for upcoming projects that will reach the maximum, or the carryforward amounts that will be used due to extending the carryforward period. For reference, if a quarter of current returns were to claim an increased credit amount of \$200,000, then General Fund Corporate License revenues would decrease by approximately \$1,500,000. However, given the lack of available data to estimate the changes, the potential decrease in General Fund Corporate License tax revenue beginning in FY 2021-22 is undetermined.

Explanation of Fiscal Impact

Introduced on January 12, 2021

State Expenditure

This bill increases the maximum annual license tax credit amount for eligible infrastructure projects for utility companies pursuant to Section 12-20-105 from \$400,000 to \$600,000 dollars and allows for unused credits to be carried forward for three tax years. The bill also provides for an additional increase in the maximum license tax credit at graduated amounts up to \$150,000 for eligible projects in Tier II, III, and IV counties based upon the Jobs Tax Credit county

designations. Because this an increase to an existing credit, this bill is not expected to impact expenditures for DOR for the administration of the credit.

State Revenue

This bill increases the maximum annual license tax credit amount for eligible infrastructure projects for utility and electric cooperative companies from \$400,000 to \$600,000 dollars beginning in tax year 2021 and allows for unused credits to be carried forward for three tax years. The bill also provides for an additional targeted increase in the maximum license tax credit of \$50,000, \$100,000, or \$150,000 for eligible projects in Tier II, III, and IV counties, respectively.

Currently, utilities must pay \$1 in license tax for each \$1,000 of fair market property owned and used within the state, as well as \$3 for each \$1,000 of gross services rendered from regulated business within the state. Utilities may claim a tax credit against license taxes for the amount paid to provide infrastructure for an eligible project. Eligible projects include projects that qualify for specific tax credits such as job development credits, projects such as office, business, or industrial parks for economic development constructed by a government entity, and others. The current maximum credit per company per tax year is \$400,000, and the credit can only be carried forward to the next taxable year.

Figure 1. Corporate License Infrastructure Credit Summary by Tax Year

Tax Year	2017	2018	2019	Average
Number claiming credit	28	35	29	31
Total credit amount claimed	\$7,455,521	\$9,288,530	\$7,211,839	\$7,985,297
Average credit per return	\$266,269	\$265,387	\$248,684	\$260,113

Note: Data based on RFA summary of returns by tax year.

A summary of the current Corporate License Infrastructure credits for tax years 2017 through 2019 appears above in Figure 1. On average, 31 companies claimed the license tax credit each year in South Carolina. The average total credit amount claimed was approximately \$7,985,000 per year, and the average credit per return was \$260,000.

Because the average amount of the credit claimed per return is below the current maximum amount allowed of \$400,000, increasing the maximum credit amount to between \$600,000 and \$750,000, depending on the county in which the project is located, is not likely to increase the credits claimed for all companies. RFA contacted the Office of Regulatory Staff, but data regarding future utility infrastructure projects are not available. Certain companies may claim the increased credit limit, but data are unavailable to determine the number of companies that will claim additional credits due to the increase in the limit or which projects will be in Tier II, III, and IV counties and subject to a higher limit.

Further, increasing the number of carryforward years from one to three may allow utilities to claim unused credits. In DOR’s report on this credit for calendar year 2019, companies earned \$8,312,166 in credits on returns processed during 2019 but applied only \$7,854,192 against tax liabilities. The difference of \$457,974 is from carryforwards utilized by taxpayers and from the

inability to fully utilize earned credits. However, data are not available to estimate the carryforward amounts that are not used in the following tax year and currently expire. This bill would allow companies to carryforward those credits for an additional two tax years and may result in companies utilizing more of their earned credits.

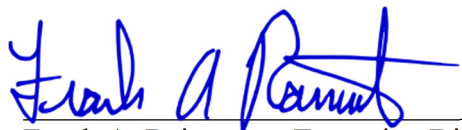
Given these uncertainties, we are unable to accurately estimate the potential increase in credit utilization. For reference, if a quarter of current returns were to claim an increased credit amount of \$200,000, then General Fund Corporate License revenues would decrease by approximately \$1,500,000. However, given the lack of available data, this bill is expected to decrease General Fund Corporate License revenues by an undetermined amount beginning in FY 2021-22 due to the increase in the maximum credit allowed and the extended carryforward period.

Local Expenditure

N/A

Local Revenue

N/A



Frank A. Rainwater, Executive Director