



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	Amended by House Ways and Means on March 31, 2022
Author:	Bailey	
Subject:	License Tax Credits	
Requestor:	House of Representatives	
RFA Analyst(s):	Coomer	
Impact Date:	April 4, 2022	

Fiscal Impact Summary

This bill as amended 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, expands the definition of qualifying infrastructure improvements, 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 as amended is not expected to impact expenditures for the Department of Revenue (DOR) to administer the change.

This bill as amended is expected to decrease General Fund revenue by an undetermined amount if utilities claim the increased maximum credit amount. Additionally, the provisions for expanding the definition of qualifying infrastructure improvements may allow for companies to reach the maximum credit amount more easily. 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 or the locations for upcoming projects that will reach the maximum. For reference, if a quarter of current returns were to claim an increased credit amount of \$200,000, then General Fund corporate license fee revenue 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 2022-23 is undetermined.

Explanation of Fiscal Impact

Amended by House Ways and Means on March 31, 2022

State Expenditure

This bill as amended 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 and expands the definition of qualifying infrastructure improvements to include cash paid for defraying public debt incurred to pay for infrastructure. The bill as amended 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 as amended is not expected to impact expenditures for DOR for the administration of the credit.

State Revenue

This bill as amended increases the maximum annual license tax credit amount for eligible infrastructure projects for utility and electric cooperative companies from \$400,000 to \$600,000 beginning in tax year 2022 and expands the definition of qualifying infrastructure improvements to include cash paid for defraying public debt incurred to pay for infrastructure. The bill as amended 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	\$7,985,000
Average credit per return	\$266,269	\$265,387	\$248,684	\$260,000

Note: Data based on RFA summary of returns by tax year. Figures may be rounded.

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 by the new maximum amount. However, expanding the definition of qualifying infrastructure improvements to include cash paid for defraying public debt incurred to pay for infrastructure may allow for certain companies to reach the maximum credit amount more easily. 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.

Given these uncertainties, the potential increase in credit utilization is undetermined. For reference, if a quarter of current returns were to claim an increased credit amount of \$200,000, then General Fund corporate license revenue would decrease by approximately \$1,500,000. However, given the lack of available data, this bill as amended is expected to decrease General Fund corporate license revenue by an undetermined amount beginning in FY 2022-23 due to the increase in the maximum credit allowed and the expanded definition of qualifying infrastructure improvements.

Local Expenditure

N/A

Local Revenue

N/A

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



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