Bill Number:	H. 4817 Introduced on January 19, 2022
Author:	Ligon
Subject:	Shortline Railroad Modernization Act
Requestor:	House Ways and Means
RFA Analyst(s):	Coomer
Impact Date:	March 10, 2022

Fiscal Impact Summary

This bill creates a new income tax credit for Class II and Class III railroads based on qualified railroad reconstruction or replacement expenditures, as well as qualified new rail infrastructure expenditures. Any portion of the tax credit not used during the year of qualification may be carried forward for each of the five years following that year, and the credit can be transferred to any other eligible transferee.

This bill will have no fiscal impact on the Department of Commerce (Commerce) because the agency plans to direct the Division of Public Railways, known as Palmetto Railways, to fulfill the duties of the bill. All related application fees will go to the entity and are expected to cover any operations that cannot be handled with existing entity resources.

This bill will have no expenditure impact on the Department of Revenue (DOR) because the agency can account for any expenditures related to allocating the new tax credit to eligible taxpayers using existing resources.

This bill will decrease General Fund individual income tax, corporate income tax, bank tax, or insurance premium tax revenues, or some combination thereof, by up to $5,000,000 annually in FY 2022-23 through FY 2026-27. However, the timing of this impact will depend on the actual claiming of the credits and any carryforward available for five additional years. The impact may be less than $5,000,000 annually depending on the number of miles of track refurbished each year and the number of new miles of track constructed.

Explanation of Fiscal Impact

Introduced on January 19, 2022
State Expenditure
This bill creates a new income tax credit for Class II and Class III railroads, as classified by the United States Surface Transportation Board, based on qualified railroad reconstruction or replacement expenditures, as well as qualified new rail infrastructure expenditures.

Commerce is required to administer the tax credit, which includes developing standards for preapproval of the credit, reviewing applications and development plans submitted by eligible taxpayers within seventy-five days of filing, imposing application fees, reviewing verification of completed projects, providing information to DOR, and reporting to House Ways and Means Committee and Senate Finance Committee annually, among other things. This bill will have no expenditure impact on Commerce because the agency plans to direct the Division of Public Railways, known as Palmetto Railways, to fulfill the duties of the bill. All related application fees will go to the entity and are expected to cover any operations that cannot be handled with existing entity resources.

Additionally, DOR is required to allocate the new income tax credit to eligible taxpayers. DOR reports that the agency can account for any expenditures related to this bill using existing resources.

State Revenue

This bill creates a new income tax credit for Class II and Class III railroads, as classified by the United States Surface Transportation Board, based on qualified railroad reconstruction or replacement expenditures, as well as qualified new rail infrastructure expenditures. The credit can be taken against individual income tax, corporate income tax, bank tax, or insurance premium tax. Eligible taxpayers are allowed an income tax credit equal to 50 percent of their qualified railroad reconstruction or replacement expenditures. For each eligible taxpayer, the amount of this credit may not exceed $5,000 times the number of miles of railroad track owned or leased within the State by the taxpayer. Additionally, eligible taxpayers are allowed an income tax credit equal to 50 percent of their qualified new rail infrastructure expenditures. For each eligible taxpayer, the amount of the new rail construction credit may not exceed $500,000 per project, and the total amount of the new rail construction credit may not exceed $3,000,000 annually. The total amount of credits for both reconstruction or replacement expenditures and new rail construction expenditures cannot exceed $5,000,000 per year. Any portion of the granted tax credit not used during the year of qualification may be carried forward for each of the five years following that year, and the credit can be transferred to any other eligible transferee. Lastly, the provisions of this bill, upon passage, apply to income tax years beginning after December 31, 2021, and are repealed on December 31, 2026, although a credit may continue to be claimed to its conclusion if earned before the repeal.

Table 1 below lists shortline railways, which mostly fall into the Class II or III categorization, within the state and their estimated miles of track. The Division of Public Railways does business as Palmetto Railways and would be ineligible for the income tax credit. As a result, there are an estimated 281 miles of eligible shortline track in the state.

Table 1. South Carolina Shortline Railways

Railroad	Owner	Estimated Track Miles
Aiken Railway	Western Carolina Railway	19
Carolina Piedmont	G&W	34
Carolina Southern	RJ Corman	51
Charity Church	Palmetto Railways	17
Greenville & Western	Western Carolina Railway	13
Hampton & Branchfield	Palmetto Railways	40
Lancaster & Chester	Gulf & Ohio	60
Pee Dee River Railway	Aberdeen & Rockfish	25
Pickens Railway	Pickens Railway	37
Charleston & North Charleston Yards	Palmetto Railways	5
South Carolina Central	G&W	42
Total		343

Source: South Carolina Department of Commerce

According to the America Short Line and Regional Railroad Association, shortline railroads spend about 24 percent of revenue on track rehabilitation annually. Based upon national data listed in Table 2, shortline railroads spend an estimated $23,444 per mile annually on refurbishment. Using this figure, we estimate that eligible railroads in the state spend approximately $6,588,000 in total on maintenance each year. This greatly exceeds the total reconstruction credit allotment of $5,000 times the number of miles of eligible shortline track.

Table 2. National Shortline Railroad Statistics

Total Miles of Shortline Track	47,500
Total Annual Revenue	$4.64 billion
Annual Revenue / Mile	$97,684
Annual Rehabilitation Cost / Mile	$23,444

Source: America Short Line and Regional Railroad Association

Additionally, Aberdeen Carolina & Western Railway Company, a shortline railroad in North Carolina, estimates that new track construction costs between $1,000,000 and $2,000,000 per mile. It is not clear, however, how much new shortline railroad track construction takes place annually because most shortline railroad businesses operate existing track that has been purchased or leased from Class I railroads. Because of this, it is difficult to estimate how much will be spent annually on new track construction.

Given the uncertainties related to projected new rail construction and rail refurbishment, we estimate that this bill will decrease General Fund individual income tax, corporate income tax, bank tax, or insurance premium tax, or some combination thereof, by up to $5,000,000 annually in FY 2022-23 through FY 2026-27. However, the timing of this impact will depend on the actual claiming of the credits and could extend for five additional years based on the allowable carryforward provision. The impact may be less than $5,000,000 annually depending on the number of miles of track refurbished each year and the number of new miles of track constructed.

Furthermore, this bill creates an application fee equal to one percent of qualified reconstruction or replacement expenditures, not to exceed $2,500. The Division of Public Railways will fulfill the duties of the bill and receive related application fees, the amount of which will depend on the number of applications.

Local Expenditure
N/A

Local Revenue
N/A

Frank A. Rainwater, Executive Director