



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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Bill Number: H. 3874 As amended by Senate Finance Subcommittee on May 19, 2015
 Author: Mitchell
 Requestor: Senate Finance
 Date: May 20, 2015
 Subject: Renewable energy property
 RFA Analyst(s): Wren

Estimate of Fiscal Impact

	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
State Expenditure					
General Fund	N/A	N/A	N/A	N/A	N/A
Other and Federal	N/A	N/A	N/A	N/A	N/A
Full-Time Equivalent Position(s)	0.00	0.00	0.00	0.00	0.00
State Revenue					
General Fund	(\$2,500,000)	(\$5,000,000)	(\$7,500,000)	(\$10,000,000)	(\$12,500,000)
Other and Federal	N/A	N/A	N/A	N/A	N/A
Local Expenditure	N/A	N/A	N/A	N/A	N/A
Local Revenue	N/A	N/A	N/A	N/A	N/A

Fiscal Impact Summary

This amendment would reduce General Fund income tax revenue by \$2,500,000 in FY 2016-17. Additionally, General Fund income tax revenue would be reduced by an additional \$2,500,000 in FY 2017-18 and each year thereafter for a total of \$12,500,000 in FY 2020-21.

Explanation of Fiscal Impact

Explanation of Amendment (May 19, 2015) – By Senate Finance Subcommittee

State Expenditure

N/A

State Revenue

This amendment reduces the credit for renewable energy property from thirty-five percent to twenty-five percent. Additionally, the credit is limited to property that is located on the Environmental Protection Agency’s National Priority List, National Priority List Equivalent Sites, or on a list of related removal actions, as certified by the Department of Health and Environmental Control. The credit must be taken in five equal annual installments on a first come first serve basis and the aggregate of credits may not exceed \$2,500,000 in a taxable year for all taxpayers. Also, the type of solar energy equipment has been limited to nonresidential solar energy equipment with a nameplate capacity of at least two thousand kilowatts that uses

solar radiation as a substitute for traditional energy for water heating, active space heating and cooling, passive heating, daylighting, generating electricity, distillation, desalination, detoxification, or the production of industrial or commercial process heat. Also included are related devices necessary for collecting, storing, exchanging, conditioning, or converting solar energy to other useful forms of energy.

The Department of Revenue reports that five businesses claimed the solar energy tax credit in 2013. We do not have sufficient data to determine the type of solar energy equipment included in this tax credit. Additionally, the Environmental Protection Agency's National Priority List references approximately thirty sites in South Carolina. However, we do not have data to determine if any of the existing solar energy tax credits are related to these sites, or if they are certified by the Department of Health and Environmental Control. Based upon our analysis of solar energy equipment tax credits for business purposes over the past three years, we estimate that five businesses will claim the tax credit in FY 2016-17. Since the credit for each installation of renewable energy property placed in service for a business purpose may not exceed \$2,500,000, we estimate a total of \$12,500,000 in credits. Adjusting for the fact that the tax credit must be taken in five equal installments and that the aggregate of credits for all taxpayers may not exceed \$2,500,000 in a taxable year, it is estimated that this bill would reduce General Fund income tax revenue by an estimated \$2,500,000 in FY 2016-17. Additionally, General Fund income tax revenue would also be reduced by \$2,500,000 in FY 2017-18 and each year thereafter for a total of \$12,500,000 in FY 2020-21.

Explanation of Amendment (April 29, 2015) – By the Ways and Means Committee State Revenue

This amendment limits the thirty-five percent tax credit for renewable energy property to property that is located on the Environmental Protection Agency's National Priority List, National Priority List Equivalent Sites, and related removal actions. Additionally, this amendment removes the reference that the credit may be taken in five equal installments. No additional changes were made to the language in the bill as filed on March 19, 2015.

The Department of Revenue reports that five businesses claimed the solar energy tax credit in 2013. We do not have sufficient data to determine the type of solar energy equipment included in this tax credit. Additionally, the Environmental Protection Agency's National Priority List references approximately thirty sites in South Carolina. However, we do not have data to determine if any of the existing solar energy tax credits are related to these sites. Based upon our analysis of solar energy equipment tax credits for business purposes over the past three years, we estimate that five businesses will claim the tax credit in FY 2016-17. Since the credit for each installation of renewable energy property placed in service for a business purpose may not exceed \$2,500,000, we estimate a total of \$12,500,000 in credits in FY 2016-17. Therefore, this amendment would reduce General Fund income tax revenue by \$12,500,000 in FY 2016-17.

Explanation of Bill filed March 19, 2015 State Revenue

This bill adds Section 12-6-3770, which provides for a thirty-five percent income tax credit to a business or individual that constructs, purchases, or leases renewable energy property. For business renewable energy property, the credit must be taken in five equal installments beginning

with the taxable year in which the property is placed in service. A taxpayer who owns renewable energy property that serves a non-business purpose must take the credit in the taxable year in which the property is placed in service. Renewable energy property is defined as biomass equipment, combined heat and power system property, geothermal equipment, hydroelectric generators, solar energy equipment that uses solar radiation as a substitute for traditional energy, and wind equipment. The credit for each installation of renewable energy property placed in service for a business purpose may not exceed two million five hundred thousand dollars. Credits for renewable energy property placed in service for non-business purposes range from one thousand four hundred dollars to ten thousand five hundred dollars based on the type of solar energy equipment. No credit is allowed for renewable energy property provided by public funds. Additionally, a taxpayer who claims another credit allowed with respect to renewable energy property may not take the credit allowed in this Section for the same property.

The Department of Revenue reports that five businesses claimed the solar energy tax credit in 2013. Based upon our analysis of solar energy equipment tax credits for business purposes over the past three years, we estimate that five businesses will claim the tax credit in FY 2016-17. Since the credit for each installation of renewable energy property placed in service for a business purpose may not exceed \$2,500,000, we estimate a total of \$12,500,000 in credits. Adjusting for the fact that the tax credit must be taken in five equal installments, it is estimated that this bill would reduce General Fund income tax revenue by an estimated \$2,500,000 in FY 2016-17. Additionally, General Fund income tax revenue would also be reduced by \$2,500,000 in FY 2017-18 and each year thereafter through FY 2020-21.

Based on data from the Department of Revenue, two hundred fifty-six taxpayers claimed the existing non-business solar energy tax credit for a total of \$625,628 in 2013. Since the credit for non-business renewable energy property must be taken in the taxable year in which the property is placed in service and assuming a similar trend, we estimate this bill will reduce General Fund income tax by \$625,628 beginning in FY 2016-17.

In summary, this bill would reduce General Fund income tax revenue by \$3,125,628 in FY 2016-17. Additionally, General Fund income tax revenue would be reduced by an additional \$2,500,000 in FY 2017-18 and each year thereafter for a total of \$13,125,628 in FY 2020-21.

The estimates represented above are for data on solar energy equipment. Data on real property eligible under the new renewable energy equipment credit is not available.

Local Expenditure

N/A

Local Revenue

N/A



Frank A. Rainwater, Executive Director