



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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Bill Number: H. 3874 As recalled from Senate Finance Committee on June 3, 2015
Author: Mitchell
Subject: Renewable energy property
Requestor: Senate
RFA Analyst(s): Wren
Impact Date: December 10, 2015 - Updated for revised analysis and fiscal impact

Estimate of Fiscal Impact

	FY 2016-17	FY 2017-18
State Expenditure		
General Fund	\$0	\$0
Other and Federal	\$0	\$0
Full-Time Equivalent Position(s)	0.00	0.00
State Revenue		
General Fund	\$12,500,000	\$0
Other and Federal	\$0	\$0
Local Expenditure	\$0	\$0
Local Revenue	\$0	\$0

Fiscal Impact Summary

This bill would reduce General Fund income tax revenue by \$12,500,000 in FY 2016-17.

Explanation of Fiscal Impact

Explanation of Bill as Recalled From Senate Finance Committee on June 3, 2015

State Expenditure

N/A

State Revenue

Since this bill was recalled from the Senate Finance Committee, the current version of the bill reverts back to the amendment adopted by the House on April 29, 2015. This amendment limits the thirty-five percent tax credit for renewable energy property that is located on the Environmental Protection Agency’s National Priority List, National Priority List Equivalent Sites, and related removal actions. This amendment also removes the requirement that the credit must be taken in five installments and removes the reference of renewable energy systems used for non-business purposes.

The Department of Revenue reports that five businesses claimed the existing solar energy equipment tax credit in 2013. Additionally, the Environmental Protection Agency’s list references approximately thirty sites in South Carolina. Based upon our analysis of existing solar energy equipment tax credits for business purposes over the past three years, we estimate that five businesses will claim the proposed renewable energy property tax credit in FY 2016-17. Since the credit for each installation of renewable energy property placed in service for business

purposes may not exceed \$2,500,000, we estimate that this amendment would reduce General Fund income tax revenue by \$12,500,000 in FY 2016-17 only as this amendment has a year one effective date.

Local Expenditure

N/A

Local Revenue

N/A

Explanation of Amendment by Senate Finance Subcommittee on May 19, 2015

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 and 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 equipment has been limited for non-residential purposes 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 existing solar energy equipment tax credit in 2013. Additionally, the Environmental Protection Agency's National Priority List references approximately thirty sites in South Carolina. Based upon our analysis of existing solar energy equipment tax credits for business purposes over the past three years, we estimate that five businesses will claim the proposed renewable energy property tax credit in FY 2016-17. Since the credit for each installation of renewable energy property placed in service for business purposes may not exceed \$2,500,000, must be taken in five equal installments, and the aggregate of credits for all taxpayers may not exceed \$2,500,000 in a taxable year, we estimate that this amendment would reduce General Fund income tax revenue by \$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.

Local Expenditure

N/A

Local Revenue

N/A

Explanation of Amendment by the House on April 29, 2015

State Expenditure

N/A

State Revenue

This amendment limits the thirty-five percent tax credit for renewable energy property that is located on the Environmental Protection Agency's National Priority List, National Priority List Equivalent Sites, and related removal actions. This amendment also removes the requirement that the credit must be taken in five installments and removes the reference of renewable energy systems used for non-business purposes.

The Department of Revenue reports that five businesses claimed the existing solar energy equipment tax credit in 2013. Additionally, the Environmental Protection Agency's list references approximately thirty sites in South Carolina. Based upon our analysis of existing solar energy equipment tax credits for business purposes over the past three years, we estimate that five businesses will claim the proposed renewable energy property tax credit in FY 2016-17. Since the credit for each installation of renewable energy property placed in service for business purposes may not exceed \$2,500,000, we estimate that this amendment would reduce General Fund income tax revenue by \$12,500,000 in FY 2016-17 only as this amendment has a year one effective date.

Local Expenditure

N/A

Local Revenue

N/A

Explanation of Bill Filed on March 19, 2015

State Expenditure

N/A

State Revenue

This bill adds Section 12-6-3370, 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, wind equipment, and solar energy equipment that uses solar radiation as a substitute for traditional energy. The credit for each installation of renewable energy property placed in service for a business purpose may not exceed \$2,500,000. Credits for renewable energy property placed in service for non-business purposes range from \$1,400 to \$10,500 based on the type of renewable 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 existing solar energy equipment tax credit in 2013. Based upon our analysis of existing solar energy equipment tax credits for business purposes over the past three years, we estimate that five businesses will claim the proposed renewable energy property tax credit in FY 2016-17 and an additional five businesses will claim the credit each year thereafter through FY 2020-21. Since the credit for each installation of renewable energy property placed in service for a business purpose may not exceed \$2,500,000 and must be taken in five equal installments, we estimate that this bill would reduce General Fund income tax revenue by \$2,500,000 in FY 2016-17 and each year thereafter for a total of \$37,500,000 in FY 2020-21.

Based on data from the Department of Revenue, two hundred fifty-six taxpayers claimed the existing non-business solar energy equipment 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 would reduce General Fund income tax revenue by \$628,628 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 \$38,125,628 in FY 2020-21.

The estimates represented above are for data on renewable 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