



**SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE**  
**STATEMENT OF ESTIMATED FISCAL IMPACT**  
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**Bill Number:** S. 1075 As amended by the Senate Finance Sales and Income Tax Subcommittee on March 15, 2016  
**Author:** Campbell  
**Subject:** Income Tax Credit  
**Requestor:** Senate Finance  
**RFA Analyst(s):** Dunbar and Jolliff  
**Impact Date:** March 22, 2016

**Estimate of Fiscal Impact**

	<b>FY 2016-17</b>	<b>FY 2017-18</b>
<b>State Expenditure</b>		
General Fund	\$0	\$0
Other and Federal	\$0	\$0
Full-Time Equivalent Position(s)	0.00	0.00
<b>State Revenue</b>		
General Fund	(\$1,496,850)	\$0
Other and Federal	\$0	\$0
<b>Local Expenditure</b>	\$0	\$0
<b>Local Revenue</b>	(\$7,253)	\$0

**Fiscal Impact Summary**

This bill would have no expenditure impact to the General Fund, Federal Funds, or Other Funds. The bill as amended is expected to reduce General Fund revenue by \$371,850 from allowing an income tax credit for purchasing or installing an alternative fueling station and \$1,125,000 for allowing an income tax credit for the conversion cost or incremental cost of purchasing an alternative fuel vehicle. Motor carrier property tax revenue would be reduced by \$7,253 from reducing the gross capitalized cost of alternative fueled vehicles by thirty percent. In sum, the bill as amended would reduce General Fund revenue by \$1,496,850 and local revenue by \$7,253 in FY 2016-17.

**Explanation of Fiscal Impact**

**Explanation of Amendment by the Senate Finance Sales and Income Tax Subcommittee on March 15, 2016**

**State Expenditure**

The Department of Revenue indicates that this bill will have no expenditure impact to the General Fund, Federal Funds, or Other Funds.

**State Revenue**

**Section 1.** This section amends Section 12-28-110 by adding the term liquefied natural gas to the definition of alternative fuel. It also adds the definition of diesel gallon equivalent and gasoline gallon equivalent to clarify the amount of natural or petroleum gas that has the equivalent energy of one gallon of diesel or gasoline fuel, respectively. The Department of

Revenue reports that liquefied natural gas is currently taxed at the motor fuel user fee of \$0.1675 per gallon, or at the equivalent diesel gallon rate.

Section 12-28-120 is also added to clarify that a gallon of liquefied natural gas means diesel gallon equivalent (DGE), and that a gallon of compressed natural gas or liquefied petroleum gas means gasoline gallon equivalent (GGE). For any gaseous product that for which a conversion factor is not provided in this chapter, the Department of Revenue shall determine a conversion factor, based on the best information available, and notify the General Assembly that a legislative change is necessary.

Section 12-36-2120(15) is amended to exempt a taxpayer with a miscellaneous fuel user fee license from remitting the sales and use tax on natural gas and liquefied petroleum gas as an alternative fuel sold to the licensee. Currently, sales and use tax is not levied against the sale of motor fuel. According to the Department of Revenue, there are seventy miscellaneous fuel user fee licenses issued to taxpayers. This section is amended to remove the burden of remitting any motor fuel tax due as the result of withdrawal of motor fuel for personal use from being a statutory requirement to being a voluntary submission.

Section 12-28-1125(A) is amended to allow motor fuel shipped into this state “by any means” into storage facilities, and replaces language that describes several different types of shipping methods of motor fuel. The individual that brings motor fuel into this state would still have to be licensed by the Department of Revenue and obtain an occasional importer’s license or a bonded importer’s license. This section of the bill would have no revenue impact.

**Section 2.** Section 56-5-4160, relating to vehicle and load weight limit, is amended to allow up to an additional two thousand pounds in gross, single axle, tandem axle, or bridge formula weight limits, including tolerances, for any motor vehicle that is fueled primarily by natural gas up to a maximum gross weight of 82,000 pounds on the interstate. To be eligible for the exemption, the operator of the vehicle must be able to demonstrate that the vehicle is powered by natural gas. Based upon the most recent data from the U.S. Department of Energy, the number of vehicles that would qualify for the exemption is very small and varies from year to year. In most years, zero vehicles would qualify. Therefore, the expected revenue generated from overweight fines from this section is minimal in FY 2016-17.

**Section 4.** This section allows an income tax credit equal to twenty-five percent of the cost to the taxpayer of purchasing, constructing, and installing property that is used for distributing, dispensing, or storing alternative fuel. The credit may be taken in three annual installments beginning with the taxable year in which the property is placed in service. Based upon the most recent information from the U.S. Department of Energy’s Alternative Fuels Data Center, there are currently fifty-six alternative fuel dispensing stations in South Carolina. Based upon data from the U.S. Department of Energy and the Natural Gas Vehicles for America Organization, the average cost of an alternative fuel station is \$1,005,000. Applying the expected growth rate of alternative fuel vehicles in South Carolina to the number of alternative fueling stations would result in an additional six fueling stations at a total estimated cost of \$6,030,000 in FY 2016-17. The unused portion of any unexpired credit may be carried forward for no more than ten succeeding taxable years. Any state agency or instrumentality, authority, or political

subdivision, including municipalities may transfer any applicable credit. Based on the corporate income tax credit data from the Department of Revenue's FY 2013-14 Annual Report, we estimate that seventy-four percent of the earned credits will be used, with the remaining twenty-six percent carried forward. The corresponding reduction in income tax revenue from the twenty-five percent tax credit and the three-year installment requirement would be \$371,850 in FY 2016-17.

**Section 5.** This section allows a nonrefundable income tax credit for the incremental cost or conversion cost of purchasing or converting an alternative fuel heavy-duty vehicle, alternative fuel vehicle, or bi-fuel alternative vehicle for commercial purposes. The taxpayer is allowed a credit of fifty percent of the incremental or conversion cost not to exceed twelve thousand dollars, eight thousand dollars, or six thousand dollars for an alternative fuel heavy-duty vehicle, alternative fuel vehicle, or bi-fuel alternative vehicle, respectively. The credit allowed in this section is limited to fifty percent of either the taxpayer's income tax liability or the taxpayer's corporate license fees.

A taxpayer must weigh the options of buying a new qualified alternative vehicle or having an existing vehicle converted to accept the alternative fuel. There are several deciding factors including:

1. A new qualified alternative fueled motor vehicle will cost more up front. An alternative fueled motor vehicle will cost several thousand dollars more than a conventionally fueled motor vehicle.
2. The conversion of an existing motor vehicle to an alternative fueled motor vehicle can range from \$8,000 to \$12,000, or more, per vehicle.
3. Finding a mechanic that is fully trained and possess all of the necessary certifications and credentials may be difficult. It may cost a repair garage upward of \$100,000 to become certified to make vehicle conversions.
4. Finding alternative fuel stations can be difficult. There are less than 1,000 CNG fueling stations across the country. This will hamper the ability of vehicles to take long trips or to reach particular parts of the country.
5. According to the latest figures from the U.S. Department of Energy, *Clean Cities Alternative Fuel Price Report*, the nationwide average price of regular gasoline is \$1.98 per gallon and diesel gasoline is \$2.23 per gallon. The average price of compressed natural gas is \$2.09 per gasoline gallon equivalent.

Based on these points, we believe that a buyer of an alternative fueled vehicle would be better off buying a new alternative fuel vehicle rather than investing in the conversion of an existing conventionally fueled motor vehicle. A buyer would be indifferent to a \$10,000 after market conversion by a third party with a ten percent conversion credit versus buying a new alternative fuel motor vehicle that is priced \$10,000 higher than a conventional motor vehicle. Based upon the U.S. Department of Energy estimates, there will be 450 new alternative fuel vehicles

purchased in FY 2016-17. The average incremental cost of an alternative fuel vehicle is \$10,000 for a total of \$4,500,000 in FY 2016-17. The corresponding reduction in income tax revenue due to the refundable credit is \$2,250,000, of which a tax payer may take fifty percent as a credit against either their income tax liability or their corporate license fees for the year. The total estimated reduction in income tax and corporate license fee revenue from this credit is \$1,125,000 for FY 2016-17.

### **Local Expenditure**

N/A

### **Local Revenue**

**Section 3.** This section amends the definition of gross capitalized cost so that the valuation basis of a motor vehicle fueled wholly or partially by natural gas or propane is comparable to that of a diesel or gasoline powered vehicle. The gross capitalized cost of a motor vehicle fueled wholly or partially with natural gas or propane is reduced by a dollar amount of thirty percent of its original value. The amendment applies only to vehicles acquired after 2015 and before 2026. Based upon collections from the South Carolina Department of Revenue, the total estimated motor carrier property tax revenue is \$21,394,000 for FY 2016-17. This estimate reflects flat growth in assessed value for motor carrier property and our anticipation that fleet replacement is slowing compared to recent years. Based upon flat growth in vehicle value and assuming that the value of the existing fleet declines by ten percent for the annual depreciation allowance, ten percent of the estimated revenue, or \$2,139,400, is for fleet replacement. Based upon data from the U.S. Department of Energy, 1.13 percent of motor carriers over 26,000 pounds are powered by alternative fuel. Multiplying the estimated \$2,139,400 revenue for new vehicles by 1.13 percent yields an estimated \$24,175 in motor carrier property tax revenue due to new alternative vehicles for FY 2016-17. Reducing the valuation basis of these vehicles by thirty percent would result in a \$7,253 reduction in motor carrier local property tax revenue in FY 2016-17.

### **Explanation of Bill Filed February 10, 2016**

#### **State Expenditure**

The Department of Revenue indicates that this bill will have no expenditure impact on the General Fund, Federal Funds, or Other Funds.

#### **State Revenue**

**Section 1.** This section amends Section 12-28-110 by adding the term liquefied natural gas to the definition of alternative fuel. It also adds the definition of diesel gallon equivalent to clarify the amount of liquefied natural gas that has the equivalent energy of one gallon of diesel fuel. The Department of Revenue reports that liquefied natural gas is currently taxed at the motor fuel user fee of \$0.1675 per gallon, or at the equivalent diesel gallon rate. Therefore, this section of the bill would have no revenue impact.

**Section 2.** Section 56-5-4160, relating to vehicle and load weight, is amended to allow up to an additional two thousand pounds in gross, single axle, tandem axle, or bridge formula weight limits for any motor vehicle that is fueled, wholly or partially, by natural gas. To be eligible for the exemption, the operator of the vehicle must be able to demonstrate that the vehicle is powered by natural gas. Based upon the most recent data from the U.S. Department of Energy,

the number of vehicles that would qualify for the exemption is very small and varies from year to year. In most years, zero vehicles would qualify. Therefore, the expected revenue generated from overweight fines from this section is minimal in FY 2016-17.

**Section 4.** This section allows an income tax credit equal to twenty-five percent of the cost to the taxpayer of purchasing, constructing, and installing property that is used for distributing, dispensing, or storing alternative fuel. The credit may be taken in three annual installments beginning with the taxable year in which the property is placed in service. Based upon the most recent information from the U.S. Department of Energy's Alternative Fuels Data Center, there are currently fifty-six alternative fuel dispensing stations in South Carolina. Based upon data from the U.S. Department of Energy and the Natural Gas Vehicles for America Organization, the average cost of an alternative fuel station is \$1,005,000. Applying the expected growth rate of alternative fuel vehicles in South Carolina to the number of alternative fueling stations would result in an additional six fueling stations for a total estimated cost of \$6,030,000 in FY 2016-17. The corresponding reduction in income tax revenue from the twenty-five percent tax credit and the three-year installment requirement would be \$502,500 in FY 2016-17.

**Section 5.** This section allows a nonrefundable income tax credit for the incremental costs or conversion costs of purchasing or converting an alternative fuel heavy-duty vehicle, alternative fuel vehicle, or bi-fuel alternative vehicle for commercial purposes. The taxpayer is allowed a credit of fifty percent of the incremental or conversion costs not to exceed twelve thousand dollars, eight thousand dollars, or six thousand dollars for an alternative fuel heavy-duty vehicle, alternative fuel vehicle, or bi-fuel alternative vehicle, respectively.

A taxpayer must weigh the options of buying a new qualified alternative vehicle or having an existing vehicle converted to accept the alternative fuel. There are several deciding factors including:

6. A new qualified alternative fueled motor vehicle will cost more up front. An alternative fueled motor vehicle will cost several thousand dollars more than a conventionally fueled motor vehicle.
7. The conversion of an existing motor vehicle to an alternative fueled motor vehicle can range from \$8,000 to \$12,000, or more, per vehicle.
8. Finding a mechanic that is fully trained and possess all of the necessary certifications and credentials may be difficult. It may cost a repair garage upward of \$100,000 to become certified to make vehicle conversions.
9. Finding alternative fuel stations can be difficult. There are less than 1,000 CNG fueling stations across the country. This will hamper the ability of vehicles to take long trips or to reach particular parts of the country.
10. According to the latest figures from the U.S. Department of Energy, *Clean Cities Alternative Fuel Price Report*, the nationwide average price of regular gasoline is \$1.98

per gallon and diesel gasoline is \$2.23 per gallon. The average price of compressed natural gas is \$2.09 per gasoline gallon equivalent.

Based on these points, we believe that a buyer of an alternative fueled vehicle would be better off buying a new alternative fuel vehicle rather than investing in the conversion of an existing conventionally fueled motor vehicle. A buyer would be indifferent to a \$10,000 after market conversion by a third party with a ten percent conversion credit versus buying a new alternative fuel motor vehicle that is priced \$10,000 higher than a conventional motor vehicle. Based upon the U.S. Department of Energy estimates, there will be 450 new alternative fuel vehicles purchased in FY 2016-17. The average incremental cost of an alternative fuel vehicle is \$10,000 for a total of \$4,500,000 in FY 2016-17. The corresponding reduction in income tax revenue due to the refundable credit is \$2,250,000.

### **Local Expenditure**

N/A

### **Local Revenue**

**Section 3.** This section amends the definition of gross capitalized cost so that the valuation basis of a motor vehicle fueled wholly or partially by natural gas or propane is comparable to that of a diesel or gasoline powered vehicle. The gross capitalized cost of a motor vehicle fueled wholly or partially with natural gas or propane is reduced by a dollar amount of thirty percent of its original value. Based upon data from the U.S. Department of Energy, 1.13% of motor carriers over 26,000 pounds are powered by alternative fuel. Based upon collections from the South Carolina Department of Revenue, the total estimated motor carrier property tax revenue is \$21,394,000 for FY 2016-17. The corresponding amount of motor carrier property tax revenue due to alternative vehicles is \$242,424 for FY 2016-17. Reducing the valuation basis of these vehicles by thirty percent would result in a \$72,727 reduction in motor carrier property tax revenue.



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Frank A. Rainwater, Executive Director