



**SOUTH CAROLINA
REVENUE AND FISCAL AFFAIRS OFFICE**

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Executive Director

September 20, 2022

Mr. W. Hartley Powell
Director
South Carolina Department of Revenue
P.O. Box 125
Columbia, SC 29214

Dear Mr. Powell:

This letter is to provide you with our estimates for the 2022 Individual Income tax credit for preventative maintenance on a motor vehicle pursuant to S.C. Code of Laws Section 12-6-3780. This is the final year of the tax credit. Because of the interest in this issue, I am using this opportunity to share more details about our analysis and the risks and other factors affecting our estimate. If you or your staff have any questions, please do not hesitate to contact us.

This code section allows a resident taxpayer to claim a refundable income tax credit for preventive vehicle maintenance on private passenger motor vehicles as defined in Section 56-3-630, including motorcycles, registered in this state. The credit may not exceed the lesser of the resident's actual motor fuel user fee increase incurred as a result of the increases imposed in Section 12-28-310(D) or the amount the resident pays for vehicle maintenance. Vehicle maintenance includes, but is not limited to, costs incurred for new tires, oil changes, and regular vehicle maintenance. A taxpayer may claim the credit for up to two qualifying vehicles. Total credits are limited to a maximum by tax year, which is \$114,000,000 for 2022.

The Revenue and Fiscal Affairs Office (RFA) is required to estimate the number of taxpayers expected to claim the credit for each tax year and the total amount expected to be claimed annually on or before September 30th. If RFA estimates that the total credits claimed will exceed the maximum amount of the aggregate credit allowed, RFA shall certify to the Department of Revenue (DOR) the pro rata adjustment to the credit.

We have reviewed DOR's guidance for the credit and the experience of the first four years of the credit and considered these factors in our analysis. Our estimates are based upon the experience of these four years and consideration of the risks of over or under

estimating claims for the credit. Further, we have considered the decrease in motor fuel purchases during 2020 and 2021 as a result of the COVID-19 pandemic and decreased travel. We believe that this drop in consumption is unlikely to repeat in 2022 to the same extent, given that traffic counts have returned to normal levels.

The following table provides data from DOR and estimates by RFA regarding the first four years of the tax credit.

Total Amount of Vehicle Maintenance Credits Claimed and Number of Taxpayers

Year	Taxpayers	Dollars	Average Credit	Proration	Average Gallons
YTD as of September					
Tax Year 2018	81,079	\$1,973,450	\$24	63.4%	1,280
Tax Year 2019	79,185	\$3,394,320	\$43	78.6%	1,116
Tax Year 2020	67,493	\$4,220,125	\$63	100.0%	893
Tax Year 2021	71,266	\$5,875,384	\$82	100.0%	749
Final - Actual and Estimated					
Tax year 2018	82,448	\$2,009,421	\$24	63.4%	1,281
Tax Year 2019	79,862	\$3,435,974	\$43	78.6%	1,120
Tax Year 2020	68,272	\$4,280,956	\$63	100.0%	896
Tax Year 2021 (e)	72,089	\$5,943,197	\$82	100.0%	749
Average 2018 to 2020 (e)	76,887	\$3,239,705	\$43	n/a	1,098

Source: Department of Revenue; e-Estimates by SC RFA

The credit may not exceed the actual motor fuel user fee increase incurred by a taxpayer as a result of the increase in Section 12-28-310(D) or actual maintenance expenses. Section 12-28-310(D) increased the current \$0.16 per gallon motor fuel user fee by \$0.02 per gallon each year for six years, for a total increase of \$0.12 per gallon. The first increase occurred July 1, 2017, and has continued each July 1 thereafter until July 1, 2022. However, the credit must be claimed for increases incurred on a tax year basis. Therefore, we have estimated the motor fuel increase based upon one-half of the increase for each fiscal year. The increase was \$0.10 for January through June of 2022

and then \$0.12 for July through December, resulting in an average increase of \$0.11 in 2022.

Taxpayers claimed an average credit of \$24 in 2018, \$43 in 2019, \$63 in 2020, and \$82 in 2021 thus far. These amounts translate into estimated total gallons of 1,281, 1,120, 893, and 749 on average each year.

Estimate, Risks, and Potential Impacts

The major issues and risk factors are determining how many taxpayers will actually claim the credit. Tax years 2018 to 2021 had a very low claim rate relative to our estimates of the number of eligible vehicles, as shown in the table below. As such, many more taxpayers are eligible to claim the credit.

Estimated Eligible Vehicles and Total Potential Credits

Tax Year	Estimated Eligible Vehicles	Average Credit	Potential Total Credits	Maximum Total Credits Allowed
TY 2018	4,050,100	\$15	\$62,453,000	\$40,000,000
TY 2019	4,136,096	\$26	\$107,125,000	\$65,000,000
TY 2020	4,182,230	\$31	\$129,398,000	\$85,000,000
TY 2021	4,337,766	\$46	\$201,531,000	\$110,000,000
TY 2022	4,401,223	\$57	\$249,060,000	\$114,000,000

Source: Department of Motor Vehicles, Vehicle Registrations; U.S. Dept. of Transportation Highway Statistics projected gallons; Calculations by RFA; figures reflect latest updates to estimates

In developing the estimate, therefore, we considered the implications of how an inaccurate estimate would impact the taxpayer, the State's General Fund, and the Infrastructure Maintenance Fund.

In Section 12-6-3780, the Department of Transportation (DOT) is required to transfer sufficient funds to DOR by January 31st to offset the estimated total credit, as the credit is not intended to impact the General Fund. If the amount transferred from the Safety Maintenance Fund to DOR is not sufficient to fund the total estimated credits, DOT is required to transfer sufficient funds to offset the credit fully. If the total credit amount claimed by all taxpayers in a tax year is less than the amount transferred by DOT, then the excess reverts back to DOT as soon as practicable within the same year that the transfer occurred.

Conversely, if the estimate and required transfer are less than the actual amount of the credits claimed, the credit would still be credited or refunded as part of DOR's normal income tax processing system, but the difference would have to be absorbed by the General Fund as the statute does not provide for an alternate source.

Although the statute allows for a pro rata adjustment of the credit to guard against issuing credits in excess of the annual maximum, an incorrect pro rata adjustment could impact the taxpayer or the General Fund, and our analysis considered the risk to both parties. If a pro rata adjustment is made but fewer taxpayers take the credit than estimated, then the amount of credit is too low, and taxpayers who took the credit could have received a higher amount. This event occurred with the tax credit for 2018 and 2019. However, if the pro rata adjustment is not low enough, more taxpayers take the credit, and total credits exceed the transfer, then the additional credits are paid by the General Fund. For 2021, we did not recommend a pro-rata adjustment to the tax credit assuming that the total claims would not exceed the maximum, and taxpayers can receive the maximum credit available.

The major issue in this analysis, therefore, is estimating how many taxpayers actually will claim the credit. We continue to be concerned about over or under estimating taxpayer compliance and the resulting impact.

Conclusion

In making our estimate for tax year 2022, we considered the economic and financial data, as well as the risks of an inaccurate estimate and settled on the following conclusion:

First, we believe the data and process for estimating the full potential amount of credits based upon eligible vehicles and an average of 514 gallons per vehicle is reasonable and totals \$249,060,000.

The next step would then be determining how many taxpayers are likely to take the credit and whether a proration is necessary so that the total credits do not exceed the maximum. Given the experience of the most recent three years, it is unlikely that total credits will reach the maximum allowed of \$114,000,000 or that a proration to limit the total to this maximum is necessary. Therefore, so long as a pro-rata adjustment is not required, over or under estimating the potential claims does not impact the taxpayer, only the required transfer from DOT and the potential impact on the General Fund.

In the case of over estimating the credits claimed, any unused credit amount is returned to DOT. However, the risk of under estimating the credits means the State's General Fund is reduced by the difference.

Therefore, based upon these three years of actual data, we have greater confidence in balancing these risks and factors. Given that any unused funds will be returned to DOT, we feel that it is prudent to estimate on the higher end of the potential claims to guard against requiring a transfer from the General Fund to balance the credits at year

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end. Our estimate for the tax credit for tax year 2022 is \$11,621,000 and assumes that 82,488 taxpayers will claim an average credit of \$141. This analysis is based on tax year 2018 credit claims, the highest observed utilization of the credit over the four-year period, but is significantly less than the maximum potential credits. This estimate does not require a pro-rata adjustment in tax year 2022 to reduce credits claimed below \$114,000,000.

Forecast

Year	Taxpayers	Average Gallons	Average Credit	Total Credits	Proration
Tax Year 2022	82,488	1,281	\$141	\$11,621,000	100%

We hope this explanation provides meaningful insight and understanding on our estimate. If we may be of any further assistance, please advise.

Sincerely,



Frank A. Rainwater

FAR/lhj

cc: Ms. Christy Hall, Secretary of Transportation
Mr. Meredith Cleland, Department of Revenue
Mr. Justin Powell, Department of Transportation