

Statement of Estimated State Revenue Impact

Date: May 16, 2014 (As amended May 14, 2014 by the House Ways & Means Committee)
Bill Number: S.B. 234
Author: Coleman

Committee Requesting Impact: House of Representatives

Bill Summary

A bill to amend the Code of Laws of South Carolina, 1976, by adding Chapter 67 to Title 12 so as to enact the "South Carolina Abandoned Buildings Revitalization Act" which provides that a taxpayer making investments of a certain size in rehabilitating an abandoned building may at his option receive specified income tax credits or credits against the property tax liability.

REVENUE IMPACT ^{1/}

This bill, as amended, is expected to reduce General Fund individual income tax, corporate income tax, bank tax, savings and loan tax, or corporate license fee revenue by an estimated \$13,300,000 in FY2014-15 and by an estimated \$13,300,000 in FY2015-16.

This bill also, as amended, is expected to reduce General Fund income tax revenue by \$333,333 in FY2014-15 and increase funds of the State Energy Office by \$5,000 in FY2014-15. When the credits expire in 2016, we expect an increase in General Fund income tax revenue by \$387,470 in FY2018 for existing Section 12-6-3587.

Explanation of Amendment (May 14, 2014) – House Ways & Means Committee

The House Ways& Means Committee adopted the following amendments to the bill.

Amendment 1. This amendment would add Section 12-67-140(C)(6) to allow a taxpayer to transfer all or part of the remaining abandoned building tax credit to a purchaser of the building site or a phase of the renovation of an abandoned building. The purchaser would have to notify the county auditor concerning the property transfer in a manner the Department of Revenue prescribes. This amendment will ensure the total amount of an abandoned building tax credits will be fully utilized. This amendment is not expected to impact General Fund revenue since the full impact of the tax credits was previous accounted for in the revenue impact.

Amendment 2. This amendment would amend language contained in H.B.3834 to grant an income tax credit of twenty-five percent of the cost of a qualified nonresidential solar energy system. This amendment would add Section 12-6-3586 granting an income and other specified tax credits for twenty-five percent of the cost of a nonresidential solar energy system that uses solar radiation as a substitute for traditional energy used 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 credit applies to systems placed in service beginning after 2013 and before 2017. The credit must be taken in three equal annual installments. The credit may not exceed three hundred thirty-three thousand dollars for each solar energy system installation and the credit may not exceed one

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million dollars for any taxpayer. The credit allowed pursuant to this section may not exceed one-half of the taxpayer's tax liability for a taxable year. The total amount of credits allocated for all taxpayers in a taxable year may not exceed five million dollars in the aggregate. The credit is allowed on a first come first serve basis and is monitored by the State Energy Office, with assistance from the Department of Revenue. Taxpayers wishing to claim the credit must submit an application to the State Energy Office for approval. There is a nonrefundable application fee equal to one percent of the credit applied for, but no more than two thousand five hundred dollars. The application fee will be credited to the State Energy Office and must be used to meet the requirements of this Section.

Based on data from the South Carolina Department of Revenue, we estimate 2 commercial firms claimed the solar energy tax credit in 2012. Based upon our analysis of solar energy equipment tax credits for non-residential purposes over the past three years, we estimate that 2 commercial firms will claim the tax credit in FY2014-15, for a total of \$2,000,000. Adjusting for the fact that the tax credit is to be taken in three equal annual installments and applying the fifty percent tax liability limitation, it is estimated that this bill would reduce State General Fund income tax, bank tax, license fees, or insurance premium tax revenue by an estimated \$333,333 in FY2014-15. Additionally, as the application fee is capped at two thousand five hundred dollars, funds of the State Energy Office would increase by \$5,000 in FY2014-15.

Additionally, this amendment amends Section 12-6-3587 by adding a subsection which applies to solar energy systems placed in service after tax year 2005 and before tax year 2017. Currently, Section 12-6-3587 allows for a credit not to exceed three thousand five hundred dollars for each facility, or fifty percent of the taxpayer's liability for that taxable year, whichever is less. If the amount of the credit exceeds three thousand five hundred dollars per facility, the taxpayer may carry forward the excess for up to ten years. Based on data from the South Carolina Department of Revenue, 260 taxpayers claimed the existing solar energy tax credit for a total of \$774,940 in 2012. Assuming this trend continues, we expect the same number of tax credits in 2017. We estimate fifty percent of these credits, or \$387,470, may be carried forward. Therefore, we expect an increase in General Fund income tax revenue in FY2018 by \$387,470.

The credits allowed by this section are in lieu of any other applicable income or other tax credits or abatements allowed by state law for related purposes, and if there is an overlap or conflict in available credits or abatements to a taxpayer, the taxpayer must elect the credit or abatement the taxpayer desires in the manner prescribed by the Department of Revenue to the extent the credits or abatements conflict or overlap.

This act takes effect upon approval by the Governor and applies for installations of solar energy systems placed in service in taxable years beginning after 2013 and before in 2017.

Explanation of Amendment (May 8, 2014) – House Sales & Income Tax Subcommittee

The South Carolina Abandoned Buildings Revitalization Act was enacted in Act 57 of 2013 and effective beginning June 11, 2013. This amendment would strike all after the enacting words in S.B.234 and amend language to insert the following changes to Act 57 of 2013:

- The amendment would add subitem (8) to Section 12-67-120 to define a "state-owned abandoned building" to include an abandoned building and its ancillary service

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buildings, the combined square footage of which is greater than 150,000 square feet, that has been abandoned for more than ten years, and was most recently owned by the state, or an agency, instrumentality, or political subdivision of the state.

- This amendment would amend Section 12-67-140(B)(3) to allow a credit earned in connection with a state-owned abandoned building to be claimed over a two year period instead of over a five year period for other qualified abandoned buildings. This provision would accelerate the use of the tax credit.
- This amendment would remove the \$500,000 maximum credit allowed for any taxpayer in a single tax year for each abandoned building site. The \$500,000 maximum credit limitation would not apply to any state-owned abandoned buildings.
- This amendment would amend Section 12-6-3535 to allow a taxpayer who is allowed a federal income tax credit pursuant to IRS Code Section 47 to elect a twenty-five percent tax credit instead of the current ten percent tax credit. Also, if a taxpayer elects the twenty-five percent tax credit, the \$500,000 maximum tax credit limitation for each certified historic structure would not apply to any state-owned abandoned buildings.
- This amendment would amend Section 12-6-3535(C)(1) to allow a credit earned in connection with a state-owned certified historic building to be claimed over a two year period instead of over a five year period for other qualified certified historic buildings. This provision would accelerate the use of the tax credit.

The most well-known example of a state-owned abandoned building is the Babcock Building located off Bull Street in Columbia, South Carolina. Built between 1858 and 1885, it was the home of the South Carolina State Hospital. On October 30, 1981, the Babcock Building was added to the National Register of Historic Places. The property was sold for \$15,000,000 in July 2013, and the total renovation costs of the Babcock Building and the ancillary out-buildings are estimated at \$60,000,000.

As a result, the Bull Street property would be eligible for two tax credits – the abandoned buildings revitalization tax credit and the certified historic building tax credit. This amendment amends language in each statute. Table 1 summarizes the net changes affecting the tax credits regarding this property under current law and the tax credits under the amended language to current law.

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**Table 1. Analysis of Abandoned Building and Certified Historic Structure Tax Credits
Proposed \$60,000,000 Rehabilitation Project**

Abandoned Buildings Revitalization Tax Credit					
	Year 1	Year 2	Year 3	Year 4	Year 5
Current					
State (25%) 1/ Limitation 2/	\$3,000,000	\$3,000,000	\$3,000,000	\$3,000,000	\$3,000,000
	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000
Amendment					
	\$7,500,000	\$7,500,000	\$0	\$0	\$0
Difference	\$7,000,000	\$7,000,000	-\$500,000	-\$500,000	-\$500,000
Tax Credit for a Certified Historic Structure					
	Year 1	Year 2	Year 3	Year 4	Year 5
Current					
Federal (20%) 3/ State (10%) 4/ Total Tax Credits	\$2,400,000	\$2,400,000	\$2,400,000	\$2,400,000	\$2,400,000
	\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000
	\$3,600,000	\$3,600,000	\$3,600,000	\$3,600,000	\$3,600,000
Amendment					
Federal (20%) 3/ State (25%) 4/ Total Tax Credits	\$2,400,000	\$2,400,000	\$2,400,000	\$2,400,000	\$2,400,000
	\$7,500,000	\$7,500,000	\$0	\$0	\$0
	\$9,900,000	\$9,900,000	\$2,400,000	\$2,400,000	\$2,400,000
Difference	\$6,300,000	\$6,300,000	-\$1,200,000	-\$1,200,000	-\$1,200,000
TOTAL DIFFERENCE	\$13,300,000	\$13,300,000	-\$1,700,000	-\$1,700,000	-\$1,700,000

Notes:

- 1/ Section 12-67-140(B)(2), (3)(a)
- 2/ Section 12-67-140(B)(3)(b)
- 3/ 26 USC Sec. 47(a)(2)
- 4/ Section 12-6-3535(A), (C)(1)

This amendment removes the \$500,000 tax credit limitation that each taxpayer may claim each year, and accelerates the time period the tax credits may be claimed from five years down to two years. Based on the analysis in Table 1, this would result in additional tax credits of \$7,000,000 claimed in Year 1 and Year 2 of a proposed \$60,000,000 rehabilitation project. This amendment would also affect the amount of tax credits for renovating a certified historic structure. Pursuant to IRS Code 47, a taxpayer may claim a twenty percent federal tax credit against qualified rehabilitation expenditures. Current state law allows the same taxpayer that is eligible for the federal tax credit to also claim a ten percent state tax credit for rehabilitating a certified historic structure. This is a combined federal-state subsidy of thirty percent of the

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total cost of rehabilitation expenses. This amendment would allow a state taxpayer to claim a state tax credit of twenty-five percent in lieu of the current ten percent state tax credit. This amendment would increase the combined federal-state subsidy to forty-five percent of the total cost of rehabilitation expenses, and accelerates the time period the tax credits may be claimed from five years down to two years.

After combining the net effects of the state-owned abandoned building tax credit and the tax credit for rehabilitation expenses of a certified historic structure, this amendment would reduce General Fund individual income tax, corporate income tax, bank tax, savings and loan tax, or corporate license fee revenue by an estimated \$13,300,000 in FY2014-15 and by an estimated \$13,300,000 in FY2015-16.

Explanation of Amendment (February 26, 2013) – Senate Finance Committee

This amendment strikes all after the enacting words and inserts the following changes to the bill:

- The amendment clarifies that, “an abandoned building is not a building or structure with an immediate preceding use as a single-family residence”. This would remove foreclosed and bank-owned buildings from the mix of eligible properties for the credit.
- The amendment disallows any rehabilitation expenses that increase the amount of square footage in excess of 200% of the square footage that existed before rehabilitation project started. Also, demolition expenses are not qualified expenses if the building is on the National Register of Historical Places. These provisions would limit the size of the rehabilitated abandoned building that would qualify for the tax credit.
- Section 12-67-130 lowers the threshold of qualified rehabilitation expenses to qualify for the tax credit from more than \$500,000 to a graduated scale based on the dollar volume of rehabilitation expenses and the population of the location of the building in a county or municipality. This provision would promote greater use of the tax credit by allowing additional abandoned properties in smaller towns and locations to qualify for the tax credit.
- The amendment also limits the amount of the credit that may be claimed by any taxpayer in a tax year to no more than \$500,000 for each abandoned building site.
- The amendment also allows the rehabilitation tax credit to be applied against taxes pursuant to Chapter 13 of Title 12, the tax on the net income of savings and loans. This provision would widen the tax base of which the tax credit may be applied, thereby increasing the use of the tax greater.

Overall, the effect of the amendment is to allow greater use of the rehabilitation of abandoned buildings tax credit by lowering the threshold to qualify for the tax credit and expanding the base of which the tax credit may be applied. Since the revenue impact was calculated by using an estimate of the total amount of square footage of abandoned buildings in the state, the provisions in the amendment would change the mix of the structures being rehabilitated,

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but the tax credit limitations have remained unchanged. This amendment, therefore, would not change the original revenue impact and is expected to reduce General Fund individual income tax, corporate income tax, bank tax, saving and loan tax, or corporate license fee revenue by an estimated \$937,500 in FY2013-14 and by an estimated \$3,750,000 in FY2014-15, and for each fiscal year thereafter until FY2017-18.

Explanation of Bill Filed January 15, 2013

This bill would add Chapter 67 to Title 12 to extend a nonrefundable tax credit to create an incentive for the rehabilitation, renovation, and redevelopment of abandoned buildings located in South Carolina. An "abandoned building" means a building or structure on which at least sixty-six percent of the space has been closed continuously to business for a period of at least five years. This bill would add Section 12-67-140(B)(2) to allow a taxpayer a nonrefundable credit of twenty-five percent of the actual rehabilitation expenses incurred at the building site. To be eligible for the tax credit, the actual rehabilitation expenses must be between eighty percent and one hundred twenty-five percent of the estimated rehabilitation expenses set forth in the Notice of Intent to Rehabilitate. The entire credit is earned when the building is placed in service, but the tax credit must be taken in equal installments over five years. Any unused credits may be carried forward for the succeeding five years. The tax credit is limited in use to fifty percent of a taxpayer's income tax liability against income tax, bank tax, or corporate license fees. The tax credits are transferrable.

The taxpayer may also choose to elect a credit against real property taxes levied by local taxing entities. The taxpayer must elect the nonrefundable tax credit to be applied against either the income or corporate license taxes, or against property taxes, but not both. The "real property tax credit" is equal to twenty-five percent of the qualified rehabilitation expenses made to the eligible site up to seventy-five percent of the real property taxes due on the site each year. The municipality or the county must determine the eligibility of the site and the proposed project. The ordinance shall allow the property tax credit to be taken against up to seventy-five percent of the real property taxes due on the site each year not to exceed eight years. The credit vests in the taxpayer in the year in which the eligible site is placed in service. The credit may be carried forward up to eight years.

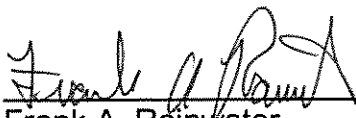
Eligible abandoned buildings, both private and public, may include, but are not limited to, abandoned residences, retail stores, hotels and motels, office space, health care facilities, schools, amusement and recreational facilities, warehouses, manufacturing facilities, fire towers, National Guard armories, military and defense buildings, college and university buildings, and state office buildings. For example, the 165-acre state Department of Mental Health facility located on Bull Street in Columbia recently was sold to a private developer for \$15,000,000. The developer has since estimated and revised renovation expenses to \$40,000,000. Multiplying \$40,000,000 in renovation expenses by a nonrefundable tax credit of twenty-five percent and applying the tax credit in equal installments over five taxable years, yields a reduction in General Fund tax revenue of an estimated \$2,000,000 annually for the next five fiscal years.

According to the National Trust for Historic Places, the Palmetto Trust for Historic Preservation, the SC Department of Archives and History, the U.S. Department of General Services, and the South Carolina Budget and Control, there is an estimated 500,000 square feet of abandoned building space throughout the state of South Carolina. Multiplying 500,000

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square feet of abandoned income producing space by an average renovation cost of \$150 per square foot equals an estimated \$75,000,000 of renovation expense that may be undertaken. Applying a twenty-five percent nonrefundable tax credit to \$75,000,000 of renovation expense and spreading out the tax credit over five equal installments yields an estimated reduction of General Fund individual and corporate income tax and corporation license tax revenue of \$3,750,000 in FY2013-14, and for each successive fiscal year for five years to FY2017-18. It is reasonable; however, to estimate that twenty-five percent of rehabilitative projects would qualify in FY2013-14 since it takes time to file a Notice of Intent to Rehabilitate, undertake the renovation, and subsequently inhabit the structure. This bill is expected, therefore, to reduce General Fund individual and corporate income tax and corporation license tax revenue by an estimated \$937,500 in FY2013-14 and by an estimated \$3,750,000 in each successive fiscal year through FY2017-18.

The taxpayer has the option of applying to a county council or city council for a reduction in local property taxes against the value of the rehabilitated structure. If all taxpayers elect the property tax option, local property tax revenue would be reduced by an estimated \$3,750,000 annually. This act takes effect upon approval of the Governor.



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¹¹ This statement meets the requirement of Section 2-7-71 for a state revenue impact by the BEA, or Section 2-7-76 for a local revenue impact or Section 6-1-85(B) for an estimate of the shift in local property tax incidence by the Office of Economic Research.