

# Statement of Estimated State Revenue Impact

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**Date:** March 10, 2014 (As amended February 6, 2014 by the Senate Finance Committee)

**Bill Number:** S.B. 329

**Authors:** Reese and Hembree

**Committee Requesting Impact:** Senate Finance Committee

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## Bill Summary

As amended, this bill would amend the Code of Laws of South Carolina, 1976, by adding Section 12-6-3586 so as to allow an income and other specified tax credits for twenty-five percent of the total cost of a nonresidential solar energy system placed in service beginning after 2013 and before 2017, to provide limitations on the amount of tax credit per installation, per taxpayer, and the total credit for all taxpayers. Additionally, the amended bill would allow an application fee to be credited to the State Energy Office, which would be used to meet the requirements set forth by this section.

## REVENUE IMPACT <sup>1/</sup>

We expect a decline in General Fund income tax revenue by \$333,333 in FY2014-15 and an increase in 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 (2/06/14) – By the Senate Finance Committee

This amendment would strike all after the enacting words and insert language to add Section 12-6-3586 granting an income and other specified tax credits for twenty-five percent of the cost of a nonresidential system that as determined by the State Energy Office 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 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. Additionally, this amendment proposes to amend Section 12-6-3587 by adding a subsection that states the section applies to solar energy systems placed in service after tax year 2005 and before tax year 2017.

Although this amendment removes the reference relating to systems that produce six hundred kilowatts or less of power, we expect no additional impact on General Fund income tax revenue in FY2014-15. The previous estimate was based on data from the South Carolina Department of Revenue. At that

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time, we estimated that 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 continue to 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. Also, 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. We expect this amendment to have no impact on these estimates.

Additionally, this amendment proposes to amend 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.

## **Explanation of Amendment (1/23/14) – By the Sales & Income Taxation Subcommittee**

This amendment (BH329C001.BH.DG14) would strike all after the enacting words and insert language to 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 produces less than six hundred kilowatts of power as certified by the Solar Rating and Certification Corporation or a comparable entity, as determined by the State Energy Office 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 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

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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.

### **Explanation of Bill filed 2/5/13**

This bill would add Section 12-6-3586 granting an income and other specified tax credits for twenty-five percent of the total cost of a solar energy system used for water heating, active space heating and cooling, daylighting, generating electricity, distillation, desalination, detoxification, or the production of industrial or commercial process heat placed in service by taxpayers. Additionally, devices necessary for collecting, storing, exchanging, conditioning, or converting solar energy to other useful forms of energy would be included. This applies to systems placed in service in 2013 through 2018. The credit may be claimed against a taxpayer's individual income, corporate income, bank tax, license fees, or insurance premiums taxes. The credit also applies to taxpayers who operate as a partnership or limited liability company. In this case, the credit may be passed through to the partners or members and may be allocated by the taxpayer among any of its partners or members on an annual basis, without limitation, an allocation of the entire credit to any partner or member who was a member or partner at any time during the year the credit is allocated. This bill also provides ceilings on the amount of credit that can be claimed per installation. For solar energy equipment placed into service for residential purposes, the ceilings range from \$3,500 to \$1,000,000, based upon the purpose of the solar energy equipment. For solar energy systems placed into service for any purpose other than residential, the ceiling amount equals \$1,000,000 and must be taken in three equal annual installments. Currently, Section 12-6-3587 allows the same income tax credit of twenty-five percent of certain solar energy equipment purchases and installation costs. The income tax credit pursuant to Section 12-6-3587 is capped at \$3,500 per facility or fifty-percent of the taxpayer's tax liability for that taxable year, whichever is less.

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, or approximately \$2,980 per taxpayer, in 2012. Based upon our analysis of the solar energy equipment tax credit over the past four years, the average tax credit per tax payer is \$2,531, which equates to an average unit cost of approximately \$10,124. Therefore, we estimate that the increased ceilings for residential solar energy equipment will have no impact in FY2014-15.

Regarding non-residential installations, 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.

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

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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 2012 and ending in 2018.



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<sup>11</sup> This statement meets the requirement of Section 27-71 for a state revenue impact by the BEA