~~Indicates Matter Stricken~~

Indicates New Matter

COMMITTEE REPORT

March 31, 2022

**H. 3340**

Introduced by Reps. Bailey, Hardee, Atkinson, Hayes, Brittain and Weeks

S. Printed 3/31/22--H.

Read the first time January 12, 2021.

**THE COMMITTEE ON WAYS AND MEANS**

To whom was referred a Bill (H. 3340) to amend Section 12‑20‑105, as amended, Code of Laws of South Carolina, 1976, relating to state license tax credits allowed certain taxpayers for contributions to, etc., respectfully

**REPORT:**

That they have duly and carefully considered the same and recommend that the same do pass with amendment:

Amend the bill, as and if amended, by striking all after the enacting words and inserting:

/ SECTION 1. Section 12‑20‑105 of the 1976 Code is amended to read:

“Section 12‑20‑105. (A) Any company subject to a license tax under Section 12‑20‑100 may claim a credit against its license tax liability for amounts paid in cash to provide infrastructure for an eligible project. A company may enter into a multi‑year commitment to provide cash to provide infrastructure after the infrastructure has been completed. Where a company has entered into an agreement to pay cash to provide infrastructure for an eligible project, and the eligible project is not constructed by the end of the tax year, the company may provide cash in that or a future year to another eligible project and retain the credit.

(B)(1) To be considered an eligible project for purposes of this section, the project must qualify for income tax credits under Chapter 6, Title 12, withholding tax credit under Chapter 10, Title 12, income tax credits under Chapter 14, Title 12, or fees in lieu of property taxes under either Chapter 12, Title 4, Chapter 29, Title 4, or Chapter 44, Title 12.

(2) If a project is located in an office, business, commercial, or industrial park, or combination of these, and is used exclusively for economic development and is owned or constructed by a county, political subdivision, or agency of this State when the qualifying improvements are paid for, the project does not have to meet the qualifications of item (1) to be considered an eligible project. As provided in subsection (C)(4), the county or political subdivision may sell all or a portion of the business or industrial park.

(3) In a county in which at least five million dollars in state accommodations tax imposed pursuant to Section 12‑36‑920 has been collected in at least one fiscal year, a county or municipality‑owned multiuse sports and recreational complex is considered an ‘eligible project’ promoting economic development for all purposes of the credit allowed pursuant to this section.

(C) For the purpose of this section, “infrastructure” means improvements for water, wastewater, hydrogen fuel, sewer, gas, steam, electric energy, and communication services made to a building or land that are considered necessary, suitable, or useful to an eligible project. These improvements include, but are not limited to:

(1) improvements to both public or private water and sewer systems;

(2) improvements to both public or private electric, natural gas, and telecommunications systems including, but not limited to, ones owned or leased by an electric cooperative, electric utility, or electric supplier, as defined in Chapter 27, Title 58;

(3) fixed transportation facilities including highway, road, rail, water, and air;

(4) for a qualifying project under subsection (B)(2), infrastructure improvements include shell buildings, incubator buildings whose ownership is retained by the county, political subdivision, or agency of the State and the purchase of land for an office, business, commercial, or industrial park, or combination of these, used exclusively for economic development which is owned or constructed by a county, political subdivision, or agency of this State. The county, political subdivision, or agency may sell the shell building or all or a portion of the park at any time after the company has paid in cash to provide the infrastructure for an eligible project;

(5) for a qualifying project pursuant to subsection (B)(2), infrastructure improvements also include due diligence expenditures relating to environmental conditions made by a county or political subdivision after it has acquired contractual rights to an industrial park. Due diligence expenditures include such items as Phase I and II studies and environmental or archeological studies required by state or federal statutes or guidelines or similar lender requirements. Contractual rights include options to purchase real property or other similar contractual rights acquired before the county or political subdivision files a deed to the property with the Register of Mesne Conveyances; and

(6) for a qualifying project pursuant to subsection (B)(2), site preparation costs include, but are not limited to:

(a) clearing, grubbing, grading, and stormwater retention; and

(b) refurbishment of buildings that are owned or controlled by a county or municipality and are used exclusively for economic development purposes;

(7) for a qualifying project pursuant to subsection (B)(2), eligible expenditures include cash paid to a county, political subdivision, or agency of this state for purposes of defraying public debt incurred to pay for infrastructure on the project.

(D) A company is not allowed the credit provided by this section for actual expenses it incurs in the construction and operation of any building or infrastructure it owns, leases, manages, or operates.

(E)(1) The maximum aggregate credit that may be claimed in any tax year by a single company is ~~four~~ six hundred thousand dollars.

(2) Notwithstanding the annual credit limit provided pursuant to item (1), for a contribution for a qualifying project located in a county classified as a Tier II, III, or IV county pursuant to Section 12‑6‑3360(B), the maximum aggregate credit that may be claimed in a tax year by a taxpayer is increased by:

County Tier Credit Amount Increase

Tier II County Fifty thousand dollars

Tier III County One hundred thousand dollars

Tier IV County One hundred fifty thousand dollars.

(3) To be eligible for the increased credit amount provided in item (2), the total of the taxpayer’s credit claim for the taxable year must be for a qualifying project located in a single Tier II, III, or IV county. If the single qualifying project extends across a county boundary, then for purposes of determining eligibility and the amount of the applicable increased credit, the qualifying project is considered to be located in the county with the lowest credit amount unless at least eighty percent of the total costs associated with the project are attributable to that portion of the project located in the county with the higher allowable credit amount.

(F) The credits allowed by this section may not reduce the license tax liability of the company below zero. If the applicable credit originally earned during a taxable year exceeds the liability and is otherwise allowable under subsection (D), the amount of the excess may be carried forward to the next taxable year.

(G) For South Carolina income tax and license purposes, a company that claims the credit allowed by this section is ineligible to claim the credit allowed by Section 12‑6‑3420.

(H) By March first of each year, the Department of Revenue shall issue a report to the Chairman of the Senate Finance Committee, the Chairman of the House Ways and Means Committee, and the Secretary of the Department of Commerce outlining the history of the credit allowed pursuant to this section. The report shall include the amount of credit allowed pursuant to this section and the types of infrastructure provided to eligible projects.

(I) For the purposes of this section, for a qualifying project pursuant to subsection (B)(3), infrastructure includes all applicable provisions of subsection (C) applying to the development and construction of the sports and recreational complex and further includes costs of land acquisition and preparation, construction of facilities and venues in the complex, improvements and upgrades to existing facilities and venues, and any other capital costs incurred in the acquisition, construction, and operation of the complex, including debt payments on any loans or bonds issued to pay for such infrastructure.”

SECTION 2. Upon approval of the Governor, this act applies for credits first claimed for taxable years beginning after 2021. /

Renumber sections to conform.

Amend title to conform.

G. MURRELL SMITH, JR. for Committee.

**STATEMENT OF ESTIMATED FISCAL IMPACT**

**Explanation of Fiscal Impact**

**State Expenditure**

This bill increases the maximum annual license tax credit amount for eligible infrastructure projects for utility companies pursuant to Section 12-20-105 from $400,000 to $600,000 dollars and allows for unused credits to be carried forward for three tax years. The bill also provides for an additional increase in the maximum license tax credit at graduated amounts up to $150,000 for eligible projects in Tier II, III, and IV counties based upon the Jobs Tax Credit county designations. Because this an increase to an existing credit, this bill is not expected to impact expenditures for DOR for the administration of the credit.

**State Revenue**

This bill increases the maximum annual license tax credit amount for eligible infrastructure projects for utility and electric cooperative companies from $400,000 to $600,000 dollars beginning in tax year 2021 and allows for unused credits to be carried forward for three tax years. The bill also provides for an additional targeted increase in the maximum license tax credit of $50,000, $100,000, or $150,000 for eligible projects in Tier II, III, and IV counties, respectively.

Currently, utilities must pay $1 in license tax for each $1,000 of fair market property owned and used within the state, as well as $3 for each $1,000 of gross services rendered from regulated business within the state. Utilities may claim a tax credit against license taxes for the amount paid to provide infrastructure for an eligible project. Eligible projects include projects that qualify for specific tax credits such as job development credits, projects such as office, business, or industrial parks for economic development constructed by a government entity, and others. The current maximum credit per company per tax year is $400,000, and the credit can only be carried forward to the next taxable year.

**Figure 1. Corporate License Infrastructure Credit Summary by Tax Year**

**Tax Year 2017 2018 2019 Average**

**Number 28 35 29 31**

**claiming credit**

**Total credit $7,455,521 $9,288,530 $7,211,839 $7,985,297**

**amount claimed**

**Average credit $266,269 $265,387 $248,684 $260,113**

**per return**

Note: Data based on RFA summary of returns by tax year.

A summary of the current Corporate License Infrastructure credits for tax years 2017 through 2019 appears above in Figure 1. On average, 31 companies claimed the license tax credit each year in South Carolina. The average total credit amount claimed was approximately $7,985,000 per year, and the average credit per return was $260,000.

Because the average amount of the credit claimed per return is below the current maximum amount allowed of $400,000, increasing the maximum credit amount to between $600,000 and $750,000, depending on the county in which the project is located, is not likely to increase the credits claimed for all companies. RFA contacted the Office of Regulatory Staff, but data regarding future utility infrastructure projects are not available. Certain companies may claim the increased credit limit, but data are unavailable to determine the number of companies that will claim additional credits due to the increase in the limit or which projects will be in Tier II, III, and IV counties and subject to a higher limit.

Further, increasing the number of carryforward years from one to three may allow utilities to claim unused credits. In DOR’s report on this credit for calendar year 2019, companies earned $8,312,166 in credits on returns processed during 2019 but applied only $7,854,192 against tax liabilities. The difference of $457,974 is from carryforwards utilized by taxpayers and from the inability to fully utilize earned credits. However, data are not available to estimate the carryforward amounts that are not used in the following tax year and currently expire. This bill would allow companies to carryforward those credits for an additional two tax years and may result in companies utilizing more of their earned credits.

Given these uncertainties, we are unable to accurately estimate the potential increase in credit utilization. For reference, if a quarter of current returns were to claim an increased credit amount of $200,000, then General Fund Corporate License revenues would decrease by approximately $1,500,000. However, given the lack of available data, this bill is expected to decrease General Fund Corporate License revenues by an undetermined amount beginning in FY 2021-22 due to the increase in the maximum credit allowed and the extended carryforward period.

Frank A. Rainwater, Executive Director

Revenue and Fiscal Affairs Office

**A** **BILL**

TO AMEND SECTION 12‑20‑105, AS AMENDED, CODE OF LAWS OF SOUTH CAROLINA, 1976, RELATING TO STATE LICENSE TAX CREDITS ALLOWED CERTAIN TAXPAYERS FOR CONTRIBUTIONS TO QUALIFYING INFRASTRUCTURE AND ECONOMIC DEVELOPMENT PROJECTS, SO AS TO INCREASE THE MAXIMUM ANNUAL CREDIT AMOUNT FROM FOUR HUNDRED THOUSAND TO SIX HUNDRED THOUSAND DOLLARS, TO PROVIDE ADDITIONAL ANNUAL CREDIT AMOUNTS OF FIFTY THOUSAND DOLLARS, ONE HUNDRED THOUSAND DOLLARS, AND ONE HUNDRED FIFTY THOUSAND DOLLARS, RESPECTIVELY, FOR QUALIFYING PROJECTS LOCATED IN COUNTIES CLASSIFIED FOR THE TARGETED JOBS TAX CREDIT AS TIER II, III, AND IV COUNTIES, TO PROVIDE ADDITIONAL ELIGIBILITY REQUIREMENTS FOR THESE INCREASED CREDIT AMOUNTS, AND TO ALLOW UNUSED CREDITS TO BE CARRIED FORWARD TO THE THREE SUCCEEDING TAX YEARS.

Be it enacted by the General Assembly of the State of South Carolina:

SECTION 1. Subsections (E) and (F) of Section 12‑20‑105 of the 1976 Code are amended to read:

“(E)(1) The maximum aggregate credit that may be claimed in any tax year by a single company is ~~four~~ six hundred thousand dollars.

(2) Notwithstanding the annual credit limit provided pursuant to item (1), for a contribution for a qualifying project located in a county classified as a Tier II, III, or IV county pursuant to Section 12‑6‑3360(B), the maximum aggregate credit that may be claimed in a tax year by a taxpayer is increased by:

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(3) To be eligible for the increased credit amount provided in item (2), the total of the taxpayer’s credit claim for the taxable year must be for a qualifying project located in a single Tier II, III, or IV county. If the single qualifying project extends across a county boundary, then for purposes of determining eligibility and the amount of the applicable increased credit, the qualifying project is considered to be located in the county with the lowest credit amount unless at least eighty percent of the total costs associated with the project are attributable to that portion of the project located in the county with the higher allowable credit amount.

(F) The credits allowed by this section may not reduce the license tax liability of the company below zero. If the applicable credit originally earned during a taxable year exceeds the liability and is otherwise allowable under subsection (D), the amount of the excess may be carried forward to the ~~next~~ three succeeding taxable ~~year~~ years.”

SECTION 2. Upon approval of the Governor, this act applies for credits first claimed for taxable years beginning after 2020.

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