This fiscal impact statement is produced in compliance with the South Carolina Code of Laws and House and Senate rules. The focus of the analysis is on governmental expenditure and revenue impacts and may not provide a comprehensive summary of the legislation.

Bill Number:	H. 3737 Introduced on January 18, 2023
Author:	Ligon
Subject:	Short Line Railroad Modernization Act
Requestor:	House Ways and Means
RFA Analyst(s):	Jolliff
Impact Date:	March 27, 2023

Fiscal Impact Summary

This bill creates a new income tax credit for Class II and Class III railroads based on qualified railroad reconstruction or replacement expenditures. Any portion of the tax credit not used during the year of qualification may be carried forward for each of the five years following that year, and the credit can be transferred to any other eligible transferee. The tax credit is effective for tax years 2023 to 2027.

This bill will have no expenditure impact on the Department of Commerce (Commerce) because the agency plans to direct the Division of Public Railways, known as Palmetto Railways, to fulfill the duties of the bill.

This bill will have no expenditure impact on the Department of Revenue (DOR) because the agency can account for any expenditures related to allocating the new tax credit to eligible taxpayers using existing resources.

This bill will decrease General Fund individual income tax, corporate income tax, bank tax, or insurance premium tax revenues, or some combination thereof, by up to $1,405,000 annually in FY 2023-24 through FY 2027-28. However, the timing of this impact will depend on the actual claiming of the credits and any carryforward available for five additional years. The impact may be less than $1,405,000 annually depending on the number of miles of track refurbished each year. Alternatively, the impact may be more than $1,405,000 annually if the number of shortline railroad track miles in the state increases.

Explanation of Fiscal Impact

Introduced on January 18, 2023
State Expenditure
This bill creates a new income tax credit for Class II and Class III railroads, as classified by the United States Surface Transportation Board, based on qualified railroad reconstruction or replacement expenditures.

Commerce is required to administer the tax credit, which includes reviewing and approving the verification of completed projects within thirty days of receipt, issuing tax credit certificates, providing information to DOR, and reporting to the House Ways and Means Committee and Senate Finance Committee annually, among other things. This bill will have no expenditure impact on Commerce because the agency plans to direct the Division of Public Railways, known as Palmetto Railways, to fulfill the duties of the bill .

Additionally, DOR is required to allocate the new income tax credit to eligible taxpayers. DOR reports that the agency can account for any expenditures related to this bill using existing resources.

State Revenue
This bill creates a new income tax credit for Class II and Class III railroads, as classified by the United States Surface Transportation Board, based on qualified railroad reconstruction or replacement expenditures. The credit can be taken against individual income tax, corporate income tax, bank tax, or insurance premium tax. Eligible taxpayers are allowed an income tax credit equal to 50 percent of their qualified railroad reconstruction or replacement expenditures. For each eligible taxpayer, the amount of this credit may not exceed $5,000 times the number of miles of railroad track owned or leased within the state by the taxpayer. Any portion of the granted tax credit not used during the year of qualification may be carried forward for each of the five years following that year, and the credit can be transferred to any other eligible transferee. Lastly, the provisions of this bill, upon passage, apply to income tax years beginning after December 31, 2022, and are repealed on December 31, 2027, although a credit may continue to be claimed to its conclusion if earned before the repeal.

Table 1 below lists shortline railways, which mostly fall into the Class II or III categorization, within the state and their estimated miles of track. The Division of Public Railways does business as Palmetto Railways and would be ineligible for the income tax credit. As a result, there are an estimated 281 miles of eligible shortline track in the state.

Table 1. South Carolina Shortline Railways

Railroad	Owner	Estimated Track Miles
Aiken Railway	Western Carolina Railway	19
Carolina Piedmont	G&W	34
Carolina Southern	RJ Corman	51
Charity Church	Palmetto Railways*	17
Greenville & Western	Western Carolina Railway	13
Hampton & Branchfield	Palmetto Railways*	40
Lancaster & Chester	Gulf & Ohio	60
Pee Dee River Railway	Aberdeen & Rockfish	25
Pickens Railway	Pickens Railway	37
Charleston & North Charleston Yards	Palmetto Railways*	5
South Carolina Central	G&W	42
Total		343

Source: South Carolina Department of Commerce
*Track miles owned by Palmetto Railways (the Division of Public Railways) would be ineligible for tax credits

According to the American Short Line and Regional Railroad Association, shortline railroads spend about 24 percent of revenue on track rehabilitation annually. Based upon national data listed in Table 2, shortline railroads spend an estimated $23,444 per mile annually on refurbishment. Using this figure, we estimate that eligible railroads in the state spend approximately $6,588,000 in total on maintenance each year. Allowing a credit for 50 percent of these total maintenance expenses would greatly exceed the total reconstruction credit allotment of $5,000 times the number of miles of eligible shortline track. Given this, we assume that the total credit amount claimed each year will be up to $5,000 times the 281 of miles of eligible shortline track, or $1,405,000.

Table 2. National Shortline Railroad Statistics

Total Miles of Shortline Track	47,500
Total Annual Revenue	$4.64 billion
Annual Revenue / Mile	$97,684
Annual Rehabilitation Cost / Mile	$23,444

Source: American Short Line and Regional Railroad Association

Therefore, this bill will decrease General Fund individual income tax, corporate income tax, bank tax, or insurance premium tax revenues, or some combination thereof, by up to $1,405,000 annually in FY 2023-24 through FY 2027-28. However, the timing of this impact will depend on the actual claiming of the credits and any carryforward available for five additional years. The impact may be less than $1,405,000 annually depending on the number of miles of track refurbished each year. Alternatively, the impact may be more than $1,405,000 annually if the number of shortline railroad track miles in the state increases.

Local Expenditure

N/A

Local Revenue

N/A

Frank A. Rainwater, Executive Director