



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
(803)734-3780 • RFA.SC.GOV/IMPACTS

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: S. 1021 Signed by Governor on May 20, 2024
Author: Davis
Subject: Abandoned Buildings Tax Credit
Requestor: House of Representatives
RFA Analyst(s): Manic and Jolliff
Impact Date: May 21, 2024

Fiscal Impact Summary

This bill extends the provisions of the South Carolina Abandoned Buildings Revitalization Act in Chapter 67, Title 12 that is currently set to expire on December 31, 2025, through 2035 and increases the amount of the maximum tax credit that may be earned by a taxpayer in a tax year from \$500,000 to \$700,000. Further, this bill creates a new income tax credit for Class II and Class III railroads based on qualified railroad reconstruction or replacement expenditures. 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, not to exceed \$1,500,000 in a tax year. 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. The tax credit is effective for tax years 2024 through 2028.

The bill will not impact expenditures for the Department of Revenue (DOR) as DOR will manage these credits with existing staff and resources. Further, 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 with respect to the railroad credits.

The changes to the Abandoned Buildings tax credit are expected to reduce General Fund revenue from individual and corporate income taxes, bank taxes, savings and loan taxes, corporate license fees, insurance premium taxes, or any combination thereof, by \$133,400 beginning in FY 2024-25 for the increase in the maximum tax credit per taxpayer. The impact will increase to a total of approximately \$7,733,400 per year beginning in FY 2026-27 for the extension of the act. The impact will continue through FY 2035-36 when the extension of the act expires. The impact will then begin to decline as no new credits may be earned, and only existing installment and carryforward credits will be claimed.

The new railroad tax credit will decrease General Fund individual income tax, corporate income tax, bank tax, or insurance premium tax revenues, or some combination thereof, by approximately \$1,405,000 annually in FY 2024-25 through FY 2028-29. The impact will then begin to decline as no new credits may be earned, and only existing installment and carryforward credits will be claimed. Please note, 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.

In summary, the bill will decrease General Fund revenue by approximately \$1,538,400 beginning in FY 2024-25 and by a total of \$9,138,400 beginning in FY 2026-27 as outlined below.

	FY 2024-25	FY 2025-26	FY 2026-27
Abandoned Buildings			
Section 1: Extension	n/a	n/a	\$7,600,000
Section 2: Increase in Maximum	\$133,400	\$133,400	\$133,400
Total (Sections 1 & 2)	\$133,400	\$133,400	\$7,733,400
Railroad Credit	\$1,405,000	\$1,405,000	\$1,405,000
Total	\$1,538,400	\$1,538,400	\$9,138,400

Explanation of Fiscal Impact

Signed by Governor on May 20, 2024

State Expenditure

This bill extends the provisions of the South Carolina Abandoned Buildings Revitalization Act that is set to expire on December 31, 2025, through December 31, 2035. In addition, the bill increases the amount of the maximum tax credit that may be earned by a taxpayer in a tax year from \$500,000 to \$700,000. These sections are not expected to impact expenditures for DOR because the department can manage the extension with existing staff and resources.

This bill also 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 railroad 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 railroad income tax credit to eligible taxpayers. DOR reports that the agency can account for any expenditures related to this credit using existing resources.

State Revenue

Abandoned Buildings Revitalization Act

Section 1 of this bill extends the provisions of the South Carolina Abandoned Buildings Revitalization Act that is set to expire on December 31, 2025, through December 31, 2035. In

addition, Section 2 increases the amount of the maximum tax credit that may be earned by a taxpayer in a tax year from \$500,000 to \$700,000.

The act currently allows a taxpayer to claim a nonrefundable state tax credit equal to 25 percent of actual rehabilitation expenses of an abandoned building that is to be put into operation for income producing purposes. The tax credit may be applied against individual and corporate income taxes, bank taxes, savings and loan taxes, corporate license fees, insurance premium taxes (including retaliatory taxes), or any combination thereof. The tax credit may also be applied against real property taxes as levied by local taxing entities, although DOR is unaware of any claims against property taxes. The tax credit must be taken in equal installments over a three-year period and may not exceed \$500,000 for any taxpayer in a tax year. The credit is earned in the tax year in which the applicable phase or portion of the building site is placed in service. Unused state tax credits may be carried forward for five years. The act is set to be repealed on December 31, 2025. As specified in Act 50 of 2019, any credit carryforward will continue to be allowed after the act is repealed until the period allowed in Section 12-67-140 is completed.

The table below provides the total tax credit amount claimed since inception as well as the estimated initial new claims per year based upon the three-year installment requirement. These figures do not include any tax credit carryforwards that may be claimed in succeeding tax years.

Abandoned Buildings Revitalization Tax Credits

Fiscal Year	Tax Year	Total Credits Claimed	Estimated Initial Claims Under Three-year Installment
FY 2013-14	2013	\$390,135	\$390,135
FY 2014-15	2014	\$1,127,443	\$737,308
FY 2015-16	2015	\$2,253,044	\$1,125,601
FY 2016-17	2016	\$7,414,442	\$5,551,533
FY 2017-18	2017	\$11,860,727	\$5,183,593
FY 2018-19	2018	\$16,616,591	\$5,881,465
FY 2019-20	2019	\$15,708,941	\$4,643,883
FY 2020-21	2020	\$16,666,164	\$6,140,816
FY 2021-22	2021	\$16,797,130	\$6,012,431
FY 2022-23 (p)	2022	\$18,499,230	\$6,345,983

Source: SC Department of Revenue, SC Department of Insurance;
 (p) - preliminary figure provided by the SC Dept. of Revenue on March 29, 2024

In recent years, with the exception of FY 2019-20 during the pandemic, the amount of new tax credits claimed when accounting for the three-year installment requirement has grown annually. We estimate that the annual increase in new credits will grow to approximately \$7,600,000 by FY 2026-27. Extending the act would reduce revenue by this amount beginning in FY 2026-27 for tax year 2026 as taxpayers will be able to continue to earn new credits under the extension.

The impact will continue through FY 2035-36 when the act is set to expire, at which time no new credits may be added.

Further, the increase in the maximum credit amount that may be earned in a year may also increase the impact. This change is effective upon approval by the Governor. Since the credit must be taken in three installments, the additional \$200,000 could increase credits by approximately \$66,700 per taxpayer per year. However, a review of available data showed that very few returns claim the annual maximum currently. Based on this, we anticipate only 1 or 2 taxpayers will claim a larger credit due to the increase. The remaining additional credits earned may be carried forward for the five-year allowable period, which may extend the timing of the impact. Assuming 1 to 2 taxpayers claim the increase in a year, this change would potentially increase credits by approximately \$133,400 per fiscal year beginning in FY 2024-25. Based on these assumptions, these sections will reduce General Fund revenue from individual and corporate income taxes, corporate license fees, bank taxes, insurance taxes, or a combination thereof, by \$133,400 beginning in FY 2024-25 and a total of approximately \$7,733,400 per year beginning in FY 2026-27. The impact will continue through FY 2035-36 when the extension of the act expires. The impact will then begin to decline as no new credits may be earned, and only existing installment and carryforward credits will be claimed.

Railroad Reconstruction and Replacement Tax Credit

Section 3 of 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, not to exceed \$1,500,000 in a tax year. 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. Lastly, the provisions of this section, apply to income tax years beginning after December 31, 2023, and are repealed on December 31, 2028, although a credit may continue to be claimed to its conclusion if earned before the repeal.

The table below lists shortline railways, which mostly fall into the Class II or III categorization, within the state and their estimated miles of track.

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

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.

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 the table below, 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.

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 section will decrease General Fund individual income tax, corporate income tax, bank tax, or insurance premium tax revenues, or some combination thereof, by approximately \$1,405,000 annually in FY 2024-25 through FY 2028-29. The impact will then begin to decline as no new credits may be earned, and only existing installment and carryforward credits will be claimed. Please note, 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, subject to the \$1,500,000 limit.

In summary, the bill will decrease General Fund revenue by approximately \$1,538,400 beginning in FY 2024-25 and by a total of \$9,138,400 beginning in FY 2026-27 as outlined below.

	FY 2024-25	FY 2025-26	FY 2026-27
Abandoned Buildings			
Section 1: Extension	n/a	n/a	\$7,600,000
Section 2: Increase in Maximum	\$133,400	\$133,400	\$133,400
Total (Sections 1 & 2)	\$133,400	\$133,400	\$7,733,400
Railroad Credit	\$1,405,000	\$1,405,000	\$1,405,000
Total	\$1,538,400	\$1,538,400	\$9,138,400

Local Expenditure

N/A

Local Revenue

N/A

Frank A. Rainwater, Executive Director