DEPARTMENT OF TAXATION
2014 Fiscal Impact Statement

1. Patron David E. Yancey

2. Bill Number HB 870

House of Origin:
X **Introduced**
_____ **Substitute**
_____ **Engrossed**

Second House:
_____ **In Committee**
_____ **Substitute**
_____ **Enrolled**

3. Committee House Finance

4. Title New Infrastructure Investment Tax Credit

5. Summary/Purpose:

This bill would allow businesses to claim an individual or corporate income tax credit equal to 25 percent of the expenses incurred by the business in placing new infrastructure into service. If, however, the new infrastructure is placed into service in conjunction with a public highway or road construction or improvement project to which the infrastructure is immediately contiguous, the amount of the credit would equal 35 percent of the expenses incurred. The tax credit would be allowed to be claimed by a business beginning with the taxable year in which the new infrastructure is placed into service.

For purposes of this bill, “new infrastructure” would be defined as “broadband infrastructure, transmission lines, gas lines, private roadways, computerized ports, or other infrastructure including but not limited to water and sewer infrastructure, which is placed into service by a business for its own use. Under this bill, the replacement of existing infrastructure would not qualify for a tax credit.

The total amount of tax credits that the Department of Taxation (“the Department”) could issue in any given fiscal year would be limited to $2.5 million. Each business would be limited to receiving $50,000 in new infrastructure investment tax credits per taxable year. Any unused credit would be carried over for the next five succeeding taxable years or until the total amount of the credit is taken, whichever is sooner.

This bill would be effective for taxable years beginning on or after January 1, 2014.

6. Budget amendment necessary: Yes.
Page 1, Revenue Estimates.

7. **Fiscal Impact Estimates are:** Tentative. (See Line 8).

7b. **Revenue Impact:**

Fiscal Year	***Dollars***	***Fund***
2013-14	$0	GF
2014-15	($2.5 million)	GF
2015-16	($2.5 million)	GF
2016-17	($2.5 million)	GF
2017-18	($2.5 million)	GF
2018-19	($2.5 million)	GF
2019-20	($2.5 million)	GF

8. **Fiscal implications:**

<u>Administrative Costs</u>

The Department of Taxation ("the Department") has not assigned any administrative costs to this bill because the changes required by a single bill such as this can be implemented as part of the annual changes to our systems and forms. As stand-alone legislation, the Department considers implementation of this bill as "routine," and does not require additional funding.

The Department will provide specific administrative costs on any legislation that is not "routine." Additionally, the Department will review all state tax legislation likely to be enacted prior to the passage by each house. If the aggregate number of routine bills likely to pass either house is unusually large, it is possible that additional resources will be required. If so, the Department will identify the costs at that time.

<u>Revenue Impact</u>

This bill would have a negative impact on General Fund revenue of up to $2.5 million annually, beginning in Fiscal Year 2015. The actual revenue impact would depend on the amount of qualifying new infrastructure investments that would qualify for this credit.

9. **Specific agency or political subdivisions affected:**

Department of Taxation

10. **Technical amendment necessary:** No.

11. **Other comments:**

<u>Other States</u>

South Carolina allows corporations, but not individuals or other taxpayers, to claim an infrastructure construction or improvement credit against the corporate income tax or bank tax for expenditures incurred in building or improving an infrastructure project. For purposes of the South Carolina credit, the term "infrastructure expenditures" includes roads, water lines, and sewer lines that do not exclusively benefit the taxpayer. The amount of the credit is equal to 50 percent of the infrastructure expenditures but may not exceed $10,000 annually. Any unused tax credits, up to a total amount of $30,000, may be carried forward for up to three years.

Proposed Legislation

This bill would allow businesses to claim an individual or corporate income tax credit equal to 25 percent of the expenses incurred by the business in placing new infrastructure into service. If, however, the new infrastructure is placed into service in conjunction with a public highway or road construction or improvement project to which the infrastructure is immediately contiguous, the amount of the credit would equal 35 percent of the expenses incurred. The tax credit would be allowed to be claimed by a business beginning with the taxable year in which the new infrastructure is placed into service.

For purposes of this bill, “new infrastructure” would be defined as “broadband infrastructure, transmission lines, gas lines, private roadways, computerized ports, or other infrastructure including but not limited to water and sewer infrastructure, which is placed into service by a business for its own use. Under this bill, replacement of existing infrastructure would not qualify for a tax credit.

The total amount of tax credits that the Department of Taxation (“the Department”) could issue in any given fiscal year would be limited to $2.5 million. Each business would be limited to receiving a maximum of $50,000 in new infrastructure investment tax credits per taxable year. Any unused credit would be carried forward for the next five succeeding taxable years or until the total amount of the credit is taken, whichever is sooner.

Businesses seeking tax credits would be required to apply to the Department. As part of the application, businesses would be required to provide the Department sales receipts, contracts, and such other evidence of the new infrastructure expenses incurred as may be required by the Department. The Department would determine the credit amount allowable for the taxable year and issue the corresponding tax credit. If the total amount of allowable tax credits approved by the Department exceeds the $2.5 million maximum, the Department would allocate such credits on a pro rata basis.

Any credits granted to a partnership, limited liability company, or electing small business corporation (S corporation) would be allocated to the individual partners, members, or shareholders, respectively, in proportion to their ownership or interest in such business entity.

The Department would be required to develop and issue guidelines implementing the provisions of this bill. Such guidelines would be exempt from the Administrative Process Act. The guidelines would include, but not be limited to, procedures for claiming the tax credit under this bill.

This bill would be effective for taxable years beginning on or after January 1, 2014.

cc : Secretary of Finance

Date: 1/19/2014 mjm
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