

# South Carolina Office of Research and Statistics

## Statement of Estimated State Revenue Impact

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**Date:** May 25, 2010 (as amended by the House May 18, 2010)

**Bill Number:** S.B. 405

**Authors:** Cleary

**Committee Requesting Impact:** House

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### Bill Summary

A bill to amend Section [12-37-220](#) of the 1976 Code, relating to property tax exemptions, to clarify that a watercraft and its motor may not receive a forty-two and 75/100 percent exemption if the boat or watercraft is classified as a primary or secondary residence for property tax purposes; to amend Section [12-37-224](#), relating to boats as a primary or secondary residence, to provide that a boat or watercraft that contains a cooking area with an onboard power source, a toilet with exterior evacuation, and a sleeping quarter, shall be considered a primary or secondary residence for purposes of ad valorem property taxation in this State; and to amend Section [12-37-714](#), relating to boats with a situs in this state, to provide that upon an ordinance passed by the local governing body, a county may subject a boat, including its motor if the motor is separately taxed, to property tax if it is within this state for ninety days in the aggregate, regardless of the number of consecutive days.

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

This bill, as amended, is expected to reduce General Fund income tax revenues by \$339,286 in FY2010-11 for a demethylation of glycerin facility, by \$650,000 in FY2010-11 for a nonhazardous industrial solid waste energy-producing facility, and by \$100,000 in FY2010-11 for research and development expenditures of demethylation of glycerin, for a total reduction in General Fund income tax revenues of \$1,089,286 in FY2010-11. This bill, as amended, is also expected to reduce General Fund revenues by an additional \$3,460,000 in FY2010-11 for incentive payments for renewable fuels and biomass resources sold to produce energy. Local revenues are not expected to be negatively impacted.

### Explanation of Amendment (May 18, 2010) – By the House

This amendment would add a new section to S. 405. The following subsections would affect General Fund revenues

**Subsection A:** This subsection amends Section 12-6-3610(B) and (C) by adding “demethylation of glycerin derived from biodiesel production” as a qualifying intermediate step in the production of renewable fuels and by adding solid nonpetroleum-based fuels used to produce electricity that may be used to charge electrically charged vehicle batteries as a renewable fuel in qualifying for the twenty-five percent income tax credit for the costs of building and equipping renewable fuel production facilities. This subsection also eliminates the January 31<sup>st</sup> deadline date for taxpayers to submit a request for the income tax credit to the State Energy Office for qualifying property and facilities placed into service in the previous calendar year. According to the State Energy Office, there is currently one facility, in operation since 2009, in South Carolina that demethylizes glycerin derived from biodiesel production and produces solid nonpetroleum-based fuels used to produce electricity that may be used to charge electrically charged vehicle batteries. The reported cost of building and equipping this facility was \$9,500,000. The income tax credit is to be taken in seven equal annual installments. Applying a twenty-five percent income tax credit, this subsection is expected to reduce General Fund income tax revenues by \$339,286 in FY2010-11

**Subsection B:** This subsection amends Section 12-6-3620 ( C) and (D) by expanding the definition of biomass resource to include nonhazardous industrial solid waste recovered by a materials recovery facility in qualifying for the twenty-five percent income tax credit for taxpayers who purchase and install equipment that produces energy in the form of electricity, power, heat, steam, etc.) from biomass resources. This subsection also eliminates the January 31<sup>st</sup> deadline date for taxpayers to submit a request for the income tax credit to the State Energy Office for qualifying equipment placed into service in the previous calendar year. According to the State Energy Office, equipment that produces energy from biomass resources can cost up to \$20,000,000. It is anticipated that one facility currently operating in the state will place into service energy-producing equipment using nonhazardous industrial solid waste recovered by a materials recovery facility in FY2010-11. This income tax credit is nonrefundable and is capped at \$650,000 per taxpayer per year. This subsection is therefore expected to reduce

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General Fund income tax revenue by \$650,000 in FY2010-11.

**Subsection C:** This subsection amends 12-6-3631(B)(1) and (E) by allowing taxpayers for taxable years beginning after 2007, and before 2012, a credit against income taxes for qualified expenditures for research and development of demethylation of glycerin byproduct from biodiesel production. This subsection also amends this section by eliminating the January 31<sup>st</sup> deadline date for taxpayers to submit a request for the income tax credit to the State Energy Office for qualifying property and facilities placed into service in the previous calendar year. According to the State Energy Office, there is currently one facility, in operation since 2009, in South Carolina that demethylizes glycerin derived from biodiesel production. The reported cost of research and development of this process incurred in 2009 was \$1,500,000. Applying the twenty-five percent, the credit equals \$375,000. The total credit per taxpayer allowed pursuant to this section may not exceed \$100,000. This subsection is, therefore, expected to reduce General Fund income tax revenues by \$100,000 in FY2010-11.

**Subsection D:** This subsection amends Section 12-63-20(A)(1) by adding a five-cent incentive payment to retailers or wholesalers for each pound of renewable fuel or biomass resource sold to produce electricity which may be used to recharge electric highway vehicles. Incentive payments pursuant to this section are provided directly from the General Fund. There is currently one facility, in operation since 2009, in South Carolina that manufactures solid nonpetroleum-based fuel used to produce electricity that may be used to charge electrically charged vehicle batteries. This facility has sold 5.6 million pounds of fuel in one month to just one company, or potentially, 67.2 million pounds in one year. Multiplying 67.2 million pounds by five cents equals a \$3,360,000 reduction in the General Fund in FY2010-11. This subsection also amends Section 12-63-20(B)(1)(b) by adding biomass resources or renewable fuels produced by a facility to be used for energy production a thirty cent per therm (100,000 btu) incentive payment. Incentive payments pursuant to this section are provided directly from the General Fund. There is currently one facility, in operation since 2009, in South Carolina that produces biomass resources or renewable fuels to be used for energy production. The total credit per taxpayer is capped at \$100,000 per year for five years. We therefore estimate that this amendment will reduce the General Fund by \$100,000 in FY2010-11. In total, this subsection is expected to reduce the General Fund by \$3,460,000 in FY2010-11.

### Explanation of Bill filed February 11, 2009

Section 1 of this bill clarifies that certain boats do not get an unintended double benefit from two competing code sections that, in effect, lower the assessment ratio on boats. SC Code Section 12-37-220(B)(38)(b) of the Code was added by Act 116 of 2007 and allows counties by ordinance to exempt 42.75% of the fair market value of a watercraft and its motor. SC Code Section 12-37-224 was added by Act 66 of 2007 and allows certain boats on which the interest portion of indebtedness is deductible pursuant to the IRS Code as an interest expense on a qualified primary or secondary residence to be assessed effectively at 6.0% or 4.0% if a primary residence. Due to these two Code Sections boats that meet the requirements of 12-37-224 could effectively become assessed at 3.4% or 2.3% if a county passed an ordinance under 12-37-220(B)(38)(b). Section 1 of this bill clarifies that the 42.75% exemption under 12-37-220(B)(38)(b) does not apply to boats that are classified as a primary or secondary residence pursuant to Code Section 12-37-224.

Section 3 is not expected to negatively impact local property tax revenues.

/s/ William C. Gillespie  
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Chief Economist

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<sup>1/</sup> This statement meets the requirement of Section 2-7-71 for a state revenue impact by the BEA, or Section 2-7-76 for a local revenue impact or Section 6-1-85(B) for an estimate of the shift in local property tax incidence by the Office of Economic Research.