



STATE OF SOUTH CAROLINA
DEPARTMENT OF REVENUE

300A Outlet Pointe Blvd., Columbia, South Carolina 29210
P.O. Box 12265, Columbia, South Carolina 29211

SC REVENUE RULING #17-6

SUBJECT: Refundable Motor Fuel Income Tax Credit
(Income Tax)

EFFECTIVE DATE: Tax years beginning in 2018

REFERENCES: S.C. Code Section 12-6-3780 (2017 S.C. Acts, Act No. 40)

AUTHORITY: S.C. Code Ann. Section 12-4-320 (2014)
S.C. Code Ann. Section 1-23-10(4) (2005)
SC Revenue Procedure #09-3

SCOPE: The purpose of a Revenue Ruling is to provide guidance to the public. It is an advisory opinion issued to apply principles of tax law to a set of facts or general category of taxpayers. It is the Department's position until superseded or modified by a change in statute, regulation, court decision, or another Department advisory opinion.

OVERVIEW:

Beginning July 2017, the motor fuel user fee increased from 16 cents a gallon to 18 cents a gallon.¹ It will increase by two cents a gallon each year for the next five years. The funds raised by the increase will be used for repairs, maintenance, and improvements to South Carolina's existing transportation system.

To offset the motor fuel user fee increase paid, Code Section 12-6-3780 was enacted to allow a resident taxpayer a refundable motor fuel income tax credit for up to two private passenger motor vehicles or motorcycles registered in South Carolina during the year, subject to certain limitations. The credit is first available for tax years beginning in 2018 and is claimed on the resident taxpayer's income tax return.

¹Code Section 12-28-310 imposes the motor fuel user fee. Code Section 12-28-2355 continues to impose an inspection fee of one-fourth cent a gallon on petroleum products and an environmental impact fee of one-half cent a gallon (a total 0.75 cent a gallon). Accordingly, the total motor fuel tax rate is 18.75 cents a gallon as of July 1, 2017.

QUESTIONS AND ANSWERS:

This advisory opinion provides guidance and examples regarding the provisions of the motor fuel income tax credit. This question and answer document addresses questions in the following general areas:

- I. General Credit Information
- II. Eligible Taxpayer
- III. Qualifying Vehicles
- IV. Gasoline, Diesel and Other South Carolina Fuel Purchases for Highway Use
- V. Preventative Maintenance Costs Incurred in South Carolina
- VI. Vehicles – General Information
- VII. General Filing Information
- VIII. Expenses and Documentation
- IX. Exhibit - Code Section 12-6-3780

I. GENERAL CREDIT INFORMATION

1. Q. When can a taxpayer first claim the credit?

- A. The credit may first be claimed for tax years beginning in 2018 for expenses incurred during the tax year. (See Question 32 for more information.)

Note: For tax years beginning in 2023, the credit is repealed unless reauthorized by the General Assembly.

2. Q. How is the credit claimed?

- A. The credit is claimed on the resident taxpayer's income tax return. The credit is calculated on South Carolina Form I-385, "Motor Fuel Income Tax Credit." This form must be included with the taxpayer's income tax return.

3. Q. What is the credit?

- A. A resident taxpayer may claim a credit for up to two private passenger motor vehicles or motorcycles² registered in South Carolina. The credit may not exceed the lesser of the resident taxpayer's:

(a) actual motor fuel user fee increase incurred on purchases of motor fuel in South Carolina subject to the motor fuel user fee in Code Section 12-28-310(D) for an eligible vehicle or

(b) actual expenditures incurred in South Carolina on preventative maintenance for an eligible vehicle (e.g., new tires, oil changes, and regular vehicle maintenance).

²For simplicity, the use of the terms private passenger motor vehicles or motorcycles in this document may be referenced as "vehicles."

4. Q. Is there a maximum total credit amount available each year for all taxpayers?
- A. The statute sets a maximum dollar amount of total credit that may not be exceeded for all taxpayers. The maximum credit amount for each tax year is:

Tax Year	Total Credit
2018	\$40 million
2019	\$65 million
2020	\$85 million
2021	\$110 million
2022 and thereafter	\$114 million

5. Q. What is the credit “adjustment factor”?
- A. To account for the maximum credit amount, the Revenue and Fiscal Affairs Office will provide the Department a credit “adjustment factor” each year in the event necessary. This method of determining the maximum credit allows all qualifying taxpayers an opportunity to receive a motor fuel income tax credit. The credit “adjustment factor” applicable to a tax year, if necessary, will be provided each year on the motor fuel income tax credit form.

6. Q. Is the credit refundable?
- A. Yes. A refundable credit reduces a taxpayer’s South Carolina income tax owed. It provides a refund to a taxpayer who owes no tax or a partial refund to a taxpayer who owes less tax than the full credit amount. A refundable credit is not related to a taxpayer’s adjusted gross income or tax liability.

Example. If a taxpayer earns a \$20 motor fuel income tax credit, but has only a \$5 South Carolina income tax liability for the tax year, then he will offset his \$5 tax liability by \$5 of his refundable credit, and would receive a refund for the remaining \$15 motor fuel income tax credit. Assume instead that the taxpayer has a \$0 South Carolina income tax liability for the tax year; if so, he would be refunded the entire \$20 motor fuel income tax credit.

II. ELIGIBLE TAXPAYER

7. Q. Who is the “taxpayer” that qualifies for the credit?
- A. A “taxpayer” must be a South Carolina resident taxpayer to qualify for the credit. A resident taxpayer may be an individual, partnership, corporation, trust, estate or any other entity subject to South Carolina income tax or required to file an income tax return. A nonresident taxpayer does not qualify for the credit.

A “resident individual” is an individual domiciled in South Carolina. A resident individual includes a “part-year resident” (a resident individual for only a portion of the tax year).

A “resident corporation” is a corporation whose principal place of business is located in South Carolina. A “resident partnership” is a partnership whose principal place of business is located in South Carolina. Note: An entity “doing business” in South Carolina whose principal place of business is not in South Carolina does not qualify for the credit. See Code Section 12-6-30.

8. Q. Who is the “taxpayer” that qualifies for the credit when a married couple files a joint return?
 - A. Each individual filing a joint return is a “taxpayer.” In other words, there are two taxpayers on a joint return and each resident individual is eligible for a credit. Each spouse may claim a credit for up to two private passenger motor vehicles or motorcycles registered in his or her name in South Carolina during the year. They may not both claim a credit on the same vehicle. (See Questions 24 and 29 for further explanation.)
9. Q. Is a pass through entity eligible for the credit?
 - A. A resident S corporation, resident partnership, or resident limited liability company taxed as an S corporation or partnership is eligible for the credit.
10. Q. Is a sole proprietorship eligible for the credit?
 - A. A sole proprietorship is not regarded as an entity separate from its individual owner. Accordingly, the sole proprietorship is treated as owned by the individual owner and the individual is the taxpayer eligible for the credit.
11. Q. Is a single member limited liability company, not taxed as a corporation, eligible for the credit?
 - A. A single member limited liability company that is not taxed as a corporation is not regarded as an entity separate from its owner. Therefore, if a single member limited liability company does not elect to be treated as a corporation, it will be treated as part of its owner, e.g., as a sole proprietorship if it is owned by an individual, a division of a corporation if it is owned by a corporation, and a division of a partnership if it is owned by a partnership. Accordingly, the resident individual, resident corporation or resident partnership, respectively, is the taxpayer eligible for the credit.
12. Q. Is a resident who is not required to file a South Carolina income tax return eligible for the credit?
 - A. Yes, but a qualifying taxpayer must file a South Carolina income tax return to claim the credit. For example, a retired individual or student who does not meet South Carolina’s minimum filing requirement or a nonprofit organization that has no filing requirement (i.e., no unrelated business income) would have to file a South Carolina income tax return to claim the credit.

III. QUALIFYING VEHICLES

13. Q. What types of vehicles qualify for the credit?

- A. Only private passenger motor vehicles of a resident taxpayer registered in South Carolina qualify for the credit.

A private passenger motor vehicle is defined in Code Section 56-3-630 as a:

(a) motor vehicle designed, used, and maintained for the transportation of 10 or fewer persons and

(b) truck having an empty weight of 9,000 pounds or less and a gross weight of 11,000 pounds or less.

Based on the above, vehicles that qualify include cars, minivans, sport utility vehicles, and pickup trucks of a certain weight.

14. Q. Does a leased vehicle qualify for the credit?

- A. Yes, if the leased vehicle is registered in South Carolina in the resident taxpayer's name.

15. Q. Do motorcycles and other two-wheeled or three-wheeled cycles qualify for the credit?

- A. Yes, a motorcycle, motorcycle three-wheel vehicle, or moped³ registered in South Carolina in the name of the resident taxpayer qualifies for the credit.

16. Q. Is the credit available only for "new" vehicles?

- A. No. The credit is not limited to new vehicles or those vehicles first registered in South Carolina in 2018. Regardless of the age of the vehicle, a vehicle registered in South Carolina to a resident taxpayer during the qualifying tax year is eligible for the credit.

17. Q. What are examples of items that do not qualify for the credit?

- A. Examples of motorized items that are not eligible for the credit include the following: a truck having an empty weight over 9,000 pounds and a gross weight over 11,000 pounds, travel trailer, boat, golf cart, tractor, or all-terrain vehicle. In addition, an all-electric vehicle does not qualify for the credit.

³See Chapters 1 and 3 of Title 56 for definitions. Effective November 19, 2018, a moped qualifies for the credit under 2017 S.C. Acts, Act No. 89. For simplicity, references to "motorcycles" in this document also refer to three-wheel vehicles and mopeds.

IV. GASOLINE, DIESEL AND OTHER SOUTH CAROLINA FUEL PURCHASES FOR HIGHWAY USE

18. Q. What type of “motor fuel” qualifies for the credit?

- A. A user fee per gallon is imposed on all gasoline and gasohol used for any purpose in South Carolina and all diesel fuel or alternative fuel (e.g., compressed natural gas, liquefied petroleum gas, and liquefied natural gas) purchased in South Carolina and consumed in generating power for propelling motor vehicles. Motor fuel purchases eligible for the credit must be in South Carolina and must be subject to the motor fuel user fee. The fuel must be used in the resident taxpayer’s vehicle.

Note: The motor fuel income tax credit is not available for aviation fuel, dyed diesel, liquefied natural gas used in large trucks, or gasoline, diesel or other fuels used in a lawn mower, generator, boat, airplane, farm machinery, machinery designed for off-road use, etc. See Code Sections 12-28-310 and 12-28-320.

19. Q. What is the motor fuel user fee increase each year and what amount is used to calculate the credit?

- A. South Carolina’s motor fuel user fee will increase by 2 cents each July from 2017 to 2022. During this time, the motor fuel user fee will increase from 16 cents per gallon to 28 cents per gallon. The motor fuel user fee will remain at 28 cents per gallon beginning July 2022. The average increase in motor fuel user fee each calendar year will be used to calculate the income tax credit each tax year. The amounts are listed below.

Tax Year	Motor Fuel User Fee Increase January – June	Motor Fuel User Fee Increase July – December	Amount Used for Income Tax Credit Purposes (Average Yearly Increase in Motor Fuel User Fee)
2017	n/a	2 cents	No credit allowed for tax year 2017
2018	2 cents	4 cents	3 cents
2019	4 cents	6 cents	5 cents
2020	6 cents	8 cents	7 cents
2021	8 cents	10 cents	9 cents
2022	10 cents	12 cents	11 cents
2023 and thereafter	n/a	n/a	No credit unless reauthorized by the General Assembly

20. Q. What is the “gasoline gallon equivalent” or “diesel gallon equivalent” conversion factor used to calculate the credit on purchases of compressed natural gas, liquefied petroleum gas, and liquefied natural gas?

A. Since the motor fuel user fee is imposed on a per gallon basis, the calculation of the motor fuel user fee for compressed natural gas, liquefied petroleum gas, and liquefied natural gas used in a motor vehicle must be converted into gallons. For the purpose of calculating the motor fuel user fee on compressed natural gas purchased in South Carolina and used in producing or generating power for propelling a motor vehicle, each 126.67 cubic feet of compressed natural gas (or 5.66 pounds if the compressed natural gas is dispensed via a mass flow meter) equals one gallon of motor fuel. For the purpose of calculating the motor fuel user fee on liquefied petroleum gas purchased in South Carolina and used in producing or generating power for propelling a motor vehicle, each gallon of liquefied petroleum gas equals .73 of a gallon of motor fuel. For the purpose of calculating the motor fuel user fee on liquefied natural gas purchased in South Carolina and used in producing or generating power for propelling a motor vehicle, each 6.06 pounds of liquefied natural gas equals one gallon of motor fuel. See Code Sections 12-28-120, 12-28-110(73) and 12-28-110(74).

V. PREVENTATIVE MAINTENANCE COSTS INCURRED IN SOUTH CAROLINA

21. Q. What qualifies as a “preventative maintenance” cost eligible for the credit?

A. Preventative maintenance costs eligible for the credit include new tires, oil changes, regular vehicle maintenance, and the like. These costs must be incurred in South Carolina for a vehicle registered in South Carolina to qualify.

Note: General costs associated with owning, operating, and registering a vehicle are not eligible for the credit. Ineligible costs include, but are not limited to, infrastructure maintenance fees paid upon registering a vehicle in South Carolina, license plate fees, insurance, property taxes, interest expense on vehicle loans, costs reimbursed by insurance, or body and paint work expenses.

VI. VEHICLES – GENERAL INFORMATION

22. Q. How many vehicles may each taxpayer use in computing the credit?

A. A taxpayer may claim a credit for up to two private passenger motor vehicles or motorcycles, providing the vehicle or motorcycle is registered in South Carolina in the name of the resident taxpayer.

If a taxpayer owns or leases more than two vehicles or motorcycles in the tax year, then the taxpayer may choose a combination of any two to use in computing the credit. For example, a taxpayer may be eligible to claim a credit for two private passenger motor vehicles, or a credit for one private passenger motor vehicle and one motorcycle, or a credit for two motorcycles.

A taxpayer may not, however, claim a credit for two private passenger motor vehicles and two motorcycles. The choice of qualifying vehicles is made each tax year by each taxpayer.

23. Q. If a taxpayer trades in a vehicle (Vehicle A) during the tax year and purchases another vehicle (Vehicle B), or totals a vehicle (Vehicle A) and replaces the wrecked vehicle with another vehicle (Vehicle B), are both the “old” and the “new” vehicles eligible for the credit?

A. Both Vehicle A and Vehicle B are eligible for the credit. The vehicle traded in or totaled (Vehicle A) and the replacement vehicle (Vehicle B) count as “one vehicle equivalent” when determining the number of vehicles a taxpayer may use in computing the credit. The taxpayer will combine the motor fuel expenses of the “old” vehicle (Vehicle A) and the “new” vehicle (Vehicle B) and will combine the preventative maintenance expenses of the “old” vehicle (Vehicle A) and the “new” vehicle (Vehicle B) for purposes of computing the credit. Note: The result is different if Vehicle A is sold after the purchase of Vehicle B.

Example. A resident taxpayer trades in his small pickup truck in June and purchases a Volvo. He also owns a BMW the entire year. On the motor fuel income tax credit form, I-385, the taxpayer will list as “Vehicle 1” the vehicle make, model, tag number and other information of the vehicle owned and registered in South Carolina (i.e., the Volvo). He will combine his motor fuel expenses and preventative maintenance expenses paid during the year for the pickup truck and the Volvo and report the total combined expenses as “Vehicle 1” on the credit form. His BMW is eligible for the credit as “Vehicle 2.” Note: A taxpayer is not eligible to claim the credit on three vehicles; he may choose a combination of any two vehicles or “vehicle equivalents” to use in computing the credit.

24. Q. How do taxpayers filing a joint South Carolina income tax return determine which vehicle each spouse (i.e., each taxpayer) may use in computing the credit?

A. For a couple filing a joint return, the number of vehicles or motorcycles eligible for the credit by each spouse depends upon the name or names in which the vehicle is registered. One taxpayer may claim a credit for up to two private passenger motor vehicles or motorcycles. It is possible for a married couple filing a joint return to claim credit for up to four vehicles or motorcycles.

Example 1 – Jointly Owned Vehicles: Assume a couple filing a joint resident South Carolina individual income tax return owns three vehicles. All vehicles are registered jointly in the names of both spouses. Spouse 1 may choose which two of the vehicles to use in computing his credit and Spouse 2 will use the third vehicle in computing her credit.

Example 2 – Individually Owned Vehicles: Assume a couple filing a joint resident South Carolina individual income tax return owns four vehicles. All vehicles are registered solely in the name of Spouse 1. Spouse 1 may choose which two of the vehicles to use in computing his credit. Spouse 2 is not eligible for the credit.

Example 3 – Jointly Owned, Individually Owned, Business Owned, and Dependent Owned Vehicles: The following illustrates which vehicle a spouse (i.e., which taxpayer) may use in computing his/her credit when multiple cars are registered in various ways. This example assumes a couple files a joint resident South Carolina individual income tax return, the family owns multiple vehicles, all vehicles are registered in South Carolina, the vehicles are registered either separately, jointly or in the name of a sole proprietorship or single member limited liability company, as listed in the chart below, and a dependent has a vehicle registered in his name.

Vehicle	Name on Car Registration	Taxpayer Eligible for Credit
Vehicle 1	Husband	Husband
Vehicle 2	Sole Proprietorship – Husband is Owner of Business	Husband
Vehicle 3	Husband and Wife	Either husband or wife is eligible, but not both
Vehicle 4	Wife	Wife
Vehicle 5	Wife and Wife’s Elderly Parent	Either wife or parent is eligible, but not both
Vehicle 6	Single Member LLC – Wife is Owner of Disregarded LLC	Wife
Vehicle 7	Dependent	Neither husband nor wife is eligible. Dependent is the eligible taxpayer.

In this example, Taxpayer 1 (husband) may be eligible for the credit on two vehicles – he may choose to compute the credit based on expenses of Vehicle 1, 2, or 3. Taxpayer 2 (wife) may also be eligible for the credit on two vehicles – she may choose to compute the credit based on expenses of Vehicle 3, 4, 5, or 6. They may not both claim a credit on the same vehicle (i.e., Vehicle 3.) Neither spouse may claim a credit on the vehicle registered in the name of their dependent - Vehicle 7. (See Question 30 regarding the claiming of the credit by a dependent.)

25. Q. Is a vehicle used for both personal and business use eligible for the credit?
- A. A vehicle used for both personal and business use by a taxpayer (e.g., a realtor, a home health nurse, a food delivery person) is eligible for the credit, providing the vehicle is a private passenger motor vehicle or motorcycle and the vehicle is registered in South Carolina in the name of the resident taxpayer.
26. Q. Is a vehicle used exclusively in a business eligible for the credit?
- A. A vehicle used exclusively in a business (e.g., a fleet of security trucks, fleet of house cleaning cars, or an auto dealer’s courtesy minivan) is eligible for the credit, providing the vehicle is registered in South Carolina in the name of the resident taxpayer. Further, the business vehicle must be a private passenger motor vehicle designed, used, and maintained for the transportation of ten or fewer persons, a truck having an empty weight of 9,000 pounds or less and a gross weight of 11,000 pounds or less, or a motorcycle.

27. Q. Does a vehicle registered in the name of a sole proprietorship or single member limited liability company which is disregarded for tax purposes affect the number of vehicles a taxpayer may use in computing the credit?
- A. A vehicle registered in the name of an individual's sole proprietorship is considered a vehicle owned by the individual taxpayer for purposes of the credit. For example, assume a resident individual owns two vehicles in his name and his sole proprietorship owns one vehicle in its name. The individual must choose which two of the three vehicles to use in computing the credit. The individual may not claim a credit for three vehicles and the sole proprietorship may not claim a credit for any vehicle. The result is the same if the vehicle is owned in the name of a single member limited liability company that is disregarded for tax purposes. (See example in Question 24.)
28. Q. Does the vehicle have to be owned by the taxpayer the entire tax year to be eligible for the credit?
- A. No. A vehicle is eligible for the credit during the time it is registered in South Carolina by a resident taxpayer. Eligible expenses, however, are those incurred only in South Carolina. For example, a vehicle that is totaled in a wreck and not replaced in the tax year qualifies for the credit during the period the vehicle is registered in South Carolina. Likewise, if a resident individual purchases his first vehicle in the spring after graduation from school, then the vehicle qualifies for the credit for the portion of the year the vehicle is registered in South Carolina.

VI. GENERAL FILING INFORMATION

29. Q. How is the credit calculated and claimed by a resident taxpayer?
- A. The credit is claimed on the resident taxpayer's income tax return. The credit is calculated on South Carolina Form I-385, "Motor Fuel Income Tax Credit." This form must be included with the resident taxpayer's income tax return. The credit is available for up to two private passenger motor vehicles or motorcycles per taxpayer. The credit is computed separately for each vehicle or motorcycle.

Full Year or Part-Year Individual Resident. A resident individual claims the credit on Form SC 1040. He completes Form I-385, "Motor Fuel Income Tax Credit," for up to two private passenger motor vehicles or motorcycles (see above rules for vehicles owned by a sole proprietorship or disregarded limited liability company and vehicles owned by dependents) and attaches the credit form to his income tax return. The credit may be used to reduce his tax liability, applied to estimated payments, donated to a check-off fund, or refunded.

For a couple filing a joint return, each spouse generally must complete a separate Form I-385. Each spouse may claim a credit for up to two private passenger motor vehicles or motorcycles. If the couple owns only one vehicle or owns two vehicles that are registered in both names, then only one Form I-385 must be completed. The credit, if requested to be refunded, will be issued as a joint refund.

C Corporation, Savings and Loan Association, Public Utility or Nonprofit Organization.

A resident business entity claims the credit on its tax return, i.e., SC Form 1120, 1104, 1120U, or 990-T, respectively. It completes Form I-385, "Motor Fuel Income Tax Credit," for up to two private passenger motor vehicles or motorcycles and attaches the credit form to its income tax return. The credit may be used to reduce its income tax or license fee liability or may be applied to estimated tax payments. Any credit remaining will be refunded to the business entity.

S Corporation. A resident S Corporation claims the credit on Form SC 1120S. It completes Form I-385, "Motor Fuel Income Tax Credit," for up to two private passenger motor vehicles or motorcycles and attaches the credit form to its income tax return. The credit may be used to reduce its income tax or license fee liability or may be applied to estimated tax payments. As an offset to the motor fuel user fee increase or the preventative maintenance costs incurred by the S Corporation, any credit remaining will be refunded to the S Corporation.

Partnership. A resident partnership claims the credit on Form SC 1065. It completes Form I-385, "Motor Fuel Income Tax Credit," for up to two private passenger motor vehicles or motorcycles and attaches the credit form to its partnership income tax return. As an offset to the motor fuel user fee increase or the preventative maintenance costs incurred by the partnership, the entire credit will be refunded to the partnership.

Limited Liability Company Taxed as a Corporation or Partnership. See above discussion for Corporations or Partnerships, as appropriate.

Sole Proprietorship. The credit is claimed by the individual owner on his Form SC 1040. The individual completes Form I-385, "Motor Fuel Income Tax Credit," for up to two private passenger motor vehicles or motorcycles and attaches the credit form to his income tax return. The credit may be used to reduce the individual's tax liability, applied to estimated payments, donated to a check-off fund, or refunded. (See Question 27 regarding the combination of vehicles an individual may choose in computing the credit.)

Single Member Limited Liability Company that is a Disregarded Entity. The credit is claimed by the owner of the limited liability company (e.g., if an individual is the owner of the limited liability company, then the individual claims the credit on his Form SC 1040, if a partnership is the owner of the limited liability company, then the partnership claims the credit on its Form SC 1065, etc.). The sole member of the limited liability company (e.g., the individual, the partnership) completes Form I-385, "Motor Fuel Income Tax Credit," for up to two private passenger motor vehicles or motorcycles and attaches the credit form to his/its income tax return.

Nonresident. A nonresident is not eligible for the credit and does not complete Form I-385, "Motor Fuel Income Tax Credit." (See Question 7 regarding eligible taxpayers.)

30. Q. May a parent claim the credit on behalf of a dependent?
- A. A parent is not eligible to claim credit for a vehicle that is registered in the name of a dependent. The dependent must file a resident South Carolina income tax return to claim the credit.
31. Q. If a taxpayer fails to claim the credit on an original return, can an amended South Carolina income tax return be filed to claim the credit?
- A. Yes. An amended South Carolina income tax return can be filed if the time limitation period for filing a refund claim is open. The taxpayer must attach a completed motor fuel income tax credit form, Form I-385, to the amended return. See Code Section 12-54-85 and SC Revenue Procedure #13-1.

VIII. EXPENSES AND DOCUMENTATION

32. Q. Are vehicle expenses incurred by a taxpayer from July 1, 2017 through December 31, 2017 eligible for the credit?
- A. No. The income tax credit is first effective for tax years beginning in 2018. Motor fuel expenses and preventative maintenance expenses incurred before January 1, 2018 are not eligible for the credit.
- Calendar Year Taxpayer. For a calendar year 2018 taxpayer, motor fuel expenses and preventative maintenance expenses incurred January 1, 2018 – December 31, 2018 are used to compute the credit.
- Fiscal Year Taxpayer. For a fiscal year taxpayer, motor fuel expenses and preventative maintenance expenses incurred during its tax year beginning in 2018 are first used to compute the credit. For example, for a fiscal year taxpayer with a September year end, motor fuel expenses and preventative maintenance expense incurred October 1, 2018 – September 30, 2019 for its tax year beginning in 2018 are used to compute the credit. Expenses incurred during October 1, 2017 – September 30, 2018, the taxpayer's fiscal year that began in 2017, are not eligible for the credit.
33. Q. How are expenses determined for a taxpayer who is reimbursed mileage or deducts travel or maintenance expenses for income tax purposes?
- A. The expenses are determined based on actual expenses. The computation of the credit is determined without regard to: (1) the taxpayer deducting the South Carolina fuel and maintenance expenses as an ordinary and necessary business expense, (2) the taxpayer (employee) deducting the employee business expense as a miscellaneous itemized deduction, or (3) the taxpayer (employee) receiving of any mileage reimbursement provided by an employer. See Internal Revenue Code Sections 162 and 212.

34. Q. How does a part-year resident compute expenses used in determining the credit?
- A. Eligible expenses for a part-year resident begin on the date the vehicle is registered in South Carolina and only include the motor fuel user fee increases on motor fuel purchased in South Carolina and preventative maintenance expenses incurred in South Carolina while the individual is a South Carolina resident. The computation of the credit is determined without regard to any proration of deductions used by a part-year resident in determining South Carolina taxable income.

35. Q. How are motor fuel expenses and preventative maintenance expenses substantiated?

- A. A taxpayer must maintain documentary evidence to substantiate expenses incurred in South Carolina and reported on SC Form I-385, "Motor Fuel Income Tax Credit," such as gas receipts and paid maintenance invoices. Receipts or other documentation should not be included with the taxpayer's South Carolina income tax return when filed, but must be readily available in the event of a Department audit. Since fuel receipts can become illegible over time, a taxpayer may choose to scan or photocopy the receipts to have for future substantiation.

Fuel receipts or credit card statements must show the number of gallons purchased in South Carolina during the tax year. The maintenance invoices must show the car model, amount, and type of preventative maintenance work performed in South Carolina.

Note: Fuel purchased outside of South Carolina and preventative maintenance performed outside of South Carolina may not be used in determining the credit.

SOUTH CAROLINA DEPARTMENT OF REVENUE

s/W. Hartley Powell

W. Hartley Powell, Director

September 20, 2017
Columbia, South Carolina

EXHIBIT – South Carolina Infrastructure and Economic Development Reform Act
Act No. 40 of 2017 – Section 15 A and C

Section A. Code Section 12-6-3780 (A)(1). A resident taxpayer is allowed a refundable income tax credit for preventative maintenance on a private passenger motor vehicle as defined in Section 56-3-630, including motorcycles, registered in this State during the appropriate year, subject to other limitations contained in this section. The total amount of the credit may not exceed the lesser of: (i) the resident taxpayer's actual motor fuel user fee increase incurred for that motor vehicle as a result of increases in the motor fuel user fee pursuant to Section 12-28-310(D) or (ii) the amount the resident taxpayer expends on preventative maintenance. The resident taxpayer shall claim the credit allowed by this section on the resident taxpayer's income tax return in a manner prescribed by the department. The department may require any documentation it deems necessary to implement the provisions of this section. Notwithstanding any other provision of this section, a resident taxpayer may claim the credit for up to two private passenger motor vehicles, with the credit being calculated separately for each vehicle. For the purposes of this section, 'preventative maintenance' includes costs incurred within this State for new tires, oil changes, regular vehicle maintenance, and the like. In addition, 'motor fuel expenditures' are purchases of motor fuel within this State to which the motor fuel user fee imposed pursuant to Section 12-28-310(D) applies.

(2) Notwithstanding any other provision of this section:

- (a) For tax year 2018, the credit allowed by this section may not exceed forty million dollars for all taxpayers.
- (b) For tax year 2019, the credit allowed by this section may not exceed sixty-five million dollars for all taxpayers.
- (c) For tax year 2020, the credit allowed by this section may not exceed eighty-five million dollars for all taxpayers.
- (d) For tax year 2021, the credit allowed by this section may not exceed one hundred ten million dollars for all taxpayers.
- (e) For all tax years after 2021, the credit allowed by this section may not exceed one hundred fourteen million dollars for all taxpayers.

On or before September 30, 2018, and by September thirtieth of each year thereafter, the Revenue and Fiscal Affairs Office shall estimate the number of taxpayers expected to claim the credit for the current tax year and the total amount expected to be claimed. In the event that the Revenue and Fiscal Affairs Office estimates that the total amount of credits claimed will exceed the maximum amount of aggregate credit allowed pursuant to this item, the Revenue and Fiscal Affairs Office shall certify to the Department of Revenue a pro rata adjustment to the credit otherwise provided.

(B)(1) In order to offset the credit allowed by the section, on or before January 31, 2019, and by January thirty-first of each year thereafter, an amount of funds necessary to entirely offset the estimated credit as certified by the Revenue and Fiscal Affairs Office, must be transferred from the Safety Maintenance Account to the Department of Revenue. If any funds exist in the Safety Maintenance Fund after all the income tax credits are claimed for the year or if any transferred funds still exist after all the income tax credits are claimed for the year, the remainder must be credited to the Infrastructure Maintenance Trust Fund.

(2) If the transferred funds pursuant to item (1) are not sufficient to completely offset the credit, on or before January 31, 2019, and by January thirty-first of each year thereafter, the Department of Transportation shall transfer to the Department of Revenue an amount equal to the total amount of credits estimated by the Revenue and Fiscal Affairs Office to be claimed for the applicable tax year minus any amounts transferred pursuant to item (1). If the credit claimed by all taxpayers in a tax year is less than the amounts transferred pursuant to this item, then the excess shall revert back from the Department of Revenue to the Department of Transportation as soon as practicable within the same year that the transfer occurred.

(C) Unless reauthorized by the General Assembly, the credit allowed by this section may not be claimed for any tax year beginning after 2022.

* * *

Section C. This Section takes effect upon approval by the Governor, and subsection A first applies to tax years beginning after 2017.