Huge Shortfalls Projected in State Fund for Gas Tax Credits

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After S.C. income taxpayers can no longer claim tax credits to offset a 75-percent gas tax hike, the state transportation agency expects to have $114 million available annually for a new interstate-widening program – and to help fix crumbling bridges.

But newly released records reviewed by The Nerve show that over the next five years, the S.C. Department of Transportation will have to transfer a total estimated $300.1 million to cover projected shortfalls in a special account that will be used to fund the gas tax credits until they expire.

In the last tax year for the credit, the expected deficit is more than four times larger than the projected account balance, according to a revised fiscal impact statement on the gas-tax-hike law that went into effect last year. The state Revenue and Fiscal Affairs (RFA) Office on Tuesday provided The Nerve with its updated projections.

Fifteen months into the gas-tax-hike law, the special account had a balance of less than $21 million – well short of the $114 million that DOT expects to have available annually.

The problem, RFA documents show, is that expected tax credits claimed by S.C. income taxpayers over the next five years will far exceed estimated collections of a $250-per-vehicle registration fee for out-of-state vehicles.

The RFA estimates the individual tax credit for this tax year will average $10 per vehicle for up to two allowed vehicles. That amount, however, likely won't cover wear-and-tear expenses for motorists driving on the state's numerous pothole-riddled roads. DOT has said 80 percent of the state's 42,000 miles of roads needs to be resurfaced or rebuilt.

DOT chief Christy Hall did not respond to written questions this week from The Nerve about possible shortfalls in the state "Safety Maintenance Account," which is designated to fund gas tax credits. Asked what revenue sources DOT would use to cover any deficits in the account, a spokesman for the RFA referred The Nerve to DOT.

State lawmakers promised that revenues generated by the gas-tax-hike law, which raised the gas tax by 12 cents over six years from the base 16 cents, and increased various other taxes and fees, would be used to fix South Carolina's deteriorating roads and bridges.

Yet only five bridge projects are identified on the DOT's latest "IMTF (Infrastructure Maintenance Trust Fund) Project List," which totaled $586.2 million as of Sept. 30. DOT has identified 465 out of 750 "structurally deficient" bridges statewide to be replaced.

The Nerve in June revealed that the DOT plans to add $15 million annually to a separate 10-year, $1.51 billion bridge-replacement program – but not until 2024 after the gas tax credit expires, freeing those funds for bridges.

The DOT Commission last Thursday approved a new interstate-widening program in rural areas, dubbed the “Rural Interstate Freight Network Mobility Improvement Program,” which ranked five projects collectively costing an estimated $4.2 billion over 10 to 15 years.

The top three projects involve widening sections of I-26 between Columbia and Charleston, and I-95 in the state’s southwest corner. The other two projects involve widening portions of I-85 and I-77 in northern parts of the state.

DOT expects to have $114 million annually by 2024 after the tax credit program expires, of which $80 million would be used toward the interstate-widening program, while $15 million is earmarked for bridges, according to documents presented at last week’s DOT Commission meeting. Another $15 million would be used to “incentivize others to invest” in certain road projects “through a matching program,” and $4 million is designated for “routine maintenance,” documents show.

Under the proposal, following a public comment period, Hall would be “directed to begin the preliminary work” on the projects “once significant funding becomes available as the tax credits sunset.”

Under the gas-tax-hike law, new residents registering out-of-state vehicles with the S.C. Department of Motor Vehicles must pay a $250-per-vehicle “infrastructure maintenance fee” in addition to regular registration fees, which were increased under the gas-tax-hike-law. Revenues from the $250 fee are deposited in the state “Safety Maintenance Account” (SMA).

That account is supposed to be used under the law to offset gas tax credits claimed annually by S.C. income taxpayers starting next year to 2023. The maximum claimed credit is equal to whichever is lesser: the total increase in gas taxes paid by the taxpayer for each allowed vehicle in the tax year, or “preventative maintenance” costs, such as new tires and oil changes, for each eligible vehicle in the tax year. The credit is available for no more than two qualifying vehicles.

The state Revenue and Fiscal Affairs Office estimates that because of annual caps on the total amount of credits statewide, the average allowed credit per vehicle will range from $10 this tax year to $26 in 2022.

From July 1, 2017, when the gas-tax-hike law took effect, through Sept. 30 of this year, the SMA had a total balance of $20.7 million, state comptroller general records show. In its latest projection, the RFA estimates that $30.2 million will be in the account by Jan. 31 of next year.

But that amount would be nearly $9.8 million short of what the RFA projects will be needed to cover the total amount of expected gas tax credits claimed for this tax year, requiring DOT to transfer money to the state Department of Revenue by Jan. 31, according to the revised fiscal impact statement provided by the RFA to The Nerve.

The annual shortfall in the SMA is expected to continue growing each tax year, from $44.5 million in 2019 to $92.6 million in 2022, totaling $300.1 million in required transfers over the five-year period, according to the impact statement. The deficits are projected to rise as the gas tax increases yearly, allowing taxpayers to claim more credits.

Given the large projected shortfalls, it’s unclear how DOT in the short term will be able to finance a new, costly interstate-widening program – and, at the same time, use money from the same revenue source toward fixing numerous bad bridges in the state.

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