

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 37** HLS 161ES 86
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: February 18, 2016 2:58 PM	Author: BACALA
Dept./Agy.: Revenue	
Subject: Eliminates the cost caps on solar	Analyst: Deborah Vivien

TAX CREDITS OR SEE FISC NOTE GF RV Page 1 of 1
 Accelerates the termination date for the solar energy systems tax credit (Item #26)

Current law provides a refundable income tax credit up to \$10,000 calculated as the lesser of \$2/kw or 50% for purchased systems based on the cost and installation of an eligible solar system on a single family residence. Leased systems are eligible for a credit with a declining annual rate based on the size of the system, currently 38% or \$4,680 for FY 16. Annual credits are capped at \$20M per year for FY 16 and FY 17 and \$10M in FY 18 for all returns during that fiscal year, regardless of the tax year filed. The last date for installations is December 31, 2017 and the last allowable credit is 1/1/18. A federal credit of 30% of these costs is also available. Proposed law retains the calculation of the credit and reestablishes unlimited solar credits after 4/1/16 but only allows eligibility for systems purchased and installed prior to 4/1/16. The FY 16 cost cap remains at \$20M but only for claims filed between 7/1/15 and 4/1/16, regardless of tax year applicable. Any complete claims filed properly over the cap prior to 4/1/16 have no mechanism for payment and are eliminated by this bill. Incomplete claims filed before 4/1/16 are eligible to be paid in full if amended after 4/1/16.

EXPENDITURES	2016-17	2017-18	2018-19	2019-20	2020-21	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	\$0	\$0	\$0	\$0	\$0	\$0
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

REVENUES	2016-17	2017-18	2018-19	2019-20	2020-21	5 -YEAR TOTAL
State Gen. Fd.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	\$0	\$0	\$0	\$0	\$0	\$0
Annual Total						

EXPENDITURE EXPLANATION

There is no anticipated direct material effect on governmental expenditures as a result of this measure.

REVENUE EXPLANATION

In FY 15, the state issued \$81M in solar credits, a 33% increase over the prior year cost of \$63M. In 2015, the program cost was capped annually at \$20M in each of FY 16 and FY 17 and \$10M in FY 18. The program ends in FY 18 though returns can be filed and the state fisc could be impacted beyond FY 18. This bill effectively removes the annual cost caps by imposing the FY 16 cap only on claims filed between 7/1/15 and 4/1/16 and eliminating the caps in FY 17 and FY 18. However, the bill also limits the credits to systems purchased and installed by April 1, 2016. Current law allows systems purchased and installed by December 31, 2017.

According to the Department of Revenue, the bill eliminates any solar credits filed with full documentation in excess of the existing cap prior to April 1, 2016. This year, solar credit claims for purchased systems have already surpassed the FY 16 cap of \$10M with \$3.7M in claims pending for use against the FY 17 credit cap, once it becomes available July 1. The bill removes the language allowing any claims in excess of the cap to roll into the ensuing year's payments and allows new or amended claims to be paid after the existing excess claims are effectively denied, since the bill does not allow a mechanism to pay them. Leased systems still have \$4.1M under the cap of \$10M in FY 16 so are not yet impacted by the cap as of 1/31/16 but this could be the result of delayed filings in anticipation of a change in policy. This bill allows any system credits filed after 4/1/16 to be issued without limit as long as the paperwork states that the system was installed prior to 4/1/16. There is no data readily available concerning the backlog of credits that may be filed after the 4/1/16 deadline.

The annual solar credit cost caps are eliminated in this bill after 4/1/16, which could allow all outstanding credits to be claimed without limit, most likely exposing the state to revenue reductions, especially in FY 16 and FY 17. This could be offset in FY 16 by the denial of claims for those filing properly prior to 4/1/16 but whose credits are in excess of the existing cap since the bill has no provision for paying these claims. The net impact to state revenue is unknown because installation activity prior to 4/1/16 is not readily available to determine whether claims will be in excess of current cost caps. Based on the rapid cost increases of solar credits issued in the past and the elimination of the cost caps for the remainder of the program in this bill, net costs to the state could be much larger than any model predictions.

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| <u>Senate</u> | <u>Dual Referral Rules</u> | <u>House</u> |
| <input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H} | <input type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S} | |
| <input checked="" type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H} | <input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S} | |

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