LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 705** HLS 13RS 988
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: April 27, 2013 10:25 AM
Author: PONTI
Dept./Agy.: Revenue
Subject: Changes solar electric system income tax credits
Analyst: Deborah Vivien

TAX CREDITS OR INCREASE GF RV See Note

Provides relative to solar energy systems tax credit and removes wind energy systems tax credit

Current law provides a refundable income tax credit of 50% of the purchase and installation of a residential wind or solar system up to $25,000 ($12,500 in credits) paid from income or franchise tax proceeds. The credit is allowed for single family and multi-family residence installations and is issued to the homeowner, installer, or a third party system lessor. The program cost is not capped and does not sunset. The credit is limited to one system per residence. The Department of Revenue and Natural Resources (DNR) promulgate rules.

Proposed law adds sales tax proceeds to source payment of the credit, removes wind systems, strikes apartments from language and terminates the credit in 2020. Base eligible expenses (purchase plus installation) are the same for solar electric systems and reduced to $10,000 in maximum eligible expense for solar thermal systems. The credit remains at 50% of eligible expenses ($12,500 electric or $5,000 thermal) through 12/31/16, then declines to 35% from 1/1/17 - 12/31/20 ($8,750 electric or $3,500 thermal), after which the credit sunsets. The bill is not clear whether one or both systems are eligible per residence. DNR is no longer consulted for rules.

EXPENDITURES	2013-14	2014-15	2015-16	2016-17	2017-18	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	2013-14	2014-15	2015-16	2016-17	2017-18	5 -YEAR TOTAL
State Gen. Fd.	$0	$0	$0	$0	INCREASE	**$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**

EXPENDITURE EXPLANATION

The bill generally requires similar administrative duties as the existing credit. Thus, there is no anticipated direct material effect on governmental expenditures as a result of this measure. Any additional expenses will be absorbed within the agency's budget.

REVENUE EXPLANATION

This note assumes that the bill allows only one solar system per residence, though the bill refers to one system and both systems allowed per residence. Additionally, it is not clear whether apartments are actually excluded from participation in the program since an apartment is also a residence. Apartments appear to make up 20-30% of the claims, and excluding them would reduce the credits issued under this program.

Without a definite change to the treatment of apartments, the bill is not expected to materially change the cost of the program until 1/1/17, since the rates and base eligible expenses for solar electric systems stay the same. The only change is a reduction in maximum eligible expenses for solar thermal systems (reduced from $25,000 to $10,000). However, a sample of returns as well as industry information indicate that the cost and installation of most thermal systems does not currently exceed this amount. However, from 1/1/17 through 12/31/20, the rate for either system is reduced to 35% while the maximum eligible expenses remain the same. Lowering the rate from 50% to 35% is a 30% reduction in credits ($12,500 to $8,750 for solar electric and $5,000 to $3,500 for solar thermal). Assuming 10% growth per year in claims beginning with $24 M in FY 12 (a conservative growth rate compared with historical performance of 75-85% annual growth), the cost of the program would grow to $42.5 M by FY 18 under current law. Applying a 30% reduction in FY 18 (the year that tax year 2017 primarily impacts the state fisc) would effectively increase SGF net receipts by about $13 M as a result of less program credits being realized. total Program costs to the state would still be almost $30 M. If the program grows more quickly than 10%, the savings would be greater and the net cost of the program would also be greater. The opposite would be true if the program grows more slowly or declines in cost over time due to influences outside the scope of this legislation.

There is no anticipated impact from the removal of wind systems since few if any systems were installed under the program. Components allowable as eligible expenses appear to mirror the current program, and the LFO has not been made aware of any differences, in wording or interpretation.

Senate	Dual Referral Rules	House
☐ 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}		☐ 6.8(F) >= $500,000 Annual Fiscal Cost {S}
☒ 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}		☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

Gregory V. Albrecht
Gregory V. Albrecht
Chief Economist