

LEGISLATIVE FISCAL OFFICE

Fiscal Note



Fiscal Note On: **SB 90** SLS 07RS 324
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

| | |
|--|------------------------------|
| Date: May 18, 2007 3:55 PM | Author: GAUTREAUX, N. |
| Dept./Agy.: Revenue | Analyst: Charley Rome |
| Subject: Provides tax credit for wind or solar energy systems | |

TAX EXEMPTIONS OR DECREASE GF RV See Note Page 1 of 1
 Provides a refundable individual income tax credit for the installation of a wind or solar energy system. (gov sig)

The bill defines a "wind energy system" as a system of apparatus and equipment capable of intercepting and converting wind energy into mechanical or electrical energy and transferring this energy by a separate apparatus to the point of use or storage. The bill also defines a "solar energy system" as an energy system that collects or absorbs sunlight for conversion into electricity or an energy system that collects or absorbs solar energy for conversion into heat for the purposes of space heating, space cooling, or water heating. The bill provides a refundable wind or solar energy system tax credit against individual income tax for the cost of purchase and installation of a wind or solar energy system by a resident individual at his residence located in this state. Provides that the credit may be claimed in cases where an individual purchases a newly constructed home with such a system already installed or where such a system is purchased and installed at an existing home. Proposed law provides that the credit shall be equal to 50% of the cost of the wind or solar energy system, including installation costs, that is purchased and installed on or after January 1, 2008. Effective on January 1, 2008.

| EXPENDITURES | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 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 | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | \$0 |
| Annual Total | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |

| REVENUES | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 5 -YEAR TOTAL |
|---------------------|----------------|----------------|----------------|----------------|----------------|----------------------|
| State Gen. Fd. | DECREASE | DECREASE | DECREASE | DECREASE | DECREASE | |
| 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 | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | \$0 |
| Annual Total | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |

EXPENDITURE EXPLANATION

The Department estimates additional costs associated with administering these credits of as much \$122,700 in Fiscal Year 2007-08. Of this amount, \$72,900 is one-time costs for system programming and form design. Additionally, the Department anticipates a cost of \$44,800 in Fiscal Year 2007-08 for one additional Revenue Tax Specialist to handle processing and auditing of tax credits. These personnel costs rise to an estimated \$62,000 in Fiscal Year 2008-09 to reflect a full year's cost for this employee. Costs in outlying year for this position are increased by 4 percent each year. It is uncertain that this level of costs would be associated with this credit program alone.

REVENUE EXPLANATION

State general fund revenues will decline by unknown amounts in Fiscal Year 2007-08 and thereafter due to the proposed legislation. Although there is a similar credit at the federal level, it was not effective until the 2006 tax year and no federal statistics are yet available for 2006. However, research indicates that a solar energy system can cost anywhere from \$10,000 to \$40,000, and a typical wind energy system can cost anywhere from \$25,000 to \$35,000. Based on this, the credit provided by this legislation (50% of cost) could be anywhere from \$5,000 to \$20,000 per system. Also, the bill places no limit on the total amount of credit allowed, and any amount in excess of an individual's income tax liability constitutes an overpayment to be refunded from current collections.

From a baseline perspective, it is unlikely that large numbers of these systems are currently being installed (either in new construction or retrofitted). However, a 50% credit applied to the typical cost of these systems implies that it does not take very many installations to achieve a material revenue loss to the state: just 25 - 100 systems would generate \$500,000 of tax credits. In addition, a 50% credit may induce a material increase in the number of such systems installed each year, further increasing overall revenue losses from this credit.

Senate Dual Referral Rules
 13.5.1 >= \$500,000 Annual Fiscal Cost
 13.5.2 >= \$500,000 Annual Tax or Fee Change

House
 6.8(F) >= \$500,000 Annual Fiscal Cost
 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease

Gregory V. Albrecht
Gregory V. Albrecht
Chief Economist