LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **SB 231** SLS 13RS 456
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: April 22, 2013 9:08 AM
Author: MARTINY
Dept./Agy.: Revenue
Subject: Changes solar income tax credits
Analyst: Deborah Vivien

TAX/TAXATION OR DECREASE GF RV See Note

Deletes the tax credit for wind energy systems and changes the credit for solar "energy" systems to a tax credit for both solar "electric" systems and solar "thermal" systems. (gov sig)

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). 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.
Proposed law allows the credit to be taken against franchise and sales tax, removes wind systems, strikes apartments from language and terminates the credit in 2020. Base eligible expenses (purchase plus installation) are changed to: leased solar electric system - the smaller of total energy needs or $25,00; an owned electric system - a minimum cost of $54,000; thermal systems owned or leased - the smaller of total energy needs or $10,000. The credit is 50% of the eligible expenses through 12/31/16, then reduced to 35% from 1/1/17 through the credit's termination on 12/31/20. The credit is expanded to allow one residence to qualify with two systems: electric and thermal.

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

REVENUES	2013-14	2014-15	2015-16	2016-17	2017-18	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	$0	$0	$0	$0	$0	**$0**
Annual Total						

EXPENDITURE EXPLANATION

The Department of Revenue administers this credit and indicates that the additional cost determinations, mainly a more involved calculation of eligible expenses, will require the reassignment or hiring of additional personnel, including two Revenue Tax Specialists ($114,000) and potentially an engineer with specialized knowledge of solar systems ($97,000).

Also, allowing the credit to be taken against a sales tax remittance will require more manpower than one taken on an income tax return since sales tax returns are filed monthly and could effectuate a tally if credits are spread over numerous sales tax returns (the administrative mechanisms required for this component of the bill are not clear and will necessitate further review). Initial expenses, especially relating to the sales tax component, would require system modifications estimated at $65,000, if administrative assumptions are correct. With this methodology, total costs are expected to be around $275,000 in year 1 and roughly $210,000 per year thereafter. Credits taken against franchise tax have no administrative impact.

Without an additional appropriation, the department will absorb these costs in the current budget and may have to redistribute resources from other planned areas of responsibility to accommodate the administration of this credit.

REVENUE EXPLANATION

There are a few main components of this bill that impact state revenues: limits on system costs, credit calculation rates and number of systems eligible.

The bill splits the eligible systems into four categories for purposes of calculating cost/credit amounts for each:

ELECTRIC

	Current	**Proposed (50%)**	**Proposed (35%)**
Owned	$25,000/$12,500	$54,000/$27,000 (Min)	$54,000/$18,900(Min)
Leased	$25,000/$12,500	$25,000/$12,500	$25,000/$8,750

THERMAL

	Current	**Proposed (50%)**	**Proposed (35%)**
Owned	$25,000/$12,500	$10,000/$5,000(Max)	$10,000/$3,500 (Max)
Leased	$25,000/$12,500	$10,000/$5,000(Max)	$10,000/$3,500 (Max)

Senate — Dual Referral Rules — House

[x] 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}
[x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}
[ ] 6.8(F) >= $500,000 Annual Fiscal Cost {S}
[ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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CONTINUED EXPLANATION from page one:
All but the owned electric systems are also bound by the determined energy needs of the house, presumably a series of utility bills or estimates for new construction. The constraining factor of energy needs cannot be estimated because the actual energy needs of homes onto which systems have been placed is not readily available. To the extent that it precludes credits from being granted that otherwise would have been, state tax receipts will be greater than otherwise.

The most complicated component of the bill involves the changes to the maximum credits. First, current law allows only one system per residence. Proposed law allows an electric and a thermal system on each residence, so cost/credit calculations are cumulative. According to industry and a sampling of LDR records, electric systems make up 85-95% of credit claims. Thus, most impact will be due to changes made in that category.

The credit for electric systems is expanded in this bill to provide more than twice the current maximum credit of $12,500 for all owned electric systems installed (the bill sets the minimum system cost at $54,000 which, at 50%, is a credit of $27,000) but leaves the credit untouched in the early years for leased electric systems. In the out years, the credit for both owned and leased systems fall to 35%, with owned systems still receiving a minimum credit of $18,900; still higher than the current maximum credit of $12,500. with the credit declining to 35%, leased electric systems finally fall under the current credit cap of $12,500 to $8,750. Assuming that electric solar systems make up 85% of claims and owned systems make up half of all claims, imposing the minimum as stipulated in this bill would have cost $10 M in 2012 and $8 M to date in 2013 under the 50% rate structure; an expansion of the current program. Lowering the credit to 35% in 2017-2020 is expected to reduce state receipts from its highest proposed impact but still higher than under current law.

Under the bill, residences with electric systems can also install a thermal system costing up to $10,000 to earn a credit of $5,000 before 2017 and $3,500 between 2017 and 2020. This is also an expansion of the program because currently only one system is allowed, while the bill allows two. Thermal systems only make up an estimated 15% of systems claiming credits, but the full amount would be an expansion, since the units would not have been allowed at all under current law. In FY 12, thermal units are estimated to make up about $3.7 M in credits claimed (almost $3 M year to date in FY 13).

The bill strikes current language relating to the eligibility of apartments. However, it is not clear whether this completely eliminates the potential for multi-family housing to qualify for the credit. This fiscal note assumes no impact from this change. However, systems installed in apartments are expected to make up 20-30% of the credit. Eliminating them from eligibility could substantially reduce state revenue losses due to the bill.

Removing wind systems from credit eligibility is not expected to materially affect program costs because wind systems are not typically installed in Louisiana.

The bill terminates the credit on December 31, 2020, which is beyond the fiscal note horizon. Depending on the growth in credits issued through that date, state receipts will increase after that point since no more credits will be issued. Credits issued in FY 12 were $24.4 M and, through April 18, FY 13 credits issued were $19.4 M. Without a program cost cap, it is expected that this level of credit exposure can at least be maintained under current law and will likely continue to grow with improved technology, lease arrangements and multi-family opportunities.

NOTE: The state solar credit can be combined with a federal income tax credit granting 30% of basically the same cost components, allowing those eligible to purchase and install a system at an 80% discount (50% state, 30% federal). For a limited time due to ARRA federal stimulus program, federal grants were available that paid out immediately instead of against a federal tax liability. That program has expired, but the federal income tax credits are in place until December 31, 2016. Because taxpayers retain access to a very generous credit package, demand for solar systems is not expected to subside materially due to the termination of the grant funding.

Senate	Dual Referral Rules	House
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