LEGISLATIVE FISCAL OFFICE
Fiscal Note

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

Date: June 6, 2013 9:42 AM
Author: PONTI
Dept./Agy.: Revenue
Subject: Changes solar electric system income tax credits
Analyst: Deborah Vivien

TAX CREDITS EN 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 removes wind systems and apartments, and terminates the credit on January 1, 2018. Systems can be comprised of both a solar and thermal system, and requires licensed contractor status along with ARRA system compliance, including manufacturing requirements. For owned systems, base eligible expenses (purchase plus installation) remain capped at $25,000 per system with a rate of 50% (max. credit of $12,500). Leased system credits are reduced from 50% to 38% beginning 1/1/14. Allowable system size for leased systems is 6kw with value of $4.50/watt in FY 15, $3.50/watt in FY 16 and $2/watt until the credit expires. Credits can be received for installations through tax year 2017 (no program costs in FY 19). DNR is no longer consulted for rules. Effective July 1, 2013.

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.	SEE BELOW	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						

EXPENDITURE EXPLANATION

The bill includes some additional documentation requirements for components purchased prior to 7/1/13 and not ARRA compliant (these components must be installed by 1/1/14 so should be included with tax year 2013 filings). Additionally, maximum allowable system size for leased systems changes in the middle of the tax year, which may require an extra validation to determine the appropriate maximum credit. These requirements, especially the mid-year maximum credit change, could require additional administrative resources within the department, though the extent cannot be determined at this time.

REVENUE EXPLANATION

All changes to the program serve to reduce the credit, though the impacts are larger and more likely in the out years as the allowable size for leased systems declines.

The bill retains the $25,000 cost cap ($12,500 credit) for owned systems, though it allows a system to include both a thermal and electric component, which is not allowed under current law. Since it appears that most system costs, owned and leased, were approaching $25,000, adding two systems but retaining the cost cap for both systems combined is not expected to significantly impact the cost of the credit. The owned system credit has no impact in this bill prior to the elimination of the credit.

The credit rate for leased systems is reduced from 50% to 38% beginning with tax year 2014 (FY 15) and continuing until the credit expires after tax year 2017. Leased system sizes are limited to 6 kw and to a value per watt of $4.50 beginning 7/1/13, with the value per watt declining to $3.50 for systems impacting in FY 15, and $2.00 per watt for those impacting in FY 16, FY 17, FY 18. The maximum credit for a leased system is unchanged for FY 14, since the system size limit is higher than the credit cap of $12,500 (6,000 * $4.50 * 50% = $13,500). The credit rate is reduced to 38% beginning in tax year 2014, which impacts the fisc in FY 15. However, the allowable value per watt changes from $4.50/watt to $3.50/watt in the middle of the 2014 tax year. In FY 15, the maximum credit for a leased system is estimated to be $11,380, which is $1,120 or 9% lower than the current credit.* The FY 16 credit is reduced by $3,380 to $9,120 or 27% per system. In FY 17 the maximum leased credit is reduced by $6,230 to $6,270 or 50% per system and in FY 18, the maximum leased credit is reduced by $7,940 to $4,560 or 64% per system. The total increase in SGF due to less total credits being issued than otherwise will depend on the number of systems subject to the different maximum credits. To get an idea of potential, though not certain, magnitude, if 1,500 systems are installed each year, SGF will increase by $1.7M in FY 15, $5 M in FY 16, $9.4M in FY 17 and $11.9M in FY 18. There will be no credits impacting the state fisc in FY 19 and beyond, which will provide savings of the full cost of the credit, including any base growth that may have occurred. The current program is issuing about $25M in credits annually.

*Among numerous other assumptions, this fiscal note assumes that an equal number of systems will be subject to each wattage valuation within the tax year, which will probably not occur. It is expected that the industry will expedite installations as much as possible to take advantage of higher credits, which will reduced these savings estimates and possibly build the program base in the early years resulting in higher total program costs than experienced currently; although lower than would likely be the case in the absence of this bill.
(Continued on Page 2)

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}

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Chief Economist

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CONTINUED EXPLANATION from page one:

Revenue Explanation (Continued)

The elimination of apartments could increase SGF (via less credits issued) by another $2.5 M to $3.75 M. Regardless of the magnitude, eliminating apartments from eligibility will reduce the state's fiscal exposure. 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}
☒ 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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