

# DEPARTMENT OF TAXATION

## 2006 Fiscal Impact Statement

1. **Patron** Thomas D. Gear

3. **Committee** House Finance

4. **Title** Individual Income Tax Credit and Sales and  
Use Tax Exemption: Certain Energy  
Efficient Products

2. **Bill Number** HB 880

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

### 5. **Summary/Purpose:**

This bill would grant (i) a sales and use tax exemption for the purchase of solar energy systems and other energy-efficient products, (ii) a sales tax refund for purchases of solar equipment and energy star appliances between January 1, 2005 and July 1, 2006, and (iii) an individual income tax credit equal to 60% of the expenses paid for materials and labor of installing a solar energy system. The credit proposed by this bill would not exceed the lesser of \$8,000 or the total amount of individual income tax liability.

The effective date of this bill is retroactive to January 1, 2005.

6. **Fiscal Impact Estimates are:** Not Available. (See Line 8.)

7. **Budget amendment necessary:** No.

### 8. **Fiscal implications:**

The exact revenue loss associated with this bill is unknown. A highly tentative estimate, however, suggests that this bill would result in revenue loss of approximately \$64.3 million for FY 2007, and in excess of \$28 million annually thereafter. The potential revenue loss for FY 2007 is substantially higher than subsequent years because of the bill's provision that would allow for a sales tax refund of Energy Star products purchased between January 1, 2005 and July 1, 2006. These estimates are based primarily on data available on four major appliances (washers, refrigerators, room air conditioners and dishwashers). This bill, however, would grant a deduction for any property that meets Energy Star standards, and the Energy Star website lists over 50 categories of products that meet the standards.

TAX has not assigned any administrative costs to this bill because the changes required by a single bill such as this can be implemented as part of the annual changes to our systems and forms. As stand-alone legislation, TAX considers implementation of this bill as "routine," and does not require additional funding.

TAX will provide specific administrative costs on any legislation that is not "routine." Additionally, TAX will review all state tax legislation likely to be enacted prior to the passage by each house. If the aggregate number of routine bills likely to pass either house is unusually large, it is possible that additional resources will be required. If so, TAX will identify the costs at that time.

**9. Specific agency or political subdivisions affected:**

Department of Taxation

**10. Technical amendment necessary: No.**

**11. Other comments:**

Energy Star

Energy Star is a government/industry partnership formed in 1992 for the purpose of identifying and promoting energy efficient products. Computers and monitors were the first labeled products and in 1995 the Environmental Protection Agency expanded the label to include office equipment. In 1996 the EPA partnered with the US Department of Energy for particular product categories. Now Energy Star is labeling major appliances, office equipment, home electronics, new homes, and commercial and industrial buildings. Energy Star partners with more than 8,000 public and private organizations.

Proposal

This bill would grant (i) a sales and use tax exemption for the purchase of solar energy systems and other energy-efficient products, (ii) a sales tax refund for purchases of solar equipment and energy star appliances between January 1, 2005 and July 1, 2006, and (iii) an individual income tax credit equal to 60% of the expenses paid for materials and labor of installing a solar energy system. The credit proposed by this bill would not exceed the lesser of \$8,000 or the total amount of individual income tax liability. Labor of the taxpayer may not be included in determining expenses.

This bill defines "solar energy devices or systems" as those items designed and used primarily for the purpose of providing for the collection and use of incident solar energy for water heating, space heating or cooling, or other application that would otherwise require a conventional source of energy such as petroleum products, natural gas, or electricity and that meet standards with respect to technical sufficiency as established by the Director of the Department of Mines, Minerals and Energy.

The credit proposed in this bill may be carried forward for five years. The effective date of this bill is retroactive to January 1, 2005. A taxpayer may apply to TAX, on or before October 1, 2006, for a refund of sales and use taxes paid between January 1, 2005 and July 1, 2006. TAX may require the taxpayer to submit sales tax receipts in conjunction with the refund application in order to claim the credit.

## Other Legislation

**HB 390** would exempt certain energy-efficient products from sales and use tax.

**HB 613** would provide for an income tax credit, equal to 25% of expenditures up to \$1,500, to individuals who purchase energy efficient equipment for their homes, beginning January 1, 2006.

**SB 63** would provide for grant awards and tax refunds for producing and using clean and efficient energy.

cc : Secretary of Finance

Date: 02/06/2006 CHC  
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