

DEPARTMENT OF TAXATION

2009 Fiscal Impact Statement

1. **Patron** George L. Barker

2. **Bill Number** SB 1231

3. **Committee** Senate Finance

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

4. **Title** Income Tax: Energy-efficient Equipment Tax
Credit

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would create an individual income tax credit for a taxpayer who purchases qualifying energy-efficient equipment for his residence. The credit would be equal to 5% of the expenditures made, up to \$2,500, on or after January 1, 2009, for the energy-efficient equipment. This credit would be allowed to be carried forward for up to five years.

The credit created by this bill would be effective for taxable years beginning on and after January 1, 2011.

6. **Fiscal Impact Estimates are:** Preliminary. (See Line 8.)

6b. **Revenue Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2008-09	\$0	GF
2009-10	\$0	GF
2010-11	\$0	GF
2011-12	(\$3.9 million)	GF
2012-13	(\$1.4 million)	GF
2013-14	(\$1.5 million)	GF
2014-15	(\$1.6 million)	GF

7. **Budget amendment necessary:** Yes. (See Line 8.)

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8. **Fiscal implications:**

Administrative Costs

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.

Revenue Impact

This bill would have a negative impact of \$3.9 million for FY 2012, \$1.4 million for FY 2013, \$1.5 million for FY 2014, and \$1.6 million for FY 2016, on General Fund revenue. To determine the revenue impact, the Department of Mines, Minerals, and Energy provided data regarding the estimated number of installations and the average cost for each type of system covered by the credit. Using this data, a forecast was created for the amount of credits earned in 2009. The annual credit was assumed to increase 5% annually, beginning with the credit earned for 2011.

Because this bill would allow a credit for expenditures made in taxable years 2009 through 2011 to be claimed on the tax return for taxable year 2011, the FY 2012 revenue impact consists of three taxable years and reflects a \$3.9 million loss. In future years, the credit would be claimed only on the tax return for the taxable year in which the expenditure was made.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: Yes.

To clarify that the credit for each taxable year is limited to the expenditures made each corresponding taxable year, except that expenditures made on and after January 1, 2009, and before January 1, 2011, may be claimed on the tax return for taxable year 2011, TAX recommends the following technical amendment:

Page 1, Line 28 after taxpayer.

Insert: 2. For taxable years beginning on and after January 1, 2011, expenditures must be made during the taxable year in order to qualify for this credit. Expenditures made on and after January 1, 2009, but before January 1, 2011, may be claimed on the return filed for taxable year 2011.

11. Other comments:

Current Law

Effective for taxable years beginning on and after January 1, 2007, individual income filers may deduct 20% of the amount of sales tax paid for certain energy-efficient equipment or appliances. This deduction is limited to \$500 in each taxable year. The following items of tangible personal property qualify for this deduction:

- clothes washers, room air conditioners, dishwashers, and standard size refrigerators that meet or exceed the applicable energy star efficiency requirements;
- a fuel cell that (a) generates electricity using an electrochemical process, (b) has an electricity-only generation efficiency greater than 35%, and (c) has a generating capacity of at least two kilowatts;
- a gas heat pump that has a coefficient of performance of at least 1.25 for heating and at least 0.70 for cooling;
- an electric heat pump hot water heater that yields an energy factor of at least 1.7;
- an electric heat pump that has a heating system performance factor of at least 8.0 and a cooling seasonal energy efficiency ratio of at least 13.0;
- a central air conditioner that has a cooling seasonal energy efficiency ratio of at least 13.5;
- an advanced gas or oil water heater that has an energy factor of at least 0.65;
- an advanced oil-fired boiler with a minimum annual fuel-utilization rating of 85;
- an advanced oil-fired furnace with a minimum annual fuel-utilization rating of 85; and
- programmable thermostats.

In 2007, legislation was also enacted to provide an annual Sales Tax Holiday for the purchase of certain Energy Star qualified products with a maximum sales price of \$2,500 per item. An Energy Star qualified product includes any dishwasher, clothes washer, air conditioner, ceiling fan, compact fluorescent light bulb, dehumidifier, programmable thermostat, or refrigerator, the energy efficiency of which has been designated by the United States Environmental Protection Agency and the United States Department of Energy as meeting or exceeding each such agency's requirements under the Energy Star program. The "Energy Star" sales tax holiday was expanded in 2008 to include qualifying "WaterSense" products. The current sales tax holiday period begins each year on the Friday before the second Monday in October and ends on the second Monday in October. The requirement for an annual Energy Star Sales Tax Holiday is set to expire on July 1, 2012.

Proposal

This bill would create an individual income tax credit for a taxpayer who purchases qualifying energy-efficient equipment for his residence. The credit would be equal to 5% of the expenditures made, up to \$2,500, on or after January 1, 2009, for the energy-efficient equipment. This credit would be allowed to be carried forward for up to five years.

In order to qualify for the credit the taxpayer would be required to live in the personal residence for more than half of each year. In addition, labor performed by the taxpayer would not be a qualifying expenditure.

"Energy-efficient equipment" would be defined as equipment that (i) uses solar or geothermal energy, or any form of renewable energy approved by the Secretary of Natural Resources through regulations, and (ii) is a substitute for traditional fossil fuel energy for water heating, active space heating and cooling, passive heating, and electricity generation. The term also includes related devices necessary for collecting, storing, exchanging, conditioning, or converting solar energy to other useful forms of energy.

The credit created by this bill would be effective for taxable years beginning on and after January 1, 2011.

Other Legislation

House Bill 2094 and Senate Bill 1141 would create an individual and corporate income tax credit for qualifying renewable energy property placed in service during the taxable year. The credit would not exceed \$2,000 for each kilowatt of photovoltaic property; \$1,500 for each kilowatt of wind-powered electrical generators; and \$1,000 for each kilowatt equivalent of solar water heating property.

House Bill 2572 would create an income tax deduction for taxable years beginning on or after January 1, 2010, to individuals who purchase energy-efficient equipment, on or after January 1, 2009, used for heating, cooling, and providing electricity to their residences. The amount of the deduction equals 50% of the equipment expenditures, but not more than \$7,500 total.

House Bill 2573 would create an individual and corporate income tax credit for a taxpayer who purchases qualifying energy-efficient equipment that is installed in the taxpayer's commercial property. The credit would be equal to 25% of the expenditures made, up to \$7,500, on or after January 1, 2009 for the energy-efficient equipment.

cc : Secretary of Finance

Date: 1/24/2009 TLG
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