

DEPARTMENT OF TAXATION

2022 Fiscal Impact Statement

1. **Patron** Kathy K.L. Tran

3. **Committee** House Finance

4. **Title** Individual Income Tax; Deduction for Energy
Star Certified Water Heaters

2. **Bill Number** HB 965

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would provide an individual income tax deduction equal to 20 percent of the price paid for any Energy Star certified water heater that is for residential use.

This bill would also modify the individual income tax deduction for the sales tax paid on the purchase of certain energy efficient equipment or appliances by prohibiting purchases of certain electric heat pump hot water heaters and advanced gas or oil water heaters from qualifying.

This bill would be effective for taxable years beginning on and after January 1, 2022.

6. **Budget amendment necessary:** No.

7. **Fiscal Impact Estimates are:** Not available. (See Line 8.)

8. **Fiscal implications:**

Administrative Costs

The Department of Taxation considers implementation of this bill as routine and does not require additional funding.

Revenue Impact

This bill would have an unknown General Fund revenue impact beginning in FY 2023. It is unknown to what extent taxpayers would qualify for and claim the new deduction that this bill would provide. Such impact could be partially offset by the extent to which this bill would eliminate a portion of the existing deduction for the sales tax paid for the purchase of certain energy efficient equipment or appliances. However, the extent of this offset is uncertain.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Current Deduction for Energy Efficient Appliances

Taxpayers are currently allowed an individual income tax deduction equal to 20 percent of the sales tax paid for the purchase of certain energy efficient equipment or appliances. The deduction is limited to a maximum of \$500. Qualifying purchases include:

- Clothes washers, room air conditioners, dishwashers, and standard size refrigerators that meet or exceed the applicable Energy Star efficiency requirements developed by the U.S. Environmental Protection Agency and the U.S. Department of Energy;
- Fuel cells that generate electricity using an electrochemical process, that have an electricity-only generation efficiency greater than 35 percent and a generating capacity of at least two kilowatts;
- Gas heat pumps that have a coefficient of performance of at least 1.25 for heating and at least 0.70 for cooling;
- Electric heat pump hot water heaters that yield an energy factor of at least 1.7;
- Electric heat pumps that have a heating system performance factor of at least 8.0 and a cooling seasonal energy efficiency ratio of at least 13.0;
- Central air conditioners that have a cooling seasonal energy efficiency ratio of at least 13.5;
- Gas or oil water heaters that have an energy factor of at least 0.65;
- Advanced oil-fired boilers with a minimum annual fuel-utilization rating of 85;
- Advanced oil-fired furnaces with a minimum annual fuel-utilization rating of 85; and
- Programmable thermostats.

Proposed Legislation

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cc : Secretary of Finance

Date: 1/20/2022 JLOF
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