

DEPARTMENT OF TAXATION

2006 Fiscal Impact Statement

1. **Patron** Mary Margaret Whipple

2. **Bill Number** SB 270

3. **Committee** Senate Finance

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

4. **Title** Retail Sales Tax and Motor Vehicle Sales
Tax: Exemption, Refund and Grant
Provisions for Energy Efficient Products

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would 1) provide an exemption from the sales and use tax for certain energy efficient equipment and efficient production of energy; 2) authorize motor vehicle sales tax refunds for motor vehicles using clean special fuels or hybrid motor vehicles; 3) establish a Renewable Electricity Production Grant Program and allocate monies from such fund to corporations producing renewable electricity; and 4) establish a Photovoltaic, Solar, and Wind Energy Utilization Grant Program and allocate monies from such funds to individuals and corporations installing photovoltaic, solar, or wind energy generators.

The effective date of this bill is not specified.

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

7. **Budget amendment necessary:** No.
Item(s):

8. **Fiscal implications:**

Administrative Costs Impact

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

While the exact revenue impact of the state and local retail sales and use tax is unknown, the revenue loss is estimated to be in excess of \$25 million per year. This estimate is based on the Virginia share of Energy Star appliances sold; national unit sales of refrigerators, washers, freezers, AC units and dishwashers; information received from the Energy Information Association on geothermal heat pumps and on information from the Air-Conditioning and Refrigeration Institute, and the U.S. Appliance Industry. For purposes of this estimate, it was assumed that one-fourth of Virginia's total shipment of appliances would qualify for the sales tax exemption. This estimate does not include fuel cells or electric heat pump hot water heaters.

Data regarding the motor vehicle sales tax paid on special fuel motor vehicles is not available. Using national data regarding the average price of special fuel vehicles and the data supplied by DMV regarding the number of special fuel vehicles registered in Virginia, it is estimated that the annual revenue loss would be approximately \$287,000.

There is no revenue impact associated with creating the Renewable Electricity Production Grant Program and the Photovoltaic, Solar, and Wind Energy Utilization Program. These programs would consist of such moneys as may be appropriated by the General Assembly from time to time.

9. Specific agency or political subdivisions affected:

Department of Taxation
Department of Motor Vehicles
Department of Mines, Minerals, and Energy

10. Technical amendment necessary: No.

11. Other comments:

Retail Sales and Use Tax Exemption

This bill provides a retail sales and use tax exemption under the Government and Commodities Exemption category for the following items. The effective date of this exemption is January 1, 2007.

- Washers, air-conditioners, dishwashers, and 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 (i) generate electricity and heat using an electrochemical process, (ii) has an electricity-only generation efficiency greater than 35 percent, and (iii) has a generating capacity of at least two kilowatts;
- Natural gas heat pump that has 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 as energy factor of at least 1.7;

- 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; and
- An advanced natural gas water heater that has an energy factor of at least 0.65.

Motor Vehicle Sales Tax

Generally

This bill would allow a refund for a portion of the motor vehicle sales tax paid on the following motor vehicles:

- Motor vehicles manufactured to use clean special fuels as defined in Virginia Code § 46.2-749.3 and uses such fuels in the vehicle;
- Motor Vehicles converted or retrofitted to use clean special fuels within 180 days of titling the vehicle with the Department of Motor Vehicles and uses such fuels in the vehicle.
- A hybrid gasoline/electric power motor vehicle that is primarily propelled by electric charge.

The motor vehicle sales tax refund authorized in this bill is not authorized for sales taxes paid on mobile offices or manufactured homes.

Refund Process

The refund authorized by this bill to qualifying vehicles will be equal to one-half of the motor vehicle sales tax paid by the motor vehicle owner. The refund will be limited of up to a maximum of \$500 on each qualifying motor vehicle, and no person can receive more than \$5,000 in refunds in any calendar year. The refunds authorized by this bill will be applicable to motor vehicle sales tax paid by owners on or after January 1, 2007, but prior to January 1, 2011.

All claims for refunds shall be submitted on forms as prescribed by the Commissioner of the Department of Motor Vehicles and provide documentation to verify the conversion of retrofitted vehicles took place within 180 days of titling. All refund requests must be submitted within one-year from the date on which the motor vehicle sales taxes were paid.

Renewable Electricity Production Grant Program

This bill would establish the Renewable Electricity Production Grant Fund, to be administered by the Department of Mines, Minerals and Energy, to be used to grant funds to qualifying corporation based on kilowatt hours of electricity produced after December 31, 2005. The grant amount would be .85 cents for each kilowatt hour of electricity produced by a qualifying corporation at a qualified facility and sold in a calendar year. Grants will be based on kilowatt hours of electricity sold beginning with calendar year 2006 and ending with calendar year 2010.

The Fund will consist of monies appropriated by the General Assembly as they see fit. This is a non-reverting fund and all monies remaining in the Fund at the end of a calendar year, including interest, shall remain in the General Fund. If monies in the Fund are less than the amount of grants to approved applicants, the monies will be distributed on pro-rata basis. The Department of Mine, Minerals and Energy, by June 30 of each year, determine the amount to be allocated to each qualifying organization and certify to the Comptroller the amount of grant to each eligible corporation. Payments to each qualifying organization shall be made within 60 days of certification. Any qualifying recipient not receiving their full grant for any calendar year, shall be paid the unpaid portion as a first priority in the following fiscal year.

The Department of Mines, Minerals and Energy will establish an application process and grants will not be approved until electricity production has been verified. All application must be filed no later than March 31 of the year following the year in which the grant is requested. Late filings will not be honored and the postmark will determine timeliness.

Photovoltaic, Solar, and Wind Energy Utilization Grant Program

This bill would establish the Photovoltaic, Solar, and Wind Energy Utilization Grant Fund, to be administered by the Department of Mines, Minerals and Energy, to be used to grant funds to qualifying individuals or corporations for a portion of the cost of photovoltaic property, solar water heating property, or wind-powered electrical generators. The grant will 15% of the cost of installing such property not to exceed an aggregate total of i) \$2,000 for each system of photovoltaic property; ii) \$1,000 for each system of solar water heating property; and iii) \$1,000 for each system of wind-powered electrical generators. Contractors installing such property on behalf of another person will not be eligible for grants.

The Fund will consist of monies appropriated by the General Assembly as they see fit. This is a non-reverting fund and all monies remaining in the Fund at the end of a calendar year, including interest, shall remain in the General Fund. If monies in the Fund are less than the amount of grants to approved applicants, the monies will be distributed on pro-rata basis. The Department of Mine, Minerals and Energy, by June 30 of each year, determine the amount to be allocated to each qualifying organization and certify to the Comptroller the amount of grant to each eligible corporation. Payments to each qualifying organization shall be made within 60 days of certification. Any qualifying recipient not receiving their full grant for any calendar year, shall be paid the unpaid portion as a first priority in the following fiscal year.

The Department of Mines, Minerals and Energy will establish an application process for grants. The application must provide the total installed cost of each system of photovoltaic property, solar water heating property, or wind-powered electrical generators placed in service by such individuals or corporation in the following calendar year. All applicable documents shall be available to the Department of Mines, Minerals and Energy in order to verify requests. All application must be filed no later than March 31 of the year following the year in which the grant is requested. Late filings will not be honored and the postmark will determine timeliness.

Implementation

This bill provides the Commissioners from the Department of Taxation, Department of Motor Vehicles, and the Department of Mines, Minerals, and Energy will promulgate in accordance with the APA for purposes of implementing the provisions of this bill. The Commissioners will develop voluntary labeling and public information materials to identify eligible products for refund.

Similar Bills

SB 63 would accomplish many of the same purposes, but provides for a refund of retail sales and use taxes, rather than an exemption.

cc : Secretary of Finance

Date: 01/24/2006 WBS
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