

DEPARTMENT OF TAXATION

2007 Fiscal Impact Statement

1. **Patron** C. Charles Caputo

3. **Committee** House Finance

4. **Title** Individual Income Tax; Credit for the
Purchase of Certain Energy-Efficient
Equipment

2. **Bill Number** HB 3125

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would provide an individual or corporate income tax credit to those taxpayers who purchase energy-efficient equipment to be used for heating, cooling, and providing electricity for their commercial property used in a business. The amount of the credit would be 25% of the expenditure amount, up to \$7,500. If the credit amount exceeded the tax liability of the taxpayer, the excess amount could be carried over for the next five taxable years.

This bill would be effective for taxable years beginning on and after January 1, 2007.

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

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

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

The revenue loss associated with this bill is unknown because data regarding Virginia expenditures on energy-efficient equipment for commercial properties is not available.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Current Law

Effective for taxable years beginning on and after January 1, 2007, individual income taxpayers may deduct 20% of the amount of sales tax paid for certain appliances meeting energy star efficiency requirements developed by the federal government and for fuel cells, heat pumps, air conditioners, boilers, furnaces, and water heaters meeting specified performance measures. This deduction is limited to \$500 in each taxable year.

Proposal

This bill would provide an individual or corporate income tax credit to those taxpayers who purchase energy-efficient equipment to be used for heating, cooling, and providing electricity for their commercial property used in a business. The amount of the credit would be 25% of the expenditure, up to \$7,500. The amount spent by the taxpayer would not include labor performed by the taxpayer. If the credit exceeded the tax liability of the taxpayer, the excess could be carried over for the next five taxable years.

The amount of any credit that was attributable to a partnership, electing small business corporation (S corporation), or limited liability company would be required to be allocated to the individual partners, shareholders, or members, respectively, in proportion to their ownership or interest in such business entities.

"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, (ii) is a substitute for traditional fossil fuel energy for water heating, active space heating and cooling, passive heating, and electricity generation, and (iii) is installed in commercial property. The term would also include related devices necessary for collecting, storing, exchanging, conditioning, or converting solar energy to other useful forms of energy.

Similar Legislation

House Bill 1878 would provide an individual income tax deduction to those taxpayers who purchase energy-efficient equipment to be used for heating, cooling, and providing electricity to their residences. The amount of the deduction would be 50% of the expenditure amount, up to \$7,500.

House Bill 2160 would grant an income tax credit to individuals who purchase certain energy-efficient equipment for their homes. The amount of the deduction would be 30% of such equipment expenditures, up to \$1,500.

cc : Secretary of Finance

Date: 1/23/2007 AMS
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