

**DEPARTMENT OF TAXATION
2017 Fiscal Impact Statement**

1. Patron Frank W. Wagner

3. Committee Senate Finance

4. Title Individual Income Tax; Geothermal Heat
Pump Property Expenditure Tax Credit

2. Bill Number SB 1392

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. Summary/Purpose:

This bill would establish an individual income tax credit equal to 25 percent of qualified geothermal heat pump property expenditures. "Geothermal heat pump property expenditure" would be defined as any expenditure for equipment that uses the ground or groundwater as a thermal energy source to heat a residence or as a thermal energy sink to cool a residence. The total credit claimed by a taxpayer for geothermal heat pump property at a single residence would not be permitted to exceed 25 percent of the total cost, up to a maximum of \$10,000.

This bill would authorize the Department of Taxation to issue up to \$10 million in credits each fiscal year. The Department would be required to develop procedures to allocate credits equitably in the event that applications for credits exceed \$10 million for the fiscal year.

This bill would be effective for taxable years beginning on or after January 1, 2017 but before 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 ("the Department") 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, the Department considers implementation of this bill as "routine," and does not require additional funding.

The Department will provide specific administrative costs on any legislation that is not “routine.” Additionally, the Department 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, the Department will identify the costs at that time.

Revenue Impact

This bill would have an unknown negative impact on General Fund revenue beginning in Fiscal Year 2018. The total negative revenue impact would not exceed the \$10 million cap. However, it is unknown how many taxpayers would qualify for and claim this tax credit. According to the U.S. Energy Information Administration, geothermal energy produced 1.4 percent of the renewable energy consumed in Virginia and approximately .06 percent of the total energy consumed in the state from 2007 to 2014. Overall, geothermal energy consumption has remained constant from 2012 to 2014 in Virginia.

According to the 2014 IRS Statistics of Income, 80,900 Virginia taxpayers claimed \$35.2 million worth of Federal Residential Energy Efficient Property Tax Credits on their Taxable Year 2014 federal individual income tax returns. It is unknown how many of these credits were specifically attributed to geothermal heat pump property expenditures.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: Yes. This bill would require the Department to develop procedures to allocate credits equitably if the annual cap is exceeded. Because the meaning of “equitably” in this context is unclear, the Department recommends the following amendment:

Line 37, after “fiscal year.”

Strike: The Department shall develop procedures to allocate credits equitably in the event that applications for credits exceed \$10 million for the fiscal year.

Insert: In the event approved applications for the tax credits allowed under this section exceed \$10 million, the Department shall apportion the credits by dividing \$10 million by the total amount of tax credits approved, to determine the percentage of allowed tax credits each taxpayer shall receive.

11. Other comments:

Federal Residential Energy Efficient Property Tax Credit

Under federal law, individual taxpayers may claim a nonrefundable tax credit equal to 30 percent of qualified solar electric property, solar water heating property, fuel cell property, small wind energy property, and geothermal heat pump property expenditures made during the taxable year. The tax credit cannot exceed the sum of the taxpayer's regular tax liability less any nonrefundable personal credits; foreign tax credits; and Puerto Rico and possession tax credits for the taxable year. Any unused tax credit may be carried over to the following taxable year and added to the residential energy efficient property tax credit for that year.

The credit was scheduled to expire after December 31, 2016. While the tax credit will generally not apply with respect to property placed in service after December 31, 2016, the Consolidated Appropriations Act of 2016 extends the residential energy efficient tax credit with respect to certain solar electric and water heating property. Such extension applies to property placed in service before January 1, 2022, subject to a phase-out that reduces the credit from 30 percent to 26 percent and 22 percent for property placed in service in 2020 and 2021, respectively.

Virginia Energy Income Tax Credit

Virginia previously allowed an energy income tax credit, which was effective for taxable years beginning on and after January 1, 1983 through December 31, 1987. The credit was available to individuals and corporations for their renewable energy source expenditures, as defined under federal law. The amount of the credit varied through the years. For the three most recent years, a credit was allowed in the amount of:

- Twenty percent of renewable energy source expenditures made during 1985;
- Fifteen percent of renewable energy source expenditures made during 1986; and
- Ten percent of renewable energy source expenditures made during 1987.

Virginia Energy Efficiency Rebate Program

The Virginia Energy Efficiency Rebate Program was a federally funded program that was administered through the Department of Mines, Minerals and Energy (DMME). Through this program, homeowners were eligible for rebates equal to 20 percent of the costs of qualifying energy conserving products and services, up to \$2,000. Commercial consumers were eligible for rebates equal to 20 percent of qualifying costs, up to \$4,000. Home and business owners were also able to qualify for an additional \$250 for the cost of energy audits. Qualifying costs included the costs of upgrading heating and air conditioning equipment, adding insulation, replacing leaky

windows, and other improvements to existing homes and businesses that reduced energy consumption and utility costs.

This program was funded through the American Recovery and Reinvestment Act of 2009. The first round of funding for efficiency rebates was approximately \$10 million and this amount was reserved within three weeks of the start of the program. Applicants were able to reserve a rebate for a qualifying system by applying to the DMME and would then have 180 days to complete the work and redeem their reservation for a rebate check. Once reservations depleted available funds, applications were placed on a waiting list. Another round of funding was available in March 2010 in the amount of \$6.5 million, which allowed wait-listed applicants to receive rebate reservations as unclaimed rebate funds became available. The Energy Efficiency Rebate Program was closed on April 29, 2011, after paying out nearly 7,700 rebates and dispersing \$10.4 million to Virginia homeowners and businesses.

Proposed Legislation

This bill would establish an individual income tax credit equal to 25 percent of qualified geothermal heat pump property expenditures. "Geothermal heat pump property expenditure" would be defined as any expenditure for equipment that uses the ground or groundwater as a thermal energy source to heat a residence or as a thermal energy sink to cool a residence. This definition would include expenditures for labor costs related to the onsite preparation, assembly, or original installation of geothermal heat pump property and expenditures for piping or wiring to interconnect such property to the dwelling unit. The total credit claimed by a taxpayer for geothermal heat pump property at a single residence would not be permitted to exceed 25 percent of the total cost, up to a maximum of \$10,000.

The credit would not be permitted unless the geothermal heat pump property (i) is installed on or in connection with a residence located in Virginia and used as a residence by the taxpayer and (ii) meets or exceeds the federal Energy Star efficiency requirements which are in effect at the time that the person makes the expenditure.

The credit claimed by a taxpayer in a taxable year would not be permitted to exceed the lesser of (i) 50 percent of the individual's income tax liability or (ii) \$2,500. Unused credit would be permitted to be carried over for up to 10 years.

This bill would authorize the Department of Taxation to issue up to \$10 million in credits each fiscal year. The Department would be required to develop procedures to allocate credits equitably in the event that applications for credits exceed \$10 million for the fiscal year.

This bill would be effective for taxable years beginning on or after January 1, 2017 but before January 1, 2022.

Similar Bills

House Bill 1891 is identical to this bill.

House Bill 1632 establishes a tax credit equal to 35 percent of the installed cost of the renewable energy property placed in service.

cc : Secretary of Finance

Date: 1/22/2017 NM
SB1392F161