

ANALYSIS OF AMENDED BILL

Author: Murray & Campbell Analyst: Gail Hall Bill Number: SB 1
 Related Bills: See Legislative History Telephone: 845-6111 Amended Date: April 25, 2005
 Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Solar Or Wind Energy Systems Credit/Extend Repeal Date To January 1, 2017

SUMMARY

This bill extends the repeal date of the Solar or Wind Energy System Credit.

This bill also extends the property tax exclusion for solar energy systems and amends the Public Resources Code and the Public Utilities Code to promote a solar energy program. This analysis will not address these amendments as they do not impact the department or state income tax revenue.

SUMMARY OF AMENDMENTS

The April 25, 2005, amendments extended the repeal date of the Solar or Wind Energy System Credit for personal income taxpayers and corporations.

This is the department's first analysis of this bill.

PURPOSE OF THE BILL

The author's staff has indicated that the purpose of this bill is to encourage the use of alternative energy sources and move California toward greater energy self-sufficiency.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective immediately and operative for taxable years beginning on or after January 1, 2005, and before January 1, 2017.

POSITION

Pending

ANALYSISFEDERAL/STATE LAW

Board Position:

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Department Director

Date

Will Bush for Gerald H. Goldberg

5/19/05

Federal law currently provides two energy-related credits: (1) an energy credit that is one portion of the investment credit, and (2) a business credit for the production of electricity from certain renewable resources.

The energy investment credit is equal to 10% of the basis of energy property placed in service during the taxable year.¹ Energy property includes equipment that uses solar energy to generate electricity, heat or cool a structure, or provide solar process heat. It also includes equipment that produces, distributes, or uses energy derived from geothermal deposits. The equipment also must meet performance and quality standards prescribed by federal regulations.

The business credit for the production of electricity from certain renewable resources is equal to 1.5 cents multiplied by the kilowatt hours of electricity produced by the taxpayer from qualified energy resources at a qualified facility.² To qualify for the credit, the electricity is required to be sold to an unrelated person during the taxable year. Qualified energy resources include wind, closed-loop biomass, and poultry waste.

Current state law provides a 7.5% tax credit, after deducting the value of any financial incentives, for taxpayers who purchase solar or wind energy systems for installation and electrical generation in California. For taxable years beginning on or after January 1, 2001, and before January 1, 2004, the tax credit percentage was 15%. The credit is available for taxable years beginning before January 1, 2006. The credit is available for both personal income taxpayers and corporations. A “solar energy system” is a solar energy device, either photovoltaic or wind driven, that is used to generate electricity primarily for the taxpayer’s own needs. A “wind energy system” means a wind energy conversion system consisting of a wind turbine, a tower, and associated control or conversion electronics.

THIS BILL

This bill would extend the operative date of the Solar or Wind Energy System Credits to taxable years beginning before January 1, 2017, and revise the respective repeal date to December 1, 2017.

IMPLEMENTATION CONSIDERATIONS

This bill would not significantly impact the department’s programs and operations.

LEGISLATIVE HISTORY

SB 1017 (Campbell, 2005/2006) would extend the repeal date of the Solar or Wind Energy System Credit for personal income taxpayers and corporations and is currently in the Senate Revenue and Taxation Committee.

SB 289 (Murray, 2003/2004) would have created requirements for builders to offer solar energy system options to buyers and to install a certain percentage of new homes with solar energy systems. This bill was held in the Senate Appropriations Committee.

¹ IRC Section 48.

² IRC Section 45.

SB 1660 (Scott, Stats. 2002, Ch. 487) expanded the Solar Energy Credit to include wind energy systems and require certification of solar and wind energy systems by the State Energy Resources Conservation and Development Commission.

SB 17XX (Brulte, Stats. 2001, Ch. 12) added to the Revenue and Taxation Code the Solar Energy Credit discussed in current state law portion of the analysis.

AB 86X and AB 1264 (Campbell, 2001/2002) would have allowed a 75% credit for the purchase and installation of a solar energy system for residential purposes. AB 86X was referred to the Revenue and Taxation Committee without further action and AB 1264 was held at the Assembly Desk.

PROGRAM BACKGROUND

For taxable years 1990 through 1993, state law allowed a tax credit of 10% of the cost of a solar energy system installed on premises, used for commercial purposes that were located in California and owned or leased by the taxpayer. The credit could not be claimed for any solar energy system with a generating capacity in excess of 30 megawatts for any taxable year unless the federal government provided at least a 10% federal credit for that solar energy system.

For 1987 and 1988 state law allowed a credit of 12% of the cost of commercial solar energy systems installed on commercial premises, cooperatives, apartment buildings, or other similar multiple dwellings.

From 1976 to 1988 state law allowed the solar energy tax credit for personal and commercial premises. The credit was refundable for modest income individual taxpayers until 1982 and was significantly modified several times. The credit was allowed as a percentage of the purchase and installation costs of solar energy systems on premises owned by the taxpayer. Except for taxpayers allowed a refund, any unused credit could be carried over indefinitely.

OTHER STATES' INFORMATION

The states surveyed include *Florida, Illinois, Massachusetts, Michigan, Minnesota, and New York*. These states were selected due to their similarities to California's economy, business entity types, and tax laws. *Oregon* was also surveyed due to an environmental policy similar to California's.

Illinois: The owner of real property on which a solar energy system has been installed can claim a reduced property valuation for property tax purposes.

Massachusetts: Current law provides a credit that is equal to 15% of net expenditures paid to acquire a renewable energy source system or \$1,000, whichever is less. An exemption from property tax applies to a solar or wind-powered system of device that is used to power the energy needs of the taxable property.

Michigan: A taxpayer may claim a credit against the Single Business Tax for certain qualified business activities that includes research, development, or manufacturing of alternate energy systems.

Minnesota: Wind energy conservation systems are exempt from property tax, but the land on which the systems are located remain subject to property taxes.

New York: For personal income tax only, New York allows a credit for solar generating equipment equal to 25% of certain solar generating expenditures. The credit is capped at \$3,700 per system. Real property that includes an approved solar or energy system is exempt from property taxes to the extent of any increase in the value of the property because of these systems.

Oregon: A tax credit is allowed for the cost of a certified energy conservation facility. The maximum amount of the tax credit is 35% of the facility costs.

FISCAL IMPACT

This bill would not significantly impact the department's costs

ECONOMIC IMPACT

Revenue Estimate

Solar or Wind Energy Systems Tax Credit			
SB 1 as Amended 4/25/05			
\$ in Millions			
	2005-06	2006-07	2007-08
CORP	b/	-\$2	-\$3
PIT	b/	b/	-\$1
Total	b/	-\$2	-\$4

b/ loss less than \$250,000

Revenue Discussion

Estimates are based on current usage for the Solar or Wind Energy Systems Credit.

In past years, when the subsidies, administrated by the California Energy Commission (CEC), paid for more than half the of \$20,000 cost of a 2 megawatt (MW) solar energy system and the tax credit was 15% of out-of-pocket expense, the revenue impact to the state was about \$4 million a year

This bill sets a goal of 1,000,000 roofs with solar systems by the year 2018 and requires the CEC to develop, implement, and fund the program. It is assumed that the subsidies that the CEC provide are the major financial incentives for individuals to install solar energy systems. It is also assumed that as those subsidies increase, the tax credit per individual will decrease, but the number of individuals participating in the program will increase. It is not known, at this point, what combination of incentives or rate increases the CEC will implement to achieve its goal. Neither is it known what the ratepayer responses to the CEC program will be.

LEGISLATIVE STAFF CONTACT

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