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Fiscal Note

Fiscal Services Division

SF 2340 – Solar Energy Tax Credits (LSB 6111SV.2)
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Fiscal Note Version – As amended and passed the House

Description

Senate File 2340, as amended and passed by the House, increases the annual limit for the existing Solar Energy System Tax Credit from $1.5 million to $3.0 million, retroactive to January 1, 2014. In addition, this Bill provides that if the annual credit cap is not fully utilized in one year, the unused credits remain available in a future year.

Background

Under current law, the federal credit expires January 1, 2017, so only installations prior to that date are eligible for the Iowa credit. However, should Congress extend the credit past the current sunset, the Iowa tax credit will be extended automatically.

Assumptions

- Of the total 2012 Solar Energy System Tax Credit awards, 40.0% of the total amount of applications was received after February 2013. It is assumed that beginning in March 2014, the Department will receive additional applications for 2013 awards equal to 40.0% of applications received by the end of February 2014. With this assumption, it is estimated that total tax credit applications for systems installed in tax year 2013 will be $2.9 million. Under current law, $1.4 million of that amount will be awarded as tax year 2014 tax credits for installations which occurred in 2013.
- It is assumed that applications for tax credits will total at least $2.9 million each year for 2014 through 2016.
- With the estimated $1.4 million of 2013 installations receiving tax year 2014 credits and an estimated $2.9 million in applications for 2014, it is assumed the full annual cap of $3.0 million under this Bill will be issued for 2014, with applications above the cap pushed into 2015 awards.
- With applications expected to remain at 2014 levels, 2015 and 2016 awards are also expected to reach the cap. Under current law, it is estimated that the $1.5 million cap will allow tax credits for all installations in 2013 and 2014 to be fully funded, but 2015 installations will only receive a total of $0.1 million of tax credit awards and there will be no remaining funds for 2016 installations. Under this proposal, installations occurring in 2013, 2014, and 2015 will be fully funded and 2016 installations will receive $1.7 million of tax credit awards.
- It is assumed the awards will be claimed within the first five years of the carryforward period.
- Timing of the tax credit claims is assumed to be similar to other nonrefundable tax credits with a five-year carryforward period such as the Endow Iowa Tax Credit, the School Tuition Organization Tax Credit, and the Agricultural Assets Transfer Tax Credit. For those programs, tax credits earned in one year are redeemed 56.6% in the first year, 24.5% in the second year, and 18.9% is spread over the next four tax years.

Fiscal Impact

The proposed changes to the Solar Energy System Tax Credit are projected to reduce net General Fund revenue by the amounts in the following table.

Solar Energy Tax Credit

Net General Fund Impact, in Millions

	Solar Energy Tax Credit
FY 2015	$ -0.8
FY 2016	-1.2
FY 2017	-1.3
FY 2018	-0.6
FY 2019	-0.2
FY 2020	-0.2
FY 2021	-0.1
FY 2022	-0.1
	$ -4.5

Under current federal law, the fiscal impact does not continue past FY 2022. However, if the federal solar tax credit is extended, the Iowa tax credit is also extended.

Source

Department of Revenue

/s/ Holly M. Lyons

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The fiscal note for this bill was prepared pursuant to **Joint Rule 17** and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.