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Fiscal Note

Fiscal Services Division

HF 645 – Renewable Energy Tax Credits, Refuse Conversion Facility (LSB1971HV.1)
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Fiscal Note Version – As amended and passed by the Senate

Description

House File 645, as amended and passed by the Senate H-1387:

- Establishes a new Wind Energy System Tax Credit based on two federal wind energy tax credits. The State credit is equal to 50.0% of the federal credit amount, up to a maximum of $5,000 per installation. Under current federal law, both federal credits expire December 31, 2016. The new State credit is first available for tax year 2015. The credit is not refundable but any unused portion may be carried forward for up to 10 tax years. The new credit is limited to no more than a total of $150,000 for all applicants in a calendar year. If credit applications exceed that amount, a wait list will develop. If credit applications are below that amount, unused credits are available the next year in addition to the annual $150,000.
- Modifies the existing State solar energy system tax credit. The credit is currently equal to 60.0% of the federal credit amount. That percentage is reduced to 50.0% for installations occurring on or after January 1, 2016. The maximum amount of tax credits that may be approved in a year is increased from the current $4.5 million to $5.0 million. This change is effective January 1, 2015.
- Expands the current tax credit program available under **Iowa Code section 476C.3** for the production of heat for a commercial purpose. Under current law, the tax credit is limited to no more than 167.0 billion British Thermal Units (BTU) of heat for all tax credit applicants, and no more than 55.0 billion BTU for any single applicant. This Bill makes the 167.0 and 55.0 BTU limits annual as opposed to lifetime.
- Increases the maximum energy production capacity that may be approved for renewable energy tax credits that are facilities other than wind facilities by 10.0 megawatts, from the current 53.0 megawatts to 63.0 megawatts, and reserves 10.0 megawatts of capacity for solar facilities owned or contracted for by utility companies.

Assumptions

Creation of a Wind Energy System Tax Credit

- The federal credit is equal to 30.0% of qualified installation costs.
- The Iowa credit is equal to 50.0% of the federal credit so therefore the Iowa credit equates to 15.0% of qualified installation costs.
- At 15.0% of qualified installation costs, the $150,000 annual tax credit allowance equates to tax credits calculated on an annual maximum of $1.0 million in qualified installed cost.
- For 2015, the total installation cost is assumed to be $500,000 and for 2016 the total cost is assumed to be $1.0 million. The federal tax credit currently expires December 31, 2016 so no installations beyond that date will qualify for a state credit unless the federal credit is extended.
- Tax credit applications may be submitted after a qualified installation is completed but must be made before May 1 for installations that occurred during the previous calendar year. It is

assumed that all applications for a calendar year are made in time to file tax returns for that calendar year in a timely manner.
- The tax credits are not refundable or transferable, but unused credits may be carried forward for up to 10 tax years. Once awarded, tax credits are assumed to first impact tax revenue in the fiscal year following the end of the calendar year (CY 2015 claims first impact FY 2016). Credit redemption timing is based on the redemption pattern of similar nonrefundable tax credits:
  - First Year = 45.0% of credits awarded
  - Second Year = 21.0%
  - Third Year = 13.0%
  - Fourth year through sixth = 7.0%

Modifications to the Solar Energy System Tax Credit

- The Iowa solar credit is based on a percentage of the federal credit. The federal credit is currently set to expire December 31, 2016. This estimate assumes the federal credit will not be extended.
- The tax credit is expected to be fully utilized at the current law 60.0% and at the proposed law 50.0%.
- The full $5.0 million in available tax credits will be awarded in calendar years 2015 and 2016.
- Tax credits awarded for a calendar year are first redeemed by the taxpayer in the spring following the end of the calendar year.
- The tax credits are not transferable or refundable, but may be carried forward to future tax years until the earned credit is fully redeemed.
- Credit redemption timing is based on the redemption pattern of similar nonrefundable tax credits:
  - First Year = 45.0% of credits awarded
  - Second Year = 21.0%
  - Third Year = 13.0%
  - Fourth year through sixth = 7.0%

Heat for Commercial Purposes Made an Annual Maximum

- The tax credit calculates to $4,500 per billion BTU.
- Under current law, three facilities have claimed credits for a total of 165.0 billion BTU.
- Current law allows an approved credit applicant to receive tax credits for up to 10 years. However, the lifetime limit cap for commercial heat means that facilities reach the lifetime cap in the first year.
- Under changes included in this Bill, the three facilities will be eligible for 55.0 billion BTU per year for an additional nine years. In addition, other facilities will be able to access tax credits once the three current facilities have received tax credits for 10 years.
- The tax credits are not refundable. Credit redemption timing is based on the redemption pattern of similar nonrefundable tax credits:
  - First Year = 38.0% of credits awarded
  - Second Year = 52.0%
  - Third Year = 10.0%
- Due to an enactment date assumed to be late in FY 2015, credit redemption timing for the 2014 award year credits is assumed to be:
  - First Year = 0.0% of credits awarded
  - Second Year = 90.0%
  - Third Year = 10.0%

10 Megawatts of Tax Credit Capacity for Utility Solar Projects

- A total of 2.0 megawatts of qualified solar capacity will be constructed during calendar year 2015 and an additional 8.0 megawatts in 2016.
- The capacity factor for solar projects will average 25.0%.
- Tax credits for energy produced in a calendar year are awarded in February following the end of the calendar year.
- The tax credits are not refundable but are transferable. Credit redemption timing is assumed to be:
  - First Year = 55.0% of credits awarded
  - Second Year = 33.0%
  - Third Year = 10.0%
  - Fourth Year = 2.0%

Fiscal Impact

The creation of a new Wind Energy System Tax Credit is projected to reduce net General Fund revenue by $225,000 over seven fiscal years as presented in the following table.

Wind Energy System Tax Credit Net General Fund Revenue	Amount
FY 2016	$ -34,000
FY 2017	-83,000
FY 2018	-41,000
FY 2019	-25,000
FY 2020	-16,000
FY 2021	-16,000
FY 2022	-11,000

Modification of the existing Solar Energy System Tax Credit is projected to reduce net General Fund revenue by $1.0 million over seven fiscal years as presented in the following table.

Solar Energy System Tax Credit Net General Fund Revenue	Amount
FY 2016	$ -225,000
FY 2017	-330,000
FY 2018	-170,000
FY 2019	-100,000
FY 2020	-70,000
FY 2021	-70,000
FY 2022	-35,000

Changing the lifetime 167 BTU for commercial heat tax credit limit to an annual limit is projected to reduce net General Fund revenue by the amounts presented in the following table.

BTU For Heat Tax Credits
Net General Fund Revenue

	Amount
FY 2016	$ -634,000
FY 2017	-592,000
FY 2018	-726,000
FY 2019 and After	-752,000

Increasing the allowed energy capacity for nonwind projects by 10.0 megawatts to be available for utility company solar projects is projected to reduce net General Fund revenue by the amounts presented in the following table.

10 Megawatts of Solar Projects
Net General Fund Impact

FY 2016	$ -36,000		FY 2023	$ -329,000
FY 2017	-202,000		FY 2024	-329,000
FY 2018	-296,000		FY 2025	-329,000
FY 2019	-323,000		FY 2026	-293,000
FY 2020	-329,000		FY 2027	-126,000
FY 2021	-329,000		FY 2028	-33,000
FY 2022	-329,000		FY 2029	-5,000

Summary

The following table summarizes the estimated combined State General Fund revenue impact of the Bill as amended by the Senate.

HF 645 - Senate Amendment
Fiscal Impact Summary
Net General Fund Revenue

	Amount
FY 2016	$ -929,000
FY 2017	-1,207,000
FY 2018	-1,233,000
FY 2019	-1,200,000
FY 2020	-1,167,000
FY 2021	-1,167,000
FY 2022	-1,127,000

If the federal credits for wind and solar energy products, currently set to expire December 31, 2016, are extended by Congress, the revenue reductions associated with the new Wind Energy System Tax Credit and the modified Solar Energy Tax Credit will be larger in future fiscal years.

To the extent that the tax credits are redeemed against individual income tax liability, the tax credits will also reduce the amount of statewide revenue generated by the local option income surtax for schools. The maximum impact on surtax collections equal 3.5% of the impact on the State General Fund.

The Department of Revenue indicates that enactment of the new Wind Energy System Tax Credit will require the development of a new component to the Department's Tax Credit Award, Claim & Transfer System. This one-time development cost is estimated by the Department to be $90,000.

Sources

Department of Revenue
Legislative Services Agency analysis

/s/ Holly M. Lyons

June 4, 2015

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.