GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note 2015 Biennium

Bill #	HB0429	**Title:**	Revise the energy conservation and alternative energy tax credits
Primary Sponsor:	Wilmer, Franke	**Status:**	As Introduced

- ☐ Significant Local Gov Impact
- ☐ Needs to be included in HB 2
- ☐ Technical Concerns
- ☐ Included in the Executive Budget
- ☐ Significant Long-Term Impacts
- ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2014 Difference	FY 2015 Difference	FY 2016 Difference	FY 2017 Difference
Expenditures:				
General Fund	$0	$0	$0	$0
Revenue:				
General Fund	$0	($1,593,675)	($1,848,140)	($508,930)
Net Impact-General Fund Balance:	$0	($1,593,675)	($1,848,140)	($508,930)

Description of fiscal impact: For tax years 2014 and 2015, HB 429 increases the cap from $500 to $1,000 for the residential energy conservation credit and allows taxpayers to carry forward unused credit amounts to reduce individual tax liability in the following three tax years. HB 429 also increases the cap from $500 to $1,000 for the alternative energy system credit, but limits the credit to 25% of qualified expenditures. The changes reduce estimated general fund revenue by $1.594 million in FY 2015, by $1.848 million in FY 2016, and by $508,900 in FY 2017. There is also some reduction in general fund revenue in the years past FY 2017 due to carry forward of unused credits.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

Residential Energy Conservation Credit

1. Currently, there is a residential energy conservation credit available to individual income taxpayers (15-32-109 and 15-30-2310, MCA). The credit is limited to 25% of qualified expenditures made by a taxpayer in a building and is capped at $500 total per taxpayer per year. Therefore, a taxpayer who spends $2,000 or more on qualified purchases can claim up to a $500 credit. Subject to meeting energy conservation standards, qualified expenditures may include insulation in existing or new buildings, energy efficient exterior doors and windows, heating and air conditioning systems, water heaters, programmable thermostats, and other investments. The credit is not refundable, so if a taxpayer claims a credit greater than their tax liability, the

difference is not refunded. Also, any unused credit cannot be carried forward or backwards and used in another tax year to reduce the taxpayer's tax liability.

2. HB 429 increases the residential energy conservation credit to a maximum of $1,000 per year, per taxpayer, but retains the limit of 25% of qualified expenditures. Therefore, a taxpayer who spent $4,000 or more on qualified investments could claim a credit of $1,000. The credit will not be refundable. However, the amount that exceeds the taxpayer's tax liability can be carried forward for up to three additional years to use against tax liability in those years.
3. Changes to the existing credit due to provisions of HB 429 would be effective for TY 2014 and 2015 only.
4. In TY 2011, the most recent year for which individual tax return data is available, $711,000 of the energy conservation credits claimed on returns were lost to taxpayers because the amount claimed was greater than tax liability. If this bill had been in effect, those lost credit amounts could have been carried forward to reduce tax liability in the next three years. For purposes of this fiscal note, it is assumed that those unused credits would be carried forward and would be spread out evenly over the next three years, reducing revenue by $237,000 per year.
5. Had this bill been in effect, the maximum amount of the credit or the cap would have been $1,000, not $500, per taxpayer. For those taxpayers in FY 2011 who claimed a credit amount less than the $500 cap, increasing the cap to $1,000 is assumed to have no impact on their expenditures and credit claims.
6. For those taxpayers who claimed an amount equal to the cap, increasing the cap is assumed to have an impact on their credit claims. However, while the cap is proposed to double from $500 to $1,000, not all credit claims by taxpayers at the old cap will double correspondingly. Some will bump up against the proposed new cap of $1,000, and some would claim less than the new cap of $1,000. Unfortunately, there is no data available from the state tax returns to show what the average investment is for those taxpayers investing $2,000 or more in qualifying energy conservation measures.
7. However, at the federal level, the 2009 American Recovery and Reinvestment Act (ARRA) provided a residential energy credit in TY 2009 and TY 2010. The credit was allowed for expenditures for qualified investments in energy efficiency, and was based upon 30 percent of qualified expenditures and was capped at $1,500. According to the IRS's *Statistics of Income* the average credit claimed on federal tax returns in TY 2009 was $867, indicating that the average investment on which the credit was claimed was at least $2,890 ($867 divided by 30%).
8. Although the current state criteria and the ARRA criteria were not identical, there was substantial overlap in what expenditures qualified for both the federal and state credits. The percentages of expenditures allowed for a credit were relatively close (25% for the state credit and 30% for the ARRA credit). For purposes of this fiscal note, it is assumed that the average investment for the ARRA credit is representative of likely investment if provisions of this bill were in place. If the average investment in energy conservation were $2,890, a 25% credit would result in an average credit claimed of $722, or an increase of $222 for those taxpayers at the current cap of $500.
9. In TY 2011, 5,395 taxpayers were at the $500 cap, so the total increase in credits claimed by this group is estimated to be $1.198 million (5,395 times $222).
10. If passed, provisions of this bill will apply to TY 2014 and TY 2015 and will terminate December 31, 2015.
11. The estimated reduction in general fund revenue due to the carry forward provision in the bill is $711,000 per year for each of the two years the bill is in effect. As noted in assumption 4, the amount claimed each year is assumed to be spread out over the three years allowed by the bill, or $237,000 per year for each of the two years.
12. The estimated total reduction in general fund revenue due to the bill is $3.818 million ($1.198 million x 2 plus $0.711 million x 2). Generally these credits will be claimed on tax returns filed in the spring of the calendar year after the tax year for which they are claimed. So credits for TY 2014 will be claimed on returns filed in the spring of CY 2015 (FY 2015) and credits for TY 2015 will be claimed on returns filed in the spring of CY 2016 (FY 2016). And as noted above, some of the credit amounts will be carried over beyond FY 2016 due to the carry forward provisions of the bill.

13. The table below shows the distribution over fiscal years of the estimated residential energy conservation credits:

Residential Energy Conservation Credit (million $)					Total by Year
Year 1 (FY 2015)	$1.198				**$1.198**
Year 2 (FY 2016)	$1.198	$0.237			**$1.435**
Year 3 (FY 2017)		$0.237	$0.237		**$0.474**
Year 4 (FY 2018)			$0.237	$0.237	**$0.474**
Year 5 (FY 2019)				$0.237	**$0.237**
All Years					**$3.818**

Alternative Energy System Credit

14. Under current law there is an alternative energy system credit of up to $500 allowed for individual income taxpayers (15-32-201, MCA). The credit is available for installation of a non-fossil fuel form of energy generation (solar, wind, solid waste, geothermal, fuel cell not requiring hydrocarbon fuel, or other) or a low-emission wood or biomass combustion device, including masonry heaters. The credit is not refundable, but if there is any credit unused because the taxpayer's tax liability is less than the credit, the taxpayer may carry the unused credit amount forward for up to four years.
15. HB 429 also increases the alternative energy system credit to a maximum of $1,000 per year, per taxpayer, but adds a requirement that the credit is limited to 25% of qualified expenditures. Therefore, a taxpayer who spent $4,000 or more on qualified investments could claim a credit of $1,000. However, a taxpayer who spent less, for example $2,000, is limited to 25% of the qualified expenditures, or $500, as a credit against income tax liability.
16. Changes to the existing credit due to HB 429 would be effective for TY 2014 and TY 2015 only.
17. About 76%, or 1,164 of the credits claimed on the TY 2011 returns were at the maximum of $500 per taxpayer. Increasing the cap to $1,000 is assumed to impact only those returns where the maximum credit was claimed, but not those returns with credits below the maximum.
18. Adding the 25% of qualified expenditures requirement will limit some credits since some of the qualifying expenditures will be less than $4,000. For purposes of this fiscal note, it is assumed that 40% of credits will be based upon average qualifying expenditures of $3,000, and 60% will be based upon qualifying expenditures of $4,000 or more.
19. Using the assumptions above, 466 taxpayers would claim an average credit of $750 ($3,000 times 25%) and 698 taxpayers would claim an average credit of $1,000 ($4,000 times 25%).
20. The increase in credits is $465,500 ($250 times 466 or $116,500, plus $500 times 698, or $349,000).
21. The provisions of the bill apply to two tax years so total general fund revenue reduction is $931,070.
22. Most of the returns with alternative energy system credits below the maximum are assumed to be credits carried over from a prior year. These taxpayers with credits below the maximum claimed 15% of total credit amounts in TY 2011 returns. If this pattern applies to the estimated increase in credits, 85% of increased credits, or $395,760, will be claimed in the first year, and the balance of $69,840 will be claimed in subsequent years. For purposes of this fiscal note, it is assumed the carried forward credits are claimed evenly over the next four years.
23. The table below shows the increase in alternative energy system credits by year:

Alternative Energy System Credit						Total by Year
Year 1 (FY 2015)	$395,675					**$395,675**
Year 2 (FY 2016)	$395,675	$17,465				**$413,140**
Year 3 (FY 2017)		$17,465	$17,465			**$34,930**
Year 4 (FY 2018)			$17,465	$17,465		**$34,930**
Year 5 (FY 2019)				$17,465	$17,465	**$34,930**
Year 6 (FY 2020)					$17,465	**$17,465**
All Years						**$931,070**

24. The combined total credits anticipated to be claimed under HB 429, by year are as follows:

Total Credits under HB 429	
Year 1 (FY 2015)	$1,593,675
Year 2 (FY 2016)	$1,848,140
Year 3 (FY 2017)	$508,930
Year 4 (FY 2018)	$508,930
Year 5 (FY 2019)	$271,930
Year 6 (FY 2020)	$17,465
All Years	**$4,749,070**

25. There are no additional costs to the department of revenue to administer the bill.

Fiscal Impact:	**FY 2014 Difference**	**FY 2015 Difference**	**FY 2016 Difference**	**FY 2017 Difference**
Department of Revenue				
Expenditures:				
TOTAL Expenditures	$0	$0	$0	$0
Funding of Expenditures:				
General Fund (01)	$0	$0	$0	$0
TOTAL Funding of Exp.	$0	$0	$0	$0
Revenues:				
General Fund (01)	$0	($1,593,675)	($1,848,140)	($508,930)
TOTAL Revenues	$0	($1,593,675)	($1,848,140)	($508,930)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	$0	($1,593,675)	($1,848,140)	($508,930)

Long-Term Impacts:

1. As shown in the table in assumption 24, the impacts of the bill extend past FY 2017.

Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*