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## Memorandum

**To:** Energy and Telecommunication Interim Committee

**From:** Aaron McNay, Economist  
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**Subject:** Report on Alternative Energy Income Tax Credits

The State of Montana currently provides several tax incentives for alternative energy production within the state. There are currently seven income tax credits provided by the State of Montana that deal with alternative energy production or storage, and energy conservation. This memorandum provides information on each of the seven income tax credits currently available within Montana, as well as current and historical credit amounts.

### Alternative Energy and Conservation Tax Credits

Enacted in 1977, the Alternative Energy Systems credit is designed to reduce residential energy consumption by incentivizing resident taxpayers to install alternative energy heating systems or low-emission wood or biomass systems in their principal residence. The credit is equal to the cost of the qualified system, with a credit limit of \$500 for each system. The credit is non-refundable, but can be carried forward for up to four years.

Another alternative energy tax credit available to individuals is the Energy Conservation credit. Created in 1981, the credit allows a resident taxpayer to claim a credit that is equal to 25 percent of the cost of a building investment designed to reduce energy consumption. The maximum credit amount for each taxpayer is \$500, which is non-refundable and cannot be carried forward into another tax year.

Individuals, corporations and partnerships can claim an Alternative Energy Production credit. For the credit, a taxpayer can claim 35 percent of the depreciable property cost of a commercial or net metering alternative energy system. The credit can also only be taken against taxes on the net income from the energy generated by the system, the energy generating equipment, or from any new industry powered by the facility. The credit is non-refundable, but can be carried forward for up to seven years. The credit can be carried

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forward for an additional eight years for commercial systems built on a reservation with a capacity of at least 5MW.

Enacted in the 2005 Session, individuals and corporations can also claim a tax credit for the investment in depreciable property in Montana that is primarily used to crush oilseeds for producing biodiesel or lubricants. The credit is set at 15 percent of the cost of the investment and each facility can only receive \$500,000 in credits over its lifetime. The credit is non-refundable, but can be carried forward up to seven years as long as the facility continues to crush oilseeds for biodiesel or lubricants.

A tax credit for individuals or corporation is also available for investment in facilities used to blend and store biodiesel. Starting in tax year 2005, a taxpayer would qualify for a credit equal to 15 percent of the investment cost of a biodiesel blending or storage facility. The credit is limited to \$52,500 for a distributor or wholesaler, or \$7,500 for a retailer. Like the Oilseed credit, the biodiesel credit is non-refundable and can be carried forward up to seven years as long as the facility continues to blend biodiesel.

Individuals, corporations and partnerships can also claim a tax credit for converting a motor vehicle to operate on an alternative energy source, such as natural gas, hydrogen, electricity, or a fuel that is at least 85 percent alcohol or ether. The credit is equal to 50 percent of the cost of converting the qualified vehicle, with a limit of \$500 for vehicles with a gross vehicle weight of less than 10,000 lb. and \$1,000 for vehicles in excess of 10,000 lb. The credit is non-refundable and cannot be carried forward or backward.

Finally, individuals and corporations can claim a credit of up to \$1,500 for installing a geothermal heating system in the taxpayer's principal residence or in a residence the taxpayer constructs. The credit is non-refundable and can be carried forward for up to seven years.

### Historical Tax Credit Amounts

Based on personal income tax records, the Alternative Energy System credit was claimed by 1,113 people in tax year 2014, a decrease over the previous year's 1,156 claimants. The total credit amount also decreased in 2014 and was \$637,853 for the year, which is significantly below the six year average credit amount of nearly \$917,000. From 2013 to 2014, the average credit amount claimed by each individual increased from \$560 to \$573.

Figure 1			
Alternative Energy Systems Credit			
Tax Year	Individuals		
	Total Credits Claimed	Individuals Claiming the Credit	Average Credit Amount
2009	\$1,322,296	2,332	\$567.02
2010	\$1,404,734	2,492	\$563.70
2011	\$833,803	1,517	\$549.64
2012	\$654,088	1,173	\$557.62
2013	\$647,301	1,156	\$559.95
2014	\$637,853	1,113	\$573.09

The number of people claiming the Energy Conservation (EC) credit has been decreasing since 2009. In 2009, approximately 28,500 people claimed the EC credit. By 2014, the number of people claiming the credit had decreased to approximately 11,500 people. The combined value of EC credits has also been decreasing since 2010. In 2014, approximately \$4.4 million in EC credits were claimed, a 57.2 percent decrease from the 2010 level of \$10.4 million. However, the average size of the credit claimed by each taxpayer has increased slightly over time. In 2009, the average EC credit made by each individual was \$354. By 2014, the average credit amount increased to approximately \$385, an 8.7% increase.

Figure 2			
Energy Conservation Credit			
Tax Year	Individuals		
	Total Credits Claimed	Individuals Claiming the Credit	Average Credit Amount
2009	\$10,103,356	28,509	\$354.39
2010	\$10,357,791	28,691	\$361.01
2011	\$5,652,500	16,568	\$341.17
2012	\$4,561,982	12,872	\$354.41
2013	\$4,604,848	12,281	\$374.96
2014	\$4,432,575	11,505	\$385.27

In tax year 2014, individuals claimed \$1,310 in Alternative Energy Production (AEP) credits, a significant increase from the previous year's credit amount of \$56. From 2009 through 2014, the year with the largest amount of AEP credits claimed was 2009, when \$33,086 in credits were reported. The year with the largest number of people claiming the credit was also 2009, when 13 people claimed the credit. Less than 10 people claimed the credit for years 2010 through 2014.

An AEP credit can also be claimed by C corporations, Partnerships and S corporations in Montana. For tax year 2013, Partnerships and S corporations claimed \$25,590 in credits. C corporations claimed \$100 in AEP credits for 2013. The largest amount of credits claimed for Partnerships, S corporations and C corporations over the previous 5 tax years was 2009, when more than \$4.2 million in credits were reported. Less than 10 C corporations, S corporations and partnerships claimed AEP credits for every year since at least 2009.

Figure 3			
Alternative Energy Production Credit			
Tax Year	Total Credits Claimed		
	Individuals	C Corporations	S Corporations and Partnerships
2009	\$33,086	\$4,180,077	\$46,537
2010	\$11,360	\$100	N/A
2011	\$7,290	\$50	N/A
2012	\$11,684	\$50	\$28,878
2013	\$56	\$100	\$25,590
2014	\$1,310	N/A	N/A

Over the previous three years, there were no significant amount of Oilseed Crushing credits claimed by individual taxpayers in Montana. From 2009 through 2014, the only year with a significant amount of credits claimed was 2011, when more than \$8,500 were claimed by less than 10 individuals.

An Oilseed credit can also be claimed by C corporations, Partnerships and S corporations in Montana. No corporations or partnerships claimed the Oilseed credit in tax years 2012 and 2013. The largest amount of credits claimed for Partnerships, S corporations and C corporations over the previous five tax years was 2011, when more than \$12,400 in credits were reported. Less than 10 C corporations, S corporations and Partnerships claimed Oilseed credit for every year since at least 2009.

Figure 4			
Oilseed Crushing Credit			
Tax Year	Total Credits Claimed		
	Individuals	C Corporations	S Corporations and Partnerships
2009	\$0	\$0	\$8,140
2010	\$0	\$0	\$5,401
2011	\$8,537	\$0	\$12,414
2012	\$0	\$0	\$0
2013	N/A	\$0	\$0
2014	\$0	N/A	N/A

No individuals claimed the Biodiesel Blending and Storage credit in tax year 2014. In 2013, a total of \$2,250 in credits were claimed by individuals. The tax year with the largest number of credits claimed by individual taxpayers was 2011, when \$46,755 Biodiesel tax credits were reported. Tax year 2010 is the only year when the Biodiesel credit was claimed by any corporation or partnership, with a combined credit amount of \$4,560.

Figure 5			
Biodiesel Blending and Storage Credit			
Tax Year	Total Credits Claimed		
	Individuals	C Corporations	S Corporations and Partnerships
2009	\$2,630	\$0	\$0
2010	\$907	\$0	\$4,560
2011	\$46,755	\$0	\$0
2012	\$0	\$0	\$0
2013	\$2,250	\$0	\$0
2014	\$0	N/A	N/A

The Alternative Fuel credit was claimed by 19 individuals in 2014, who claimed a combined credit amount of \$14,694 for the year. The combined value of the Alternative Fuel credit that have been claimed over time has been declining. The largest amount of credits claimed over the previous six years was 2009 when \$40,485 in credits were

reported. The year with the smallest Alternative Fuel credit amounts was 2013, when less than \$10,000 in credits were reported.

An Alternative Fuel credit can also be claimed by C corporations, Partnerships and S corporations. For tax year 2013, C corporations claimed \$379 credits, while partnerships and S corporations did not report any credits. S corporations and partnerships did claim \$1,000 Alternative Fuel credits in 2013. The largest amount of credits claimed for Partnerships, S corporations and C corporations over the previous 5 tax years was 2010, when nearly \$167,000 in credits were reported. Less than 10 C corporations, S corporations and partnerships claimed the credit every year since at least 2009.

Figure 6			
Alternative Fuel Credit			
Tax Year	Total Credits Claimed		
	Individuals	C Corporations	S Corporations and Partnerships
2009	\$40,485	\$6,004	\$2,450
2010	\$25,281	\$166,946	\$0
2011	\$27,322	\$6,479	\$25
2012	\$15,278	\$0	\$1,000
2013	\$9,383	\$379	\$0
2014	\$14,694	N/A	N/A

In 2014, 202 individuals claimed \$250,535 in Geothermal Energy Systems (GES) credits, a significant decrease from the previous year's credit amount of \$320,177. From 2009 through 2014, the year with the largest amount of AEP credits claimed was \$534,153 in 2009. The year with the largest number of people claiming the credit was also 2009, when 304 people claimed the credit. Tax year 2013 is the only year a corporation claimed the GES credit, with \$1,500 in credits claimed by less than 10 corporations.

Figure 7				
Geothermal Energy Systems Credit				
Tax Year	Total Credits Claimed		Individuals Claiming The Credit	
	Individuals	C Corporations	Individuals	C Corporations
2009	\$534,153	\$0	304	0
2010	\$532,086	\$0	294	0
2011	\$327,275	\$0	243	0
2012	\$359,300	\$0	300	0
2013	\$320,177	\$1,500	250	N/A
2014	\$250,535	N/A	202	N/A