



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2023 Biennium

Bill # SB0007

Title: Revise tax credit for energy-conserving expenditures

Primary Sponsor: Cohenour, Jill

Status: As Amended in Senate Committee

- 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

	<u>FY 2022</u> <u>Difference</u>	<u>FY 2023</u> <u>Difference</u>	<u>FY 2024</u> <u>Difference</u>	<u>FY 2025</u> <u>Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
State Special Revenue	\$0	\$0	\$0	\$0
Revenue:				
General Fund	(\$512,768)	\$2,590,872	\$2,541,645	\$2,493,354
State Special Revenue	\$0	\$0	\$0	\$0
Net Impact-General Fund Balance:	<u>(\$512,768)</u>	<u>\$2,590,872</u>	<u>\$2,541,645</u>	<u>\$2,493,354</u>

Description of fiscal impact: As amended, SB 7 will reduce general fund revenue by \$512,768 in FY 2022. For fiscal years 2023, 2024 and 2025, the amended bill will increase general fund revenue by \$2,590,872, \$2,541,645 and \$2,493,354, respectively.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

- Under current law, the income tax credit for energy-conserving expenditures is capped at \$500 per taxpayer and is non-refundable.
- As amended, SB 7 makes the energy-conserving income tax credit fully-refundable. The amended bill also limits the credit to taxpayers with a household income, as defined in 15-30-2337, of \$45,000 or less starting tax year 2022. Making the credit fully-refundable would allow some taxpayers to use credits they were unable to use under current law, due to the credit exceeding their tax liability. Restricting the credit to taxpayers with household incomes at, or below, \$45,000 will reduce the number of taxpayers who are able to claim the credit.
- The household credit amount is based on the definition in 15-30-2338, which is gross household income with \$6,300 in income exempted.

4. It is assumed the income restriction applies to \$51,300 in gross household income and \$45,000 in household income.
5. The change making the credit fully-refundable applies starting tax year 2021, while the change limiting the credit to households with incomes below \$45,000 applies starting tax year 2022.
6. In tax year 2019, 6,876 taxpayer households claimed the energy-conserving income tax credit, with \$3,996,396 in credits reported on the income tax returns of the households.
7. Based on 2019 income tax returns, making the credit fully-refundable, and not limiting the credit based on household income, would have reduced the tax liability of taxpayers by \$532,842 in tax year 2019.
8. Based on 2019 household income amounts, limiting the credit to households with incomes of \$45,000 or less would have prevented 5,324 households from claiming the credit, which would have increased their tax liability by \$3,065,522.
9. Making the credit fully-refundable would have reduced the tax liability of the remaining 1,552 households who could claim the credit by an additional \$321,176.
10. When combined, limiting the credit to households with incomes below \$45,000 and making the credit fully-refundable would have increased general fund revenue by \$2,744,346 (\$3,065,522 - \$321,176) in tax year 2019.
11. The number of credits claimed each year has decreased by 1.9% each year from 2013 through 2019. It is assumed that the tax liability impacts associated with the proposed bill will decrease by 1.9% each year.
12. Based on a 1.9% annual decrease, making the credit fully-refundable in tax year 2021 will reduce income tax revenue by \$512,768.
13. Based on a 1.9% annual decrease, the revenue impact of limiting the credit and making it fully-refundable is \$2,590,872 in tax year 2022, \$2,541,645 in tax year 2023 and \$2,493,354 in tax year 2024.
14. As the credit is based on one-time expenditures, it is assumed that taxpayers claiming the credit do not change their withholding or estimated payment amounts.
15. With no changes to estimated payments or withholdings, taxpayers will receive the refundable tax credit when they file their tax return the following year in April.
16. As taxpayers file their tax year 2021 returns in FY 2022, the proposed bill will reduce income tax revenue by \$512,768 in FY 2022. The amended bill will also increase income tax revenue by \$2,590,872 in FY 2023, \$2,541,645 in FY 2024 and \$2,493,354 in FY 2025.
17. SB 7 also repeals the corporate income tax credit for the interest differential for loans made prior to July 1, 1995.
18. As this credit has not been claimed in recent years, it is assumed that the elimination of this credit will have no fiscal impact to the state.
19. The changes made by the amended bill will be made as part of the department's annual change process. The department does not expect to incur any additional costs because of the bill.

Fiscal Note Request – As Introduced

(continued)

	<u>FY 2022</u> <u>Difference</u>	<u>FY 2023</u> <u>Difference</u>	<u>FY 2024</u> <u>Difference</u>	<u>FY 2025</u> <u>Difference</u>
<u>Fiscal Impact:</u>				
FTE	0.00	0.00	0.00	0.00
<u>Expenditures:</u>				
Personal Services	\$0	\$0	\$0	\$0
Operating Expenses	\$0	\$0	\$0	\$0
TOTAL Expenditures	\$0	\$0	\$0	\$0
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
State Special Revenue (02)	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	\$0	\$0	\$0	\$0
<u>Revenues:</u>				
General Fund (01)	(\$512,768)	\$2,590,872	\$2,541,645	\$2,493,354
State Special Revenue (02)	\$0	\$0	\$0	\$0
TOTAL Revenues	(\$512,768)	\$2,590,872	\$2,541,645	\$2,493,354
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$512,768)	\$2,590,872	\$2,541,645	\$2,493,354
State Special Revenue (02)	\$0	\$0	\$0	\$0

Technical Notes:

Department of Revenue

1. The estimates in this note are based on the definition of “household income” under current law. There is at least one bill being proposed that proposes to change this definition. If the definition of “household income” changes, the revenue impacts of SB 7 will be different from the estimates contained in this fiscal note.

NO SPONSOR SIGNATURE 3.10.21
 Sponsor's Initials Date

KA 3/10/21
 Budget Director's Initials Date