

GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2009

Legislative Fiscal Note

BILL NUMBER: House Bill 512 (Fourth Edition)

SHORT TITLE: Incentives for Energy Conservation.

SPONSOR(S): Representatives Holliman, Harrison, and Luebke

FISCAL IMPACT (\$ Millions)					
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 2009-10</u>	<u>FY 2010-11</u>	<u>FY 2011-12</u>	<u>FY 2012-13</u>	<u>FY 2013-14</u>
REVENUES					
General Fund	(\$0.42)	(\$0.42)	(\$0.42)	(\$1.42)	(\$1.42)
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: NC Department of Revenue					
EFFECTIVE DATE: January 1, 2009					

BILL SUMMARY:

Current tax law awards an income tax credit to any taxpayer who constructs, purchases, or leases renewable energy property and places this property in service inside the state. The credit equals 35% of the cost of the property (with ceilings for certain technologies). In the case of renewable energy property that serves a single-family dwelling, the credit must be taken in the taxable year in which the property is placed in service. For all other renewable energy property, the entire credit must be taken in five equal installments, beginning with the taxable year in which the property is placed in service. House Bill 512 extends the sunset of the credit from January 1, 2011 to January 1, 2016. It also extends the credit to include geothermal heat pumps and creates a cap of \$8,400 for geothermal heat pumps installed for residential use. Finally, it enables the credit to be taken against the gross premiums tax.

ASSUMPTIONS AND METHODOLOGY:

Extending the sunset of the credits will increase the length of time that the state awards the existing credits for new projects. The net impact of this will be a decrease in revenues starting in FY 2012-2013, the first year in which the credits would not have been completely active under existing legislation. According to the North Carolina Department of Revenue’s Summaries of the Renewable Energy Credits for years 2003 through 2007, the amounts of the credits awarded for renewable energy property have been highly variable for the past five years but have not exceeded \$1 million. This report does not have the detail to indicate how much of the credits reflect new

activity in recent years versus installments for past projects. Due to this variability and lack of complete information, this report assumes \$1 million as a rough estimate of the loss of revenues in FY 2012-13 and FY 2013-14 due to the extension of the sunset. The cost could exceed this amount if there is increased investment in renewable energy property.

According to estimates from the North Carolina Solar Center, 20-30 geothermal heat pumps are currently installed each year. With the addition of an income tax credit, assuming that the recession will not impact purchasing decisions too greatly, this number is estimated to increase to 50 a year. The new bill would award an income tax credit equal to 35% of the cost of the heat pump credit with a ceiling of \$8400 of credit per installation. In North Carolina the cost of installation is estimated to range between \$17,500 and \$27,000. Assuming that the cost of installation is \$27,000, the amount of each credit would be the \$8400 ceiling. Multiplying the \$8,400 credit by the estimated number of installations each year results in a \$420,000 loss in revenues for FY 2009-10 due to the inclusion of geothermal heat pumps in the tax credit.

The bill enables the renewable energy credit to be taken against the gross premiums tax. This will allow insurance companies and other business entities taxed exclusively under the gross premiums to take the credit. Unfortunately, it is unknown how many of these business entities will choose to invest in this property and, therefore, the impact of this change cannot be estimated.

SOURCES OF DATA: NC Department of Revenue, NC Solar Center

TECHNICAL CONSIDERATIONS: None

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