

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the NM Legislature. The LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

Current FIRs (in HTML & Adobe PDF formats) are available on the NM Legislative Website (legis.state.nm.us). Adobe PDF versions include all attachments, whereas HTML versions may not. Previously issued FIRs and attachments may be obtained from the LFC in Suite 101 of the State Capitol Building North.

## FISCAL IMPACT REPORT

ORIGINAL DATE 02/11/09  
 LAST UPDATED 03/12/09    **HB** \_\_\_\_\_

SPONSOR     Keller    

SHORT TITLE     Solar Market Tax Development Credit        **SB**     257    

ANALYST     Francis    

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY09	FY10	FY11		
	\$572.0	\$657.0	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Energy Minerals and Natural Resources (EMNRD)

Taxation and Revenue Department (TRD)

### SUMMARY

#### Synopsis of Bill

Senate bill 257 changes the solar market development (SMD) personal income tax credit extending the eligible time period by one year and changing the amount of the credit. Current law allows a credit that combined with a federal credit cannot exceed 30 percent of eligible cost up to \$9,000 for installation prior to December 31, 2015. SB257 changes the credit to 10 percent of the cost regardless of the federal credit. The credit remains capped at \$9,000 but now is available through 2016.

### FISCAL IMPLICATIONS

The fiscal impact was revised to reflect TRD analysis. The credit is now showing a positive general fund impact based on actual claims experience and the decrease in the percentage of costs allowed. EMNRD reports a negative impact to the general fund.

#### TRD:

Revenue impacts are based upon information provided by the New Mexico Energy, Minerals, and Natural Resources Department (EMNRD). The approximate purchase and installation costs associated with photovoltaic and solar thermal systems are \$28,000 and

\$16,000, respectively. The numbers of approved 2008 claims for photovoltaic and solar thermal systems are approximately 120 and 75, respectively. EMNRD expects the number of claims to grow annually by approximately 15%. For both system types, the average 2008 approved credit amount accounted for approximately 20% of the purchase and installation costs. In contrast, the bill will change the credit amount to 10% of purchase and installation costs. Under current law, 83% of claimants are on average able to use the full credit. The remainder are assumed to be able to use 80% of the credit the first year it is claimed and the balance the next year. Under proposed law it is assumed all claimants will be able to use the full credit amount the first year. The revenue impact was derived by comparing the estimated cost of solar market development credits (calculated as the product of the number of systems installed, the relevant cost, and the percent of costs covered by the tax credit) under current and proposed law.

According to EMNRD, the established annual caps for the cumulative state tax credits remain unchanged at \$2,000,000 for solar thermal and \$3,000,000 for solar PV. The fiscal impact to state revenue of the SMD Credit is estimated to be \$324,000 in FY10, growing to \$390,000 in FY11.

It is important to note that the credit still costs the state general fund but the amount is reduced by SB257 from the original estimate which is built into the consensus revenue estimate. The table below shows that the credit now is expected to cost just over \$1 million compared to the projection of \$1.6 million under current law.

	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>
Estimate for SB269 (2006)	(1.40)	(1.60)	(1.80)	(2.00)
HB257		(1.03)	(1.14)	(1.25)
<b>Net Fiscal Impact</b>		<b>0.57</b>	<b>0.66</b>	<b>0.75</b>

**SIGNIFICANT ISSUES**

In 2008, Congress passed the "Renewable Energy and Job Creation Tax Act of 2008" which removed the \$2,000 cap on the federal credit for solar systems beginning tax year 2009. Now qualified systems can receive 30 percent of the purchase and installation costs of a solar thermal or photovoltaic system with no cap on the amount, making the current NM SMD tax credit effectively zero since it recognized that the \$2,000 cap would almost always be below 30 percent and was designed to make up some or all of the difference.

**PERFORMANCE IMPLICATIONS**

According to EMNRD, SB 257's proposed amendments to the Solar Market Development Tax Credit would broaden participation in the program by builders and homeowners and increase the number of installed solar PV and solar domestic hot water systems. It also would act as an economic stimulus to increase solar industry jobs and development.

## ADMINISTRATIVE IMPLICATIONS

EMNRD, which is required to certify the credit, would have to update and disseminate pertinent rules.

## OTHER SUBSTANTIVE ISSUES

According to EMNRD, compared to the current program through taxable year 2008, the amendment would improve the overall tax credit benefits for New Mexico taxpayers installing solar PV and solar domestic hot water systems; overall tax credit benefits for solar space heating systems may be reduced.

NF/mt:svb

***The Legislative Finance Committee has adopted the following principles to guide responsible and effective tax policy decisions:***

- 1. Adequacy:*** revenue should be adequate to fund government services.
- 2. Efficiency:*** tax base should be as broad as possible to minimize rates and the structure should minimize economic distortion and avoid excessive reliance on any single tax.
- 3. Equity:*** taxes should be fairly applied across similarly situated taxpayers and across taxpayers with different income levels.
- 4. Simplicity:*** taxes should be as simple as possible to encourage compliance and minimize administrative and audit costs.
- 5. Accountability/Transparency:*** Deductions, credits and exemptions should be easy to monitor and evaluate and be subject to periodic review.

***More information about the LFC tax policy principles will soon be available on the LFC website at [www.nmlegis.gov/lcs/lfc](http://www.nmlegis.gov/lcs/lfc)***