

PROPERTY TAX
Solar energy production tax
exemption establishment

April 1, 2022

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
 Analysis of H.F. 4305 (Long) as proposed to be amended by H4305A2

	Fund Impact			
	F.Y. 2022	F.Y. 2023	F.Y. 2024	F.Y. 2025
	(000's)			
Property Tax Refund Interactions	\$0	\$0	(\$30)	(\$30)
School Bond Credit	\$0	\$0	(\$20)	(\$20)
General Fund Total	\$0	\$0	(\$50)	(\$50)

Effective beginning the day following final enactment.

EXPLANATION OF THE BILL

Under current law, the nameplate capacity of a solar energy generating system is combined with the nameplate capacity of any other solar energy generating system if the systems:

- 1) were constructed within the same 12-month period, and
- 2) exhibit characteristics of being a single development.

If the combined nameplate capacity is greater than one megawatt alternating current, then the system is subject to the solar energy production tax of \$1.20 per megawatt-hour. If the combined nameplate capacity is one megawatt or less, then the solar energy generating system is exempt from the production tax.

Under the proposal, nameplate capacities of systems would be combined if they exhibit characteristics of being a single development “at the time of development.” However, any community solar garden that submitted an application for an interconnection agreement on or after September 25, 2015 would be exempt from the solar energy production tax.

REVENUE ANALYSIS DETAIL

Community Solar Gardens

- It is assumed that all community solar gardens currently paying the solar energy production tax would be eligible for the exemption.
- It is further assumed that the proposed exemption would not be administrable for taxes payable in 2022.
- Approximately 110 community solar gardens were subject to the solar energy production tax for taxes payable in 2022 (based on production in 2021).
- For taxes payable in 2023, the exemption from the solar energy production tax would reduce county tax revenue by an estimated \$970,000.

- It is assumed that a portion of the lost production tax revenue would be recovered by increasing local levies, which would increase property taxes within local jurisdictions.
- The increased property taxes on homesteads would increase state-paid homeowner property tax refunds by \$10,000 in fiscal year 2024.

Land Classification Interaction

- Under current law,
 - if a solar energy generating system is used primarily for solar energy production subject to the production tax, then the real property upon which the system is located is classified as 3a (commercial/industrial/utility).
 - if a solar energy generating system is not used primarily for solar energy production subject to the production tax, then the real property is classified without regard to the system, usually 2a (agricultural land) or 2b (rural vacant land).
- Under the proposal, the land upon which the community solar gardens are located would be reclassified from class 3a to class 2a/2b.
- The reclassification of the real property for taxes payable in 2023 would shift an estimated \$360,000 in local property taxes onto other properties, including homesteads, increasing state-paid homeowner property tax refunds by \$20,000 in fiscal year 2024.
- In addition, being reclassified as 2a/2b would, in some cases, make the land eligible for the school building bond agricultural credit, increasing the state-paid credit by \$20,000 beginning in fiscal year 2024.
- For taxes payable in 2022, the real property subject to reclassification under the proposal will pay an estimated \$120,000 in state general tax.
- For taxes payable in 2023 and thereafter, the reclassified property would no longer be subject to the state general tax, but this would have no impact on state revenues, because the tax rate would be adjusted to yield the amount of revenue required by statute.

Other Solar Energy Generating Systems

- Some solar energy generating systems that are not part of a community solar garden could have their combined nameplate capacity separated into their individual nameplate capacities due to the requirement that they exhibit characteristics of being a single development “at the time of development.”
- However, in cases where systems were part of the same development, but were later treated as separate systems, the proposal could result in these systems having their nameplate capacities combined.
- The impact of the requirement to exhibit characteristics of being a single development “at the time of development” is unknown.

Overall

- The total property tax refund interaction includes the \$10,000 cost due to reduced solar energy production taxes and the \$20,000 cost due to the reclassification of the land.
- Tax year impact is allocated to the following fiscal year.
- Estimates are based on the 2022 February Forecast.

Number of Taxpayers: Approximately 110 community solar gardens.

PROPERTY TAX BENCHMARKS (Minn. Stat. § 270C.991)

<i>Transparency, Understandability, Simplicity & Accountability</i>	Neutral
<i>Efficiency & Compliance</i>	Neutral
<i>Equity (Vertical & Horizontal)</i>	Neutral
<i>Stability & Predictability</i>	Neutral
<i>Competitiveness for Businesses</i>	Neutral
<i>Responsiveness to Economic Conditions</i>	Neutral

The bill is scored on a three-point scale (decrease, neutral, increase) for each principle in comparison to current law.

Source: Minnesota Department of Revenue
Property Tax Division – Research Unit
<https://www.revenue.state.mn.us/revenue-analyses>

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