

March 6, 2023

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 2311 (Bierman)

	Fund Impact			
	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>	<u>F.Y. 2026</u>	<u>F.Y. 2027</u>
	(000's)			
General Fund	(\$7,600)	(\$10,100)	(\$13,400)	(\$17,900)

Effective for tax years 2023 through 2025.

EXPLANATION OF THE BILL

Current Law: Under federal law, a taxpayer may claim an income tax credit for a residential solar energy system. The maximum allowable credit for solar-electric property is based on a percentage of the cost of systems placed in service in a given tax year. For systems placed into service in tax-year 2023, the credit is 22% of expenditures. The credit is set to expire after tax year 2023.

Proposed Law: The bill creates a refundable credit against the individual income tax and corporate franchise tax for solar energy system installations. A taxpayer who receives electrical service from a municipal utility or a cooperative electric association and purchases and places a solar energy system into service in Minnesota is eligible for the credit.

The credit is equal to a percentage of the purchase and installation costs, up to a maximum amount. For systems placed into service in tax year 2023, the credit percentage is 15%, for tax year 2024 it is 13%, and for tax year 2025 it is 11% of the purchase and installation costs.

For installations on a taxpayer’s homestead, the maximum credit is \$2,500. For installations on a business property, the maximum credit is \$15,000.

For a nonresident or part-year resident the credit must be allocated based on the share of the taxpayer’s income that is attributable to Minnesota.

The credit will expire after tax year 2026.

REVENUE ANALYSIS DETAIL

- The estimate is based on information provided by the Department of Commerce on the number and total kilowatts of solar installations in areas served by cooperative and municipal utilities.
- In 2021 there were about 1,100 eligible projects placed into service totaling about 12.4 megawatts.
- The average cost per watt is assumed to be \$4, based on information obtained from the Center for Sustainable Energy (CSE).

REVENUE ANALYSIS DETAIL (Cont.)

- The average installation cost per project is estimated at \$43,900 for tax-year 2021. It is assumed most projects will qualify for the maximum credit.
- The credit is projected to grow at 33% per year, based on the growth in the number of solar installations from 2015 through 2021.
- It is assumed that about 90% of the projects will be residential, with the remaining 10% being commercial.
- Tax year impacts are allocated to the following fiscal year.

Minnesota Department of Revenue
Tax Research Division
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