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Overview

This bill allows a nonrefundable tax credit for businesses that install qualifying combined heat and power systems. The credit applies against either the corporate franchise or individual income tax and equals 25 percent of the installed cost of the system (with a \$3.3 million/megawatt limit on that cost). To qualify for the credit, systems must provide between 250 kilowatts and 15 megawatts of power and must be 60 percent efficient.

The commerce department will certify whether applicant systems qualify and the annual amount of credits is limited to \$10 million. If there are more applications than can be funded under the annual cap, applicants will be awarded credits on a first-come-first-served basis. If the cap is not used in any year, unused amounts carryover. The credit sunsets effective for systems placed in service after December 31, 2026.

Section

- 1 Application and tax credit certification process.** Establishes the process by which businesses that install qualifying systems can apply for the tax credit. The process is administered by the Department of Commerce, which will allocate the annual \$10 million limit among applicants on a first-come-first-served basis. Unused amounts of the cap can be carried over to later years and used with that year's limit, as well as any amounts previously certified for projects that were cancelled.

Section

Eligible systems. Two types of systems – combined heat and power systems and expander generator systems – qualify for the credit.

In order to qualify for the credit, each type of system must:

- Be placed in service in Minnesota between January 1, 2018, and January 1, 2026
- Have an energy efficiency of at least 60 percent
- Be expected to be installed and operating within one year of issuance of the tax credit certificates for the project

Combined heat and power systems must also have:

- A nameplate capacity of between 1 and 15 megawatts
- Two separate components – an electrical or mechanical power component and a heat component – each of which produces at least 20 percent of the system’s energy

Expander generator systems must also:

- Have a nameplate capacity of between 250 kilowatts and 15 megawatts
- Use gaseous flow or pressure drop to generate electrical or mechanical power or thermal energy

Applications. Commerce is directed to establish the application form and process, including the information required to be provided. Applications must specify the tax year for which the credits will be claimed, so that Commerce can administer the \$10 million annual limit. The forms and process must be set by October 1, 2018. Successful applicants receive certifications that permit them to claim the credits. If a project is not put in service within one year, the applicant must notify commerce, which can grant up to a six-month extension. At the end of the period, the credits cancel and can be reallocated to other applicants.

Expiration. The authority to issue certifications expires on December 31, 2026.

- 2 **Combined heat and power and expander generator tax credit.** Allows the tax credit for qualifying energy systems certified by commerce under section 1 to receive the tax credit. The tax credit equals 25 percent of the installed cost of the system (with a \$3.3 million/megawatt limit) up to the amount of commerce’s certification. The credit cannot exceed the tax liability with a ten-year carryover to later tax years when it does. For pass-through entities, the credit is passed through to the partners or S corporation shareholders. A cooperative may elect to pass the credit through to its members or claim the credit itself. Although certification of eligible systems is made by commerce, the commissioner of revenue retains authority to audit the credit.

Effective date: Tax year 2018