

Department of Finance and Administration

Legislative Impact Statement

Bill: HB1769

Bill Subtitle: TO CREATE AN INCOME TAX CREDIT FOR SOLAR ENERGY SYSTEMS.

Basic Change :

Rep Perry

The bill provides an income tax credit for installing solar energy systems or solar water heating systems. The credit is equal to the smaller of 35% of the eligible expenditures for a solar energy system, or \$5,000 for a residence owner, or \$500 per unit for a residential rental apartment building. The credit may be claimed one time per installation. The solar energy system must be installed on a residence located in Arkansas. If more than one system is purchased and installed at the same time on a property, the taxpayer must combine the eligible expenditures to apply for one credit. If the taxpayer sells the system or the property which has the system, the taxpayer who claimed the credit must disclose the prior use of the credit to the new owner. The credit may be used in addition to any federal tax credits earned for the same system, but shall not be used in addition to any state tax credit, exemption, exclusion, deduction or tax benefit for the eligible expenditures. The credit shall not exceed the amount of income tax due and may be carried forward for a maximum of 5 consecutive tax years. The Dept of Finance will issue eligibility certificates for the tax credit up to \$2,500,000 in each fiscal year on a first come, first serve basis. The effective date is tax years beginning on or after January 1, 2014.

Revenue Impact :

FY2014 - none

FY2015 - \$530,000 loss

FY2016 - \$609,500 loss

Taxpayer Impact :

Taxpayers may qualify for an income tax credit that is equal to the smaller of 35% of the eligible expenses, or \$5,000 for a residence owner or \$500 per unit for an owner of a residential rental apartment building. Taxpayers will be required to apply for an eligibility certificate and, if approved, attach the certificate to their income tax return for the tax year in which the credit is claimed.

Resources Required :

Computer programming changes, booklet changes, staff training.

Time Required :

Adequate time is provided.

Procedural Changes :

Forms and instructions, computer changes, training, processing procedures will need to be updated.

Legal Analysis :

HB1769 creates an income tax credit for certain expenditures for a solar energy system for a private residence or a residential rental apartment building. The taxpayer who wishes to be eligible for the credit must apply to DFA for an eligibility certificate to attach to the taxpayer's return. DFA is required to account for the certificates and when the amount reaches \$2.5 million, no more certificates may be issued in that fiscal year.

The credit is limited to the lesser of: 35% of the expenditures for a system, or \$5,000 for a residence owner and \$500 per unit for the owner of a residential apartment building. Purchases of more than one

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system may be combined for one credit.

A taxpayer that purchases a new single-family residence with a system already installed may claim the credit. DFA would need to include in the rules what documentation the taxpayer would be required to provide in order prove eligibility for the credit, since this taxpayer would likely have a total purchase amount for the house rather than specific expenditures for the system.

The credit cannot be taken if the otherwise eligible expenditures were part of any other exemption, credit, exclusion, deduction or benefit; however, a federal credit, if any, may be taken for the expenditures in addition to the credit created by the bill. A taxpayer who receives the credit is required to disclose the use of the credit to any subsequent purchaser of the residence.

It is not clear why AEDC is included in the mandate to promulgate rules, along with DFA. There is no indication the AEDC has any involvement with this credit. "Eligible expenditures" are not defined in the bill and will need to be defined by rule.

The limitation on the amount of the credit is calculated on a fiscal year basis. The taxpayer is required to claim the credit in the tax year that the system is purchased or the residence is purchased. For individuals, this would be a calendar year.