

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3112-01
Bill No.: HB 1243
Subject: Energy; Revenue Dept.; Taxation and Revenue - Income
Type: Original
Date: March 1, 2010

Bill Summary: Would create an income tax deduction for taxpayers who purchase certain qualified fuel cell or solar energy equipment to generate electricity for their residences.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	\$0	(\$1,620)	(\$1,620)
Total Estimated Net Effect on General Revenue Fund	\$0	(\$1,620)	(\$1,620)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on FTE	0	0	0

- Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).
- Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State (SOS)** stated that many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to SOS for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the Governor.

Officials from the **Office of Administration, Division of Budget and Planning (BAP)**, assume there would be no added cost to their organization as a result of this proposal. This proposal would create an income tax deduction up to \$4,000 for the purchase of alternate electricity generating equipment for residential properties.

According to a 2008 report by the Interstate Renewable Energy Council¹¹, there were about 13,000 photovoltaic installations in the U.S. and 84% percent of the installations were at residential locations. The top 10 states accounted for 96.8% of all the installations. Since Missouri was not among the top ten states, there were approximately $(13,000 * 0.84 * .032 * 1/40) = 9$ residential installations in Missouri. Therefore, the proposal could reduce Missouri taxable income by \$36,000. Assuming a 4.5% effective tax rate, this could reduce general and total state revenues by \$1,620.

Note: The number of fuel cell installations in Missouri is unknown. Including fuel cell installations in the above calculations could further reduce general and total state revenues. Also, if this program induces the installation of other qualifying properties, revenues could be reduced further.

Oversight will use the BAP estimate of fiscal impact from photovoltaic installations. Oversight found no information available regarding energy cell unit sales. Oversight assumes that the January 1, 2011 effective date would result in lost revenue beginning in FY 2012.

ASSUMPTION (continued)

Officials from the **Department of Economic Development, Office of Public Counsel, and Public Service Commission** assume this proposal would have no fiscal impact on their organizations.

Officials from the **Department of Natural Resources** (DNR) assume this proposal would allow taxpayers who use specified types of fuel cell or solar power to generate electricity for their residences to claim a tax deduction. Starting January 1, 2010, an individual could claim a deduction for the lesser of 50% of the purchase price of a qualified fuel cell property or \$1,000, and the owner of a qualified solar energy property may claim a deduction for the lesser of 50% of the purchase price or \$4,000. The provisions of this proposal would expire six years from the effective date.

DNR officials assume that DNR may be asked to provide photovoltaic and or fuel cell information/assistance during the implementation of this proposal, but DNR officials did not anticipate a direct fiscal impact from this proposal.

Officials from the **Department of Revenue** (DOR) assume this proposal would allow a taxpayer to deduct the purchase price of any qualified fuel cell or qualified photovoltaic property up to the lesser of 50% of the purchase price or \$1,000 for a qualified fuel cell installation, or the lesser of 50% of the purchase price or \$4,000 for a qualified photovoltaic installation. The proposed provisions would sunset on December 31, six years after the effective date unless reauthorized by the General Assembly.

DOR officials assume there would be an unknown negative impact on Total State Revenue resulting from the deduction authorized in this legislation.

DOR would develop the procedures by which the deduction could be claimed; an additional line would be required on the Individual Income Tax Return (1040) and changes would be required to the Missouri Individual Income Tax System (MINITS).

ASSUMPTION (continued)

Administrative Impact

Personal Tax would require two additional Temporary Tax Employees for key entry and one FTE Revenue Processing Technician (Range 10, Step L) for every 19,000 errors and one FTE Revenue Processing Technician (Range 10 Step L) for every 2,400 pieces of correspondence.

Collections and Tax Assistance would require one FTE Tax Collections Technician I for every additional 15,000 contacts, annually, on the delinquent tax phone line, one FTE Tax Collections Technician I for every additional 24,000 contacts, annually, on the income tax line, and three FTE Tax Processing Technician I for every additional 4,800 contacts in the field offices. Customer Assistance anticipates the increase in contacts to be significant enough to request 1 Tax Processing Technician I for each of the larger field offices, Kansas City, St. Louis, and Springfield.

The DOR response included an estimate of the cost to implement the proposal including seven additional employees and the related benefits, equipment, and expense totaling \$290,945 for FY 2011, \$311,123 for FY 2012, and \$320,455 for FY 2013.

Oversight notes that BAP estimated a total of nine Missouri photovoltaic installations and assumes that this proposal would result in a limited number of additional deduction claims which could be processed with existing staff. If unanticipated costs are incurred or if multiple proposals are implemented which cause an increased workload, resources could be requested through the budget process.

DOR officials provided an estimated IT impact to implement this proposal of \$13,323, based on one FTE programmer for three months at \$4441 per month to make updates to the individual income tax system.

Oversight assumes OA-ITSD (DOR) is provided with core funding to handle a certain amount of normal activity each year. Oversight assumes OA-ITSD (DOR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA-ITSD (DOR) could request funding through the appropriation process.

<u>FISCAL IMPACT - State Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
GENERAL REVENUE FUND			
<u>Revenue reduction - Personal income tax deductions</u> _____	<u>\$0</u>	<u>(\$1,620)</u>	<u>(\$1,620)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>(\$1,620)</u>	<u>(\$1,620)</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

This proposal could have a direct fiscal impact to small businesses which sell or purchase qualifying equipment.

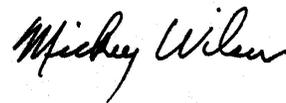
FISCAL DESCRIPTION

The proposed legislation would create an income tax deduction for taxpayers who purchase certain qualified fuel cell or solar energy property to generate electricity for their residences.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State
Office of Administration
 Division of Budget and Planning
Department of Economic Development
 Office of Public Counsel
 Public Service Commission
Department of Natural Resources
Department of Revenue



Mickey Wilson, CPA
Director
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