

Department of Legislative Services
Maryland General Assembly
2002 Session

FISCAL NOTE

House Bill 1110
Ways and Means

(Delegates Walkup and Rzepkowski)

Income Tax Credit - Wind Energy Systems

This bill allows an individual or a corporation to claim a credit against the State income tax for 15% of the total installed costs of wind energy systems placed in service during the taxable year. The amount of the credit may not exceed \$2,000 for each system. The amount of the credit may not exceed the State income tax due and any unused amount may not be carried forward to another taxable year.

The bill takes effect July 1, 2002 and applies to all taxable years beginning after December 31, 2001.

Fiscal Summary

State Effect: Potentially significant general fund and Transportation Trust Fund (TTF) revenue decrease beginning in FY 2003. Revenues would decline by \$2,000 for each taxpayer who installs a wind energy system and claims the credit. The total decrease cannot be reliably estimated.

Local Effect: Local government revenues would decline as a result of corporate taxpayers claiming the credit proposed by the bill. Seventy-five percent of corporate tax revenues are distributed to the general fund, and 25% is distributed to the TTF. Of the 25% distributed to the TTF, approximately 30% is distributed to local jurisdictions.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: Wind energy system is defined as equipment that uses wind energy to generate mechanical power or electricity. This includes wind turbines, towers, wiring, controllers, inverters, and batteries.

Current Law: An owner or tenant may claim a credit in the amount of 25% of the sum of the capitalized costs paid or incurred for the installation of a wind turbine that is a qualifying alternate energy source and is installed to serve a green whole building, green base building, or green tenant space. The amount of the credit may be claimed for each wind turbine installed, including the cost of the foundation or platform and the labor costs associated with installation.

State Fiscal Effect: The actual cost of the bill cannot be reliably estimated and depends on the number of taxpayers who install wind energy systems, the cost of each system, and the taxpayer's income tax liability.

According to the American Wind Energy Association, the cost of installing a household sized wind turbine can be between \$6,000 and \$22,000, depending on the size of the unit, manufacturer, and service agreement. With a median cost per unit of \$14,000, it is assumed that all taxpayers would be able to claim the maximum \$2,000 credit proposed by the bill. Therefore, State revenues would decline by \$2,000 for every taxpayer who installs a wind energy system and claims the credit.

The bill also allows corporations to claim the credit. Of those credits claimed by corporations, 75% of the credit would be a loss of general fund revenue and 25% would be a loss of TTF revenue. At this time, the number of credits expected to be claimed on corporate income tax returns cannot be reliably estimated.

The Office of the Comptroller would incur a one-time expenditure of \$42,200 to add the credit to the income tax return forms 500CR and 502CR. The Department of Legislative Services advises that since forms and instructions are updated annually, the cost of these changes could be absorbed within existing resources.

The credit allowed under current law for the capitalized costs paid or incurred for the installation of a wind turbine that is a qualifying alternate energy source and is installed to serve a green whole building, green base building, or green tenant space, may not be claimed for the installation of wind turbines if the credit is taken under the bill, with respect to wind turbines.

Local Fiscal Effect: Local government revenues would decline as a result of corporate taxpayers claiming the credit proposed by the bill. As mentioned above, 75% of corporate tax revenues are distributed to the general fund, and 25% is distributed to the TTF. Of the 25% distributed to the TTF, approximately 30% is distributed to local jurisdictions.

Small Business Effect: To the extent that small businesses install wind energy systems and claim the credit, they would realize a reduced income tax liability in the year the system was installed.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office (Bureau of Revenue Estimates),
Department of Legislative Services

Fiscal Note History: First Reader - March 7, 2002
mld/cer

Analysis by: Michael Sanelli

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 946-5510
(301) 970-5510