

Department of Legislative Services  
Maryland General Assembly  
2003 Session

FISCAL AND POLICY NOTE

House Bill 917  
Ways and Means

(Delegate Walkup, *et al.*)

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Income Tax Credit - Wind Energy, Photovoltaic, and Solar Water Heating  
Systems

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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 also repeals the December 31, 2004 sunset provision of the credit allowed for the costs of specified photovoltaic and solar water heating systems.

The bill takes effect July 1, 2003 and applies to all taxable years beginning after December 31, 2002.

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Fiscal Summary

**State Effect:** Potentially significant general fund and Transportation Trust Fund (TTF) revenue decrease beginning in FY 2003 as a result of the wind energy tax credit. Revenues could decline by up to \$2,000 for each taxpayer who installs a wind energy system and claims the credit. General fund and TTF revenues would continue to decrease beyond FY 2005 for credits claimed for the purchase of photovoltaic and solar water heating systems. 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-six percent of corporate tax revenues are distributed to the general fund, and 24% is distributed to the TTF. Of the 24% distributed to the TTF, approximately 30% is distributed to local jurisdictions.

**Small Business Effect:** Potential meaningful.

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## 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.

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.

**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.

The credit allowed for the costs of specified photovoltaic and solar water heating systems may not be claimed for property placed into service after December 31, 2004.

**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 mean 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 Public Service Commission is currently considering applications to build about two dozen wind turbines at Big Savage Mountain and another 67 along a ten-mile ridge of Backbone Mountain. If those applications are approved, \$182,000 in income tax credits could be claimed.

In tax year 2000, five taxpayers claimed the credit for photovoltaic or solar water heating equipment. The credits claimed total \$3,713. In tax year 2001, 13 taxpayers claimed \$12,966 worth of these credits. The average credit claimed is about \$1,000. If it is assumed that 50 taxpayers a year claim an average credit of \$1,000, State revenues would decrease by \$50,000 annually.

Because corporations can claim the credit, general fund and TTF revenues would be affected. Credits claimed on individual returns would reduce general fund revenues by the amount of the credit claimed. Of those credits claimed by corporations, 76% of the credit would be a loss of general fund revenue and 24% 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 Comptroller's Office would incur a one-time expenditure of \$47,600 in fiscal 2004 to add the credit to the income tax return forms 500CR and 502CR. However, the cost of adding the credit would be offset to some degree because the credit for photovoltaic and solar water heating systems would not need to be removed from the income tax form in fiscal 2006. 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.

**Local Fiscal Effect:** Local government revenues would decline as a result of corporate taxpayers claiming the credit proposed by the bill. As mentioned above, 76% of corporate tax revenues are distributed to the general fund, and 24% is distributed to the TTF. Of the 24% 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.

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### **Additional Information**

**Prior Introductions:** A similar bill was introduced as HB 1110 in the 2002 session. It received an unfavorable report by the House Ways and Means Committee.

**Cross File:** None.

**Information Source(s):** Comptroller's Office, Maryland Energy Administration,  
Department of Legislative Services

**Fiscal Note History:** First Reader - March 11, 2003  
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