

**Department of Legislative Services**  
Maryland General Assembly  
2006 Session

**FISCAL AND POLICY NOTE**

House Bill 810  
Ways and Means

(Delegate Cardin, *et al.*)

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**Solar Energy Tax Credit**

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This bill reestablishes the solar energy tax credit program for property placed in service from July 1, 2006 through December 31, 2010. The credit is equal to 20% of the installed cost of qualified solar energy property, not to exceed \$3,000 for photovoltaic property and \$2,000 for solar water heating property. An individual who receives a grant from the Maryland Energy Administration under the solar energy grant program cannot claim the tax credit under this bill.

The bill takes effect July 1, 2006.

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**Fiscal Summary**

**State Effect:** Potential significant reduction in general fund revenues in FY 2007 and beyond due to credits being claimed against the personal income tax. The amount of the decrease depends on the amount of grants disbursed under the solar energy grant program and cannot be reliably estimated at this time. General fund expenditures would increase by approximately \$32,900 in FY 2007, which reflects one-time tax form changes and computer programming expenditures at the Comptroller's Office.

**Local Effect:** None.

**Small Business Effect:** Minimal.

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## Analysis

**Current Law:** The solar energy tax credit program terminated July 1, 2004 and could only be claimed for property placed in service by December 31, 2004. Chapter 128 of 2004 converted the tax credit program into a grant program as discussed below.

**Background:** Chapter 128 of 2004 created a solar energy grant program administered by the Maryland Energy Administration and receives an annual budget appropriation. The amount of the grant is equal to the lesser of: (1) \$3,000 or 20% of the total installed cost of photovoltaic property (maximum limit is increased to \$5,000 if installed on nonresidential property); and (2) \$2,000 or 20% of the total installed cost of solar water heating property. Grants can be made to individuals, businesses, and local governments.

The proposed fiscal 2007 budget includes \$2,575,000 in funding for the solar energy grant program, compared with a \$75,000 general fund appropriation in fiscal 2006. MEA advises that it received 74 applications and awarded 44 grants in fiscal 2005 and received 54 applications and awarded 31 grants in fiscal 2006. Approximately 140 individuals are on the waiting list.

Photovoltaic property is defined as solar energy property that uses a solar process to generate electricity and meets applicable Maryland Energy Administration performance and quality standards. Solar energy property includes property that uses solar energy to generate electricity, heat or cool a structure or provide hot water, or provides solar process heat. Swimming pools, hot tubs, or other energy storage medium that has a function other than energy storage does not qualify as solar energy property.

Solar water heating property is defined as property that uses solar energy to provide hot water for use within the structure it is installed and meets applicable Maryland Energy Administration performance and quality standards.

**Exhibit 1** lists the amount of credits that were claimed under the terminated tax credit program since its inception in tax year 2000. The Comptroller's Office reports that almost all of the credits were claimed for solar energy property and all the returns were filed against the personal income tax. Tax year 2004 likely represents incomplete data as it does not include taxpayers who claimed the automatic four-month extension available.

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**Exhibit 1**  
**Credit Claimed by Tax Year**

<u>Tax Year</u>	<u>Returns</u>	<u>Credits</u>
2000	5	\$3,445
2001	16	18,241
2002	106	94,230
2003	141	88,118
2004	<u>89</u>	<u>66,080</u>
<b>Total</b>	<b>357</b>	<b>\$270,114</b>

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**State Revenues:** Potential significant reduction in general fund revenues in fiscal 2007 and beyond due to credits being claimed against the personal income tax. The amount of the decrease depends on the amount of grants disbursed under the solar energy grant program and cannot be reliably estimated.

Individuals would have the option of either applying for a grant from MEA or claiming the credit. This choice would be influenced by the level of funding received by the grant program. For example, MEA estimates that if the program is funded as proposed in the fiscal 2007 budget, it would disburse 219 grants; which would likely minimize the number of individuals who would claim the credit.

**State Expenditures:** The Comptroller's Office reports that it would incur a one-time expenditure increase of \$32,850 in fiscal 2007 to add the credit to the personal income tax form. This amount includes data processing changes to the SMART income tax return processing and imaging systems and systems testing.

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**Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

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

**Fiscal Note History:** First Reader - March 16, 2006  
ncs/hlb

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