

Department of Legislative Services
 Maryland General Assembly
 2006 Session

FISCAL AND POLICY NOTE

House Bill 1004 (Delegate Bronrott, *et al.*)
 Ways and Means

Sales and Use Tax - Tax-Free Periods for the Purchase of Energy Efficient Products

This bill exempts from the State sales and use tax the purchase of specified Energy Star products or solar water heaters for the periods of October 1 through October 31, 2006 and April 1 through April 30, 2007.

The bill takes effect July 1, 2006.

Fiscal Summary

State Effect: General fund revenues could decrease by approximately \$11.1 million in FY 2007. General fund expenditures in FY 2007 could increase by approximately \$118,800 for the Comptroller’s Office to administer the program and by \$250,000 for the Maryland Energy Administration (MEA) to develop a public awareness program.

(\$ in millions)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
GF Revenue	(\$11.1)	\$0	\$0	\$0	\$0
GF Expenditure	0.4	0	0	0	0
Net Effect	(\$11.4)	\$0	\$0	\$0	\$0

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: Meaningful.

Analysis

Bill Summary: Energy Star products qualifying for a sales tax exemption include air conditioners, clothes washers, furnaces, heat pumps, or standard size refrigerators that have been designated as meeting or exceeding the applicable Energy Star efficiency requirements developed by the U.S. Environmental Protection Agency and the U.S. Department of Energy.

Current Law: Energy Star products are not currently exempt from the State sales and use tax.

Background: The Environmental Protection Agency and the U.S. Department of Energy have developed the “Energy Star” labeling program to help consumers identify the most energy-efficient products available on the market.

Among its many provisions, Chapter 296 of 2000, the Maryland Clean Energy Incentive Act, provided a sales tax exemption for the following products that met or exceeded Energy Star efficiency requirements: (1) clothes washers purchased on or after July 1, 2000, but before July 1, 2003; (2) room air conditioners purchased on or after January 1, 2001, but before July 1, 2004; and (3) refrigerators (standard size) purchased on or after July 1, 2001, but before July 1, 2004.

The federal Energy Policy Act of 2005 includes tax credits for consumers for implementing specified home improvements including adding insulation, replacement windows, and certain high efficiency heating and cooling equipment. The maximum amount of the tax credit for all improvements is \$500 during the two-year period of the tax credit. This tax credit applies to improvements made from January 1, 2006 through December 31, 2007.

The Act also provides tax credits to purchasers of hybrid gasoline-electric, diesel, battery-electric, alternative fuel, and fuel cell vehicles. The tax credit amount is based on a specified formula determined by vehicle weight, technology, and fuel economy compared to base year models. The credits are available for vehicles placed in service starting January 1, 2006.

Tax credits are also available for qualified solar water heating and photovoltaic systems. The credits are available for systems placed in service in 2006 and 2007 and are for 30% of the cost of the system, up to \$2,000. This credit is not included in the \$500 home improvement tax credit cap.

Consumers are also eligible for a tax credit of up to 30% of the cost (up to \$500 per 0.5 kW of capacity maximum) for the installation of a qualified fuel cell and microturbine system placed in service in 2006 and 2007; it is also not subject to the \$500 home improvement cap.

State Revenues: The bill exempts purchases of eligible Energy Star air conditioners, clothes washers, furnaces, heat pumps, or standard size refrigerators, and solar water heaters from the State sales and use tax for tax-free periods in October 2006 and April 2007. It is estimated that sales tax revenues would decrease by approximately \$11.1 million in fiscal 2007 (as shown in **Exhibits 1 and 2**) due to the two tax-free periods, based on the following facts and assumptions:

- approximately \$165.8 million of Energy Star refrigerators will be sold in Maryland in fiscal 2007; the estimate uses an average of calendar 2006 and 2007 sales projections as provided by MEA;
- approximately \$52.3 million of Energy Star clothes washers will be sold in Maryland in fiscal 2007; the estimate uses an average of calendar 2006 and 2007 sales projections as provided by MEA;
- approximately \$77.4 million in Energy Star room air conditioners will be sold in Maryland in fiscal 2007; the estimate uses an average of calendar 2006 and 2007 sales projections as provided by MEA;
- approximately 67% of heating, plumbing, air conditioning, and refrigeration sales (industry code data from Comptroller) are on furnaces, air conditioners, and heat pumps; approximately 30% of these sales are for Energy Star products;
- six months of sales for Energy Star refrigerators, clothes washers, and room air conditioners are assumed to occur during the two sales tax-free months (sales that would have occurred in the month before and after each tax-free period occurs during the tax-free period); and
- four months of sales for Energy Star furnaces, heat pumps, and air conditioners are assumed to occur during the two sales tax-free months (two months of sales during each tax-free period).

Exhibit 1 shows the estimated revenue loss associated with the sales tax exemption for Energy Star refrigerators, clothes washers, and room air conditioners for fiscal 2007.

Exhibit 1
**Estimated Effect of Exempting Energy Star Refrigerators, Clothes Washers, and Room Air
Conditioners During Sales Tax-free Periods**
October 2006 and April 2007

	<u>FY 2006</u>	<u>FY 2007</u>	<u>Average</u>	<u>Estimated Six-Month Revenue Decrease</u>
Maryland Refrigerator Sales	393,439	401,716	397,578	
Percent Energy Star	39.71%	41.71%	40.71%	
Energy Star Refrigerator Sales	156,235	167,556	161,895	
Average Sales Price	\$1,024	\$1,024	\$1,024	
Sales in Dollars	\$159,984,258	\$171,577,081	\$165,780,670	
Sales Tax Collected	\$7,999,213	\$8,578,854	\$8,289,033	(\$4,144,517)
 Maryland Clothes Washer Sales	 238,739	 245,244	 241,992	
Percent Energy Star	34.48%	37.48%	35.98%	
Energy Star Clothes Washer Sales	82,317	91,917	87,117	
Average Sales Price	\$600	\$600	\$600	
Sales in Dollars	\$49,390,324	\$55,150,471	\$52,270,398	
Sales Tax Collected	\$2,469,516	\$2,757,524	\$2,613,520	(\$1,306,760)
 Maryland Room Air Conditioner Sales	 363,040	 500,124	 431,582	
Percent Energy Star	36.51%	38.51%	37.51%	
Energy Star Room Air Conditioner Sales	132,546	192,598	162,572	
Average Sales Price	\$476	\$476	\$476	
Sales in Dollars	\$63,091,850	\$91,676,530	\$77,384,190	
Sales Tax Collected	\$3,154,593	\$4,583,827	\$3,869,210	(\$1,934,605)
 Estimated FY 2007 GF Revenue Decrease				 (\$7,385,881)

Source: Comptroller of Maryland, Maryland Energy Administration, Department of Legislative Services

Exhibit 2 shows the estimated revenue loss associated with the sales tax exemption for Energy Star heat pumps, central air conditioning units, and furnaces for fiscal 2007.

Exhibit 2
Estimated Effect of Exempting Energy Star Furnaces, Heat Pumps, and Central Air
Conditioners During Sales Tax-free Periods
October 2006 and April 2007

	<u>FY 2007</u>
Sales Tax Collected from Heating, Plumbing, Air Conditioning, and Refrigeration Sales (Industry Code 602)	\$55,100,000
Estimated Percent Sales of Furnaces, Heat Pumps, and Central Air Conditioners (Industry Code 602)	67%
Estimated Percent Energy Star	30%
Estimated Sales Attributed to Energy Star Sales	\$11,075,100
Estimated FY 2007 GF Revenue Decrease	(\$3,691,700)

Source: Comptroller of Maryland, Department of Legislative Services

No data is currently available on sales of solar water heaters; as a result, the sales of these products are excluded from the estimate. To the extent sales of these products are significant during the tax-free period; the revenue loss would increase accordingly.

State Expenditures: The Comptroller's Office would incur approximately \$118,800 in administrative expenses to implement the two tax-free periods in fiscal 2007. This estimate is based on the expenditures incurred implementing a sales tax-free week in 2001. In addition, MEA indicates that the prior sales tax exemptions for Energy Star products were not widely known by the public. In order to promote the sales tax-free periods and the benefits of Energy Star products, MEA could incur expenditures of approximately \$250,000 to institute a public awareness advertising campaign. A summary of general fund expenditures is shown in **Exhibit 3**.

Exhibit 3
Summary of General Fund Expenditures Associated with Implementing
Sales Tax-free Periods
October 2006 and April 2007

	<u>FY 2007</u>
Printing – bulletins, rack cards, posters	\$27,500
Postage	63,000
Overtime for Staffing Call Centers	25,000
Meals and Mileage	2,300
Training Materials	1,000
Advertising (MEA)	<u>250,000</u>
Total GF Expenditures	\$368,800

Small Business Effect: Small businesses that sell Energy Star appliances could realize increased sales during the tax-free months; however this increase could also realize a corresponding decrease in the months surrounding the tax-free periods. In addition, home contractors and builders could benefit significantly. It is assumed that a large percentage of home heating and cooling systems are purchased by contractors and builders, who then pass the cost on to the consumer. Contractors and builders could realize significant savings on these purchases during the two tax-free months.

Additional Information

Prior Introductions: None.

Cross File: SB 265 (Senator Garagiola, *et al.*) – Budget and Taxation.

Information Source(s): Department of General Services, Comptroller's Office, Maryland Energy Administration, energystar.gov, Department of Legislative Services

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