

Department of Legislative Services  
Maryland General Assembly  
2009 Session

FISCAL AND POLICY NOTE  
Revised

Senate Bill 621

(Senator King, *et al.*)

Budget and Taxation

Ways and Means

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Sales and Use and Property Tax - Exemptions - Solar Energy Equipment and Property

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This bill extends an existing State sales and use tax exemption for specified solar energy equipment and an existing property tax exemption for specified solar energy property to include solar energy equipment or property used to generate electricity supplied to the electric grid.

The bill takes effect July 1, 2009.

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Fiscal Summary

**State Effect:** General fund and Transportation Trust Fund (TTF) revenues decrease beginning in FY 2010. The amount of the decrease depends on the amount of solar energy equipment purchased by Maryland residents and the cost of the equipment. Potential special fund revenue decrease, resulting from the property tax exemption, though the amount of the decrease cannot be reliably estimated.

**Local Effect:** Local government revenues may decrease, resulting from the expanded property tax exemption, though the amount of the decrease cannot be reliably estimated, it is assumed to be minimal. Expenditures are not affected.

**Small Business Effect:** Potential meaningful. Small businesses that sell and install solar energy equipment may benefit to the extent the increased tax incentives under the bill increase demand for their services.

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## Analysis

### Current Law:

#### *Sales and Use Tax Exemption*

The following purchases are exempt from the State sales and use tax: (1) solar energy equipment which is used to heat or cool a structure, generate electricity to be used in a structure, or provide hot water for use in a structure; and (2) geothermal equipment, which uses ground loop technology to heat and cool a structure, for either residential or commercial use.

#### *Property Tax Exemption*

Solar energy and geothermal heating and cooling systems installed in a building without a conventional heating and cooling system may not be assessed for property tax purposes at more than the value of a conventional heating and cooling system. If a solar energy or geothermal heating and cooling system is installed in addition to a conventional system in a building, the combined system may not be assessed at more than the value of a conventional system.

With the exception of those provisions, solar energy property is not subject to real property tax. Solar energy property is defined as equipment installed to use solar energy to generate electricity to be used in a structure or to provide hot water for use in a structure.

**Background:** Counties and municipalities are authorized to grant tax credits against county or municipal property taxes for the use of a solar energy, geothermal energy, or qualifying energy conservation device in a structure for the purposes of heating and cooling, electricity generation, or the provision of hot water. The law allows local governments to establish definitions of solar energy devices, geothermal energy devices, and qualifying energy conservation devices in determining eligibility for the credit. Currently five counties, Anne Arundel, Harford, Howard, Montgomery, and Prince George's, provide property tax credits for the residential use of solar energy and/or geothermal systems.

#### *Net Energy Metering*

Electric companies are required to permit net energy metering for eligible customers; however, utilities implement net energy metering through tariffs that are filed with the Public Service Commission (PSC). These tariffs place terms and conditions on the net metering operations and specify monthly customer charges. These tariffs also include requirements for eligibility which cap the maximum installed size as well as the statewide limit.

Net energy metering is defined as measurement of the difference between the electricity that is supplied by an electric company and the electricity that is generated by an eligible customer-generator and fed back to the electric company over the eligible customer-generator's billing period. An "eligible customer-generator" is a customer that owns and operates, or leases and operates, a biomass, solar, or wind electric generating facility located on the customer's premises, interconnected and operated in parallel with an electric company's transmission and distribution facilities, and intended primarily to offset all or part of the customer's own electricity requirements. The generating capacity of an eligible customer-generator for net metering may not exceed two megawatts.

Net metering provides an incentive for private investment in renewable energy generation. PSC completes an annual survey to determine the amount of net metering generation in the distribution territory of each electric company. In 2008 the amount of generation has increased from 364 kilowatts to 2,450 kilowatts. This represents only 0.16% of the current statewide limit of 1,500 megawatts for total net energy metering capacity. As shown in **Exhibit 1**, the majority of net metering in the State is from solar generation. Small dispersed generation such as the generation provided by eligible customer-generators provides a meaningful benefit by alleviating congestion in electric transmission lines and increasing the supply of electricity during periods of peak demand.

The bill is intended to account for solar energy equipment that is purchased and which may send electricity back to the grid via net-metering.

**State Fiscal Effect:** The bill may result in a decrease in State general fund and special fund (Transportation Trust Fund and Annuity Bond Fund) revenues. The actual decrease cannot be reliably estimated and depends on the types of property and equipment that would be exempt pursuant to the bill, but is not exempt under current law.

#### *Sales and Use Tax Exemption*

The fiscal and policy note for Chapter 132 of 2008, which enacted the current sales and use tax exemption, estimated that total sales tax revenues would decrease by \$190,100 in fiscal 2010. This bill has the potential to decrease revenues associated with this sales tax exemption further by extending the exemption to solar energy equipment used to supply electricity to the electric grid. The amount of the revenue decrease cannot be reliably estimated and depends on the amount of solar energy equipment purchased by Maryland consumers and the cost of this equipment.

As a point of reference, State sales tax revenues would decrease by \$6,000 for each \$100,000 of equipment exempt from the sales and use tax. General funds would decrease by 94.7% (\$5,682) of the total decrease and TTF revenue would decrease by 5.3% (\$318). *For illustrative purposes only*, if 15 persons were to purchase \$20,000 worth of solar energy equipment, general fund revenues would decrease by \$17,046 and TTF revenues would decrease by \$954.

## *Property Tax Exemption*

The expansion of the property tax exemption proposed by the bill may decrease State property tax revenues for the Annuity Bond Fund by a minimal amount. However, the actual revenue decrease cannot be reliably estimated and depends on (1) the number and value of solar energy systems that exist in the State that generate electricity that is supplied to the electric grid; and (2) the extent to which the value of these systems is added to a property for assessment purposes. Solar energy heating and cooling systems would remain subject to property tax (to the extent of the value of a conventional system). The State Department of Assessments and Taxation (SDAT) indicates that it does not add value to any property that has solar energy property for property tax assessment purposes.

**Local Fiscal Effect:** The expansion of the property tax exemption proposed by the bill may decrease county property tax revenues by a minimal amount. However, actual revenue decrease cannot be reliably estimated and depends on (1) the number and value of solar energy systems that exist in the State that generate electricity that is supplied to the electric grid; and (2) the extent to which the value of these systems is added to a property for assessment purposes. Solar energy heating and cooling systems would remain subject to property tax (to the extent of the value of a conventional system). As noted, SDAT indicates that it does not add value to any property that has solar energy property for property tax assessment purposes.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 670 (Delegate Frick) - Ways and Means.

**Information Source(s):** State Department of Assessments and Taxation, Office of the Comptroller, Department of Legislative Services

**Fiscal Note History:** First Reader - February 18, 2009  
mcp/hlb Revised - Senate Third Reader - April 3, 2009

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**Exhibit 1**  
**2008 Net Metering Capacity**  
**(Kilowatts)**

<u>Electric Utility</u>	<u>Solar</u>	<u>Wind</u>	<u>Biomass</u>	<u>Utility Total</u>
A & N Electric Cooperative	-	-	-	-
Baltimore Gas and Electric Company	302.8	0.8	-	303.6
Choptank Electric Cooperative	21.2	37.2	-	58.4
Delmarva Power and Light Company	85.4	27.7	-	113.1
Easton Utilities	-	-	-	-
Hagerstown Municipal Light Company	1.0	-	-	1.0
Town of Thurmont	-	-	-	-
Town of Berlin	-	-	-	-
Potomac Electric Power Company	713.3	-	-	713.3
Potomac Edison Company	1,035.5	144.9	-	1,180.4
Williamsport Light	-	-	-	-
Southern Maryland Electric Cooperative	83.2	-	-	83.2
Somerset Electric Cooperative	-	-	-	-
<b>Total</b>	<b>2,242.4</b>	<b>210.6</b>	-	<b>2,453.0</b>

Source: Public Service Commission

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