

Department of Legislative Services
 Maryland General Assembly
 2023 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 103 (Senator Ellis)
 Budget and Taxation

Income Tax – Maryland Residential Solar Investment Tax Credit

This bill creates a nonrefundable State income tax credit for the cost of specified photovoltaic property that is mounted on the rooftop of residential real property owned by the individual. The amount of the credit may not exceed the lesser of (1) \$15,000 or (2) 25% of the installed cost of the photovoltaic property. An individual may not claim the credit for the installation of photovoltaic property for which the individual has also received a specified grant under the Solar Energy Grant Program. The credit may be carried forward up to five years. The Comptroller and the Maryland Energy Administration (MEA) must jointly adopt regulations to implement the income tax credit. **The bill takes effect July 1, 2023, and applies to tax year 2023 and beyond.**

Fiscal Summary

State Effect: General fund revenues decrease significantly beginning in FY 2024 due to credits claimed against the State income tax; based on current installation and price trends, the decrease in any year could range from \$75.0 million to \$112.5 million. General fund expenditures for the Comptroller increase by \$50,000 in FY 2024. Special fund expenditures for the Strategic Energy Investment Fund (SEIF) increase by \$297,500 in FY 2024; future years reflect annualization and the elimination of one-time costs.

(in dollars)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
GF Revenue	(-)	(-)	(-)	(-)	(-)
GF Expenditure	\$50,000	\$0	\$0	\$0	\$0
SF Expenditure	\$297,500	\$276,000	\$288,300	\$301,100	\$317,000
Net Effect	(-)	(-)	(-)	(-)	(-)

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

Local Effect: None.

Small Business Effect: Meaningful.

Analysis

Current Law:

Energy Storage Systems Credit

A similar credit against the State income tax exists for the costs of installing an energy storage system. The value of the credit is equal to 30% of the installation costs, not to exceed \$5,000 for a residential system or \$150,000 for a commercial system. MEA may award a total of \$750,000 in credits in each tax year. The amount of the tax credit may not exceed the tax liability imposed in the year, and any unused credit amount may not be carried forward to any other tax year. The credit is available through tax year 2024.

Solar Energy Grant Program

The Solar Energy Grant Program, administered by MEA, is established in statute to provide grants to individuals, local governments, and businesses for a portion of the costs of acquiring and installing photovoltaic property and solar water heating property. Grants awarded under the program may not be more than (1) for photovoltaic property (with an installed electricity generation capacity of 20 kilowatt (kW) or less), the lesser of \$2,500 per kW of installed electricity generation capacity or \$10,000 and (2) for solar water heating property, the lesser of \$3,000 or 30% of the total installed cost of the solar water heating property.

MEA does not currently award grant funding under the Solar Energy Grant Program. However, under current regulations, the Clean Energy Grant Program (doing business as the Clean Energy Rebate Program) provides grants to homeowners, businesses, nonprofit organizations, and the State or local governments for certain solar and geothermal technologies. Under the program, MEA currently offers residential incentives for solar photovoltaic and solar water heating property of \$1,000 per project and \$500 per project, respectively.

Federal Investment Tax Credit

The federal investment tax credit for solar photovoltaic systems is 30% for 2022 through 2032. The credit then decreases in 2033 and 2034 before expiring. The credit is not refundable but can be carried forward to other tax years.

State Revenues: General fund revenues decrease significantly beginning in fiscal 2024 due to credits claimed against the State income tax; based on current installation and price trends, the decrease in any year could range from \$75.0 million to \$112.5 million.

A survey of various solar industry resources indicates residential solar photovoltaic installations in Maryland currently cost about \$3,000 per kW. According to the Solar Energy Industries Association, 1,461 megawatts (MW) of solar is anticipated to be built over the next five years – or about 290 MW per year. Since 2018, a little less than half of solar photovoltaic capacity additions in the State have been residential, although there is variation from year-to-year. Projecting that trend forward equates to approximately 100 to 150 MW, or 100,000 to 150,000 kW, of new residential solar photovoltaic capacity per year. An average cost of \$3,000 per kW generates \$300 million to \$450 million in potentially eligible project costs each year.

A maximum of 25% of installed costs being eligible for the State income tax credit under the bill leads to a general fund revenue decrease of \$75.0 million to \$112.5 million annually. Each of these inputs is subject to change over time due to market forces, federal and State legislative changes, and consumer preferences, so actual revenue losses could be outside of the estimated range. For example, revenue decreases may be mitigated to the extent that a significant proportion of new residential solar installations are owned by third parties (as opposed to individual homeowners), although the trend nationally has been away from third-party ownership. Conversely, about 200 MW of residential solar was installed in 2016, an amount that could result in greater revenue losses than estimated above if experienced in future years.

State Expenditures: The Comptroller’s Office reports that it will incur a one-time general fund expenditure of \$50,000 in fiscal 2024 to add the tax credit to the income tax forms.

MEA anticipates significant interest in the tax credit under the bill and requires additional staff to administer the credit. Therefore, SEIF special fund expenditures for MEA increase by \$297,530 in fiscal 2024, which accounts for the bill’s July 1, 2023 effective date and the availability of the credit in tax year 2023. This estimate reflects the cost of hiring one program manager and two energy specialists to oversee administration of the credit and handle related tasks. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Positions	3
Salaries and Fringe Benefits	\$279,444
Other Operating Expenses	<u>18,086</u>
Total FY 2024 MEA Expenditures	\$297,530

Future year expenditures reflect full salaries with annual increases and employee turnover as well as annual increases in ongoing operating expenses.

MEA does not issue grants under the Solar Energy Grant Program. Therefore, this analysis assumes that individuals remain eligible for solar grants under the Clean Energy Rebate

Program even if they receive the tax credit under the bill. Under that assumption, SEIF expenditures are not further affected beyond the above administrative costs. In the event that individuals are determined to only be eligible for a Clean Energy Rebate Program grant *or* a tax credit under the bill, there may be some reduction in SEIF expenditures. Still, the potential offset is modest compared to the tax credit; the Clean Energy Rebate Program's fiscal 2023 budget is \$3.6 million.

Small Business Effect: The income tax credit established by the bill is a larger incentive than current grants available under the Clean Energy Rebate program for most residential solar photovoltaic systems. Recent MEA data indicates the average project size for Clean Energy Rebate Program solar photovoltaic applicants is about 11 kW. Assuming an installation cost of \$3,000 per kW, an average project costs about \$33,000 before any incentives. Under the bill, such an average project would be eligible for an \$8,250 (25%) State income tax credit. Small solar businesses likely benefit from additional demand for residential solar installations due to this additional incentive.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

Information Source(s): Comptroller's Office; Maryland Energy Administration; U.S. Department of Energy; EnergySage.com; Solar Energy Industries Association; Wood Mackenzie (woodmac.com); Department of Legislative Services

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