

**BILL #** HB 2622

**TITLE:** sales tax; contractor's solar exemption

**SPONSOR:** Graf

**STATUS:** House Engrossed

**REQUESTED BY:** House

**PREPARED BY:** Brian Schmitz

**FISCAL YEAR**

**REVENUES**

	<b>2001</b>	<b>2002</b>	<b>2003</b>
General Fund – Prime Contracting Tax	\$-0-	\$ 23,600 to \$236,000	\$ 49,400 to \$494,000

**FISCAL ANALYSIS**

**Description**

This bill clarifies that the current prime contracting tax exemption for solar energy devices includes both the cost and the installation of the device. Laws 2000, Chapter 214 established a contracting tax exemption for the cost of the device but did not specifically exempt the installation. This bill extends the exemption to installation of solar energy devices. Also, a House Ways and Means Committee amendment to the bill specifies that the contracting tax exemption for solar energy devices will expire on December 31, 2001. Therefore, beginning in 2002 contractors will have to begin paying tax on the purchase and installation of solar energy devices.

**Estimated Impact**

There is no fiscal impact associated with the language in the bill which clarifies that the installation of solar energy devices is exempt from the contracting tax. However, the section of this bill which sets a sunset date for the contracting tax exemption has the effect of a tax increase, raising General Fund revenues in FY 2002 by a range of \$23,600 to \$236,000 and in FY 2003 by a range of \$49,400 to \$494,000. These estimates are speculative due a lack of good data. We have utilized a range in this fiscal estimate in order to capture the range of possibilities regarding taxpayer compliance with the imposition of this tax after the expiration of the exemption. Note that 10.7% of the revenues raised by this bill would be designated for Proposition 301 school programs.

**Assumptions**

According to the Department of Revenue (DOR), contractors are already taking a contracting tax exemption for both the cost and installation of solar energy devices. This bill would simply clarify that the exemption provided in Laws 2000, Chapter 214 extends to installation of solar energy devices. There is no fiscal impact associated with this provision.

However, the Ways and Means Committee amendment that ends the tax exemption on December 31, 2001 does have a fiscal impact, as it amounts to a tax increase for contractors. Because solar energy contractors have grown used to receiving this exemption (the exemption existed from 1991 - 1996 and then was reinstated in 2000 retroactive to 1997), it is likely that most contractors would not be aware that it expires under this bill. We assume at the low end of the cost range that only 10% of solar energy contractors would start paying the tax when it expires, but it is possible that up to 100% of solar energy contractors would comply with the tax. This is why we have included a range in our fiscal estimate. A likely scenario might be that compliance would be low initially but would increase over time as the tax liability becomes more well-known.

(Continued)

### **Assumptions (Continued)**

DOR reports that 1,927 people claimed an income tax credit for the installation of residential solar energy devices in 1998, the most recent year for which data is available. We use this figure as a proxy for the number of residential solar energy contracts. Furthermore, the Department of Commerce and members of the solar energy industry estimate that the number of residential solar energy devices exceeds the number of commercial devices by a ratio of 4 to 1, which means that there were about 482 (1,927 divided by 4) contracts for the installation of commercial solar energy devices in 1998. Assuming annual industry growth of 5%, we estimate that the combined number of residential and commercial solar energy contracts will be 2,928 in FY 2002 and 3,074 in FY 2003.

Conversations with local solar energy contractors indicate that the typical cost of a solar energy device can vary widely, but it seems likely that most contracts would qualify for the maximum allowable deduction of \$5,000. According to statute, only 65% of a contract's value is eligible for taxation, so the tax base for solar energy contracts is the product of the number of contracts times \$5,000 times 65%. The contracting tax rate will be 5.6% in FY 2002. Calculating the tax liability and adjusting for the assumption that only 10% of contractors would pay the tax, results in revenues of \$53,300 in FY 2002 and \$55,900 in FY 2003. Since the tax would take effect halfway through FY 2002, the impact in FY 2002 would actually be \$26,700. This estimate represents the low end of the cost range.

The state's share of this contracting tax revenue would be \$23,600 in FY 2002 and \$49,400 in FY 2003.

### **Local Government Impact**

Contracting tax revenues are shared with the counties and cities. Under this bill, the counties would receive \$1,900 in FY 2002 and \$4,000 in FY 2003. The cities would receive \$1,200 in FY 2002 and \$2,500 in FY 2003.

### **Amendments**

The House Ways and Means Committee adopted an amendment that would end the solar energy contracting tax exemption on December 31, 2001. The fiscal impact of the bill is due entirely to this amendment.

3/27/01