

BILL # SB 1336

TITLE: sales tax; contractor's solar exemption

SPONSOR: Yrun

STATUS: As Amended by Senate Finance

REQUESTED BY: Senate

PREPARED BY: Brian Schmitz

FISCAL YEAR

	2003	2004	2005
REVENUES			
General Fund – Prime Contracting Tax	\$-0-	\$21,500	\$43,000
Proposition 301 Education Revenues	<u>-0-</u>	<u>3,000</u>	<u>6,000</u>
Total	\$-0-	\$24,500	\$49,000

FISCAL ANALYSIS

Description

This bill would clarify that the current prime contracting tax exemption for solar energy devices includes both the cost and the installation of the device, up to a maximum of \$5,000. Laws 2000, Chapter 214 established a contracting tax exemption for the cost of the device but did not specifically exempt the installation. This bill would extend the exemption to the installation of solar energy devices, beginning retroactive to January 1, 1997.

In addition, the bill would change the expiration date of the exemption from January 1, 2011, as specified in current law, to December 31, 2003, thereby sunsetting the exemption 7 years early.

Estimated Impact

This bill is estimated to increase General Fund revenues by \$21,500 in FY 2004 and by \$43,000 in FY 2005 and thereafter. The bill's fiscal impact is due to eliminating the exemption. The language in the bill which clarifies that the installation of solar energy devices is exempt from the contracting tax has no fiscal impact.

The Department of Revenue (DOR) does not have a cost estimate for this proposal due to a lack of data. They do not know the current dollar value of the exemption. The agency concurs that the bill would increase tax revenues.

Assumptions

According to DOR and a representative of the solar energy industry, contractors are already taking a contracting tax exemption for both the cost and installation of solar energy devices. This bill would 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 provision that ends the tax exemption on December 31, 2003 does have a fiscal impact. Contractors would have to begin paying the prime contracting tax for the cost and installation of solar energy devices. DOR has no data on the number of solar energy contractors. The only data available for this analysis comes from a representative of the solar energy

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Assumptions (Continued)

industry. According to this source, there are between 20 to 25 solar energy contractors in the state and they install between 300 to 500 solar energy devices per year. For this analysis, we assume that 400 devices are installed in a typical year. The average cost of these devices is \$3,800.

Given the above data, the fiscal impact to the state from this bill would be 400 devices times \$3,800 per device times 65% (the statutorily prescribed contracting tax base) times the tax rate of 5.6%. The product of these numbers is \$55,300, and this represents the annual revenue gain from this bill in FY 2005 and beyond. Since the tax would take effect halfway through FY 2004, the impact in FY 2004 would actually be half of \$55,300, or \$27,700.

The General Fund's share of this revenue would be \$21,500 in FY 2004 and \$43,000 in FY 2005 and thereafter. Proposition 301's share of the revenue would be \$3,000 in FY 2004 and \$6,000 in FY 2005 and beyond.

Local Government Impact

Contracting tax revenues are shared with the counties and cities. Under this bill, the counties would receive \$2,000 in FY 2004 and \$4,000 in FY 2005. The cities would receive \$1,200 in FY 2004 and \$2,300 in FY 2005.

Amendments

The Senate Finance Committee amendment changed the expiration date for this exemption from January 1, 2003 to December 31, 2003. The effect of this amendment is to delay the start date for the implementation of the tax from mid-year FY 2003 to mid-year FY 2004.

2/25/02