GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2005

Legislative Fiscal Note

BILL NUMBER: House Bill 1369 (First Edition)

SHORT TITLE: Expand Renewable Energy Tax Credit.

SPONSOR(S): Representative Vinson

FISCAL IMPACT ($Mil.)

Yes (x) **No ( )** **No Estimate Available ( )**

	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10
REVENUES:					
State General Fund		**-$1.0**	**-$1.9**	**-$2.9**	**-$3.9**
EXPENDITURES:					
POSITIONS (cumulative):					

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: The tax credits are administered by the Department of Revenue. The enactment of the bill is not expected to affect the Department's budget requirements.

BILL SUMMARY: Current tax law allows a state corporate income tax credit for the construction of a facility for the manufacture of renewable energy equipment. The credit is equal to 25% of the installation and equipment costs of construction paid during the tax year. The credit must be taken in five equal installments, beginning with the year in which the costs are paid and is limited to 50% of the taxpayer's total tax liability (10-year carryforward). The definition of "renewable energy equipment" includes the following categories: (1) biomass equipment; (2) hydroelectric generators; (3) solar electric or thermal equipment; and, (4) wind energy equipment

HB 1369 moves the sunset for the renewable energy equipment credit from January 1, 2006 to January 1, 2011 and extends the credit to a distributed energy equipment facility, effective for tax years beginning on or after January 1, 2005. The practical effect of the extension is to make fuel cell and microturbine equipment eligible for the renewable energy equipment credit.

ASSUMPTIONS AND METHODOLOGY: The Appalachian State University Energy Center has undertaken a review of the specifications of existing facilities in North Carolina. Based on this information and discussions with North Carolina based manufacturing and research firms, the ASU beginning with the 2006 calendar year. The estimated equipment costs of each project are $9.0

million. This means that the 25% credit amounts to $2.25 million. Under the bill the credit would be taken in 5 equal installments if the company did not bump up against the 50% limitation. Thus, the baseline credit amount would equal $450,000 per year for 5 years.

Fiscal Research used this methodology for the purposes of costing out the fiscal impact of the proposed bill. The analysis represents a simulation instead of an estimate because it is impossible to know how many new projects will occur each year in the future and the specifications for each project. One minor Fiscal Research adjustment to the ASU numbers is to keep the future year dollar amount of each particular project's credit equal to the first year amount but to increase the total cost of future year projects by 5% per year (inflation and the potential for larger projects as economy grows).

In addition, the extension of the regular renewable energy credit will have an impact on General Fund revenues. The only data we have to work with this is a report from the Department of Revenue that tabulates credits taken for tax returns processed in 2002, 2003, and 2004. This data shows the credit usage rising during the period from $740,000 to $880,000. The report does not have sufficient detail to indicate how much of the credits reflect new activity in recent years versus installments for past projects. This analysis assumes that the new activity level beginning January 1, 2006 would result in $500,000 of new credits per year for five years for 2006 projects. The assumed credit structure for costs incurred in years after 2006 would be the same as the first year amount. Thus, the total new credits would be $.5 million for 2006, $1.0 million for 2007 and so forth.

SOURCES OF DATA:

TECHNICAL CONSIDERATIONS: None

FISCAL RESEARCH DIVISION: (919) 733-4910

PREPARED BY: David Crotts

APPROVED BY: James D. Johnson, Director
Fiscal Research Division

Official Fiscal Research Division Publication

DATE: June 14, 2005

Signed Copy Located in the NCGA Principal Clerk's Offices