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FISCAL IMPACT REPORT

ORIGINAL DATE 2/22/07

SPONSOR Stewart LAST UPDATED _____ HB 996

SHORT TITLE Solar Energy System Gross Receipts SB _____

ANALYST Schardin

REVENUE (dollars in thousands)

| Estimated Revenue | | | Recurring or Non-Rec | Fund Affected |
|-------------------|-----------|------|-------------------------|----------------------|
| FY07 | FY08 | FY09 | | |
| | (\$158.4) | | Recurring | General Fund |
| | (\$105.6) | | Recurring | Local Governments |

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Economic Development Department (EDD)

Energy Minerals and Natural Resources Department (EMNRD)

SUMMARY

Synopsis of Bill

House Bill 996 creates a gross receipts tax deduction for receipts from the sale and installation of solar energy systems. The bill defines a solar energy system as an installation to provide space heat, hot water or electricity to the property in which it is installed and is 1) an installation that utilizes solar panels that are not also windows, 2) dark-colored water tank exposed to sunlight, or 3) a non-vented trombe wall.

The deduction will be effective from July 1, 2007 until June 30, 2017, when it will sunset.

FISCAL IMPLICATIONS

Based on historic claims of the solar market development tax credit and estimated receipts from additional solar costs that will be eligible for the proposed deduction (trombe walls and commercial systems), TRD estimates that the value of solar energy system purchases and installation activity will be about \$4 million per year. Taxed at a statewide rate of 6.6 percent, the deduction would reduce gross receipts tax collections by about \$264 thousand. About 60 percent

of that revenue reduction will accrue to the general fund and the remaining 40 percent to local governments. EMNRD believes receipts eligible for this tax deduction will grow by about 10 percent per year.

SIGNIFICANT ISSUES

EDD estimates that about 0.22 percent of households in New Mexico had solar energy systems as of 2005.

EDD and EMNRD assert that the bill encourages use of solar energy systems by making them more affordable. The bill will help reduce New Mexico's dependency on fossil fuels and help meet the governor's goal of increasing usage of renewable energy.

LFC notes that while individual deductions from the gross receipts tax may have small fiscal impacts, their cumulative effect significantly narrows the gross receipts tax base. Narrowing the gross receipts tax base increases revenue volatility and requires a higher tax rate to generate the same amount of revenue.

The bill will reduce local government gross receipts tax collections. Many of New Mexico's local governments are highly dependent on gross receipts tax revenue.

ADMINISTRATIVE IMPLICATIONS

The bill will have a minimal administrative impact on TRD.

TECHNICAL ISSUES

EMNRD notes that the bill does not require solar energy systems to meet a minimum quality standard to receive the deduction. The deduction could be applied to poorly performing systems or to solar systems that are part of fossil fuel-based systems.

EMNRD also notes it may be difficult to differential trombe wall materials from other wall construction materials.

SS/nt