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FISCAL IMPACT REPORT

ORIGINAL DATE 2/7/07

SPONSOR Feldman LAST UPDATED _____ HB _____

SHORT TITLE Energy-Efficient Appliance Tax Credit SB 542

ANALYST Francis

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY07	FY08	FY09		
	(\$1395.0)	(\$1465.0)	Recurring	General Fund
	(\$330.0)	(\$347.0)	Recurring	Local Governments

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files
www.energystar.gov

Responses Received From

Energy Minerals and Natural Resources Department (EMNRD)
 Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

Senate bill 542 allows a credit against personal income tax (PIT) for purchase of eligible energy efficient appliances and a establishes an annual gross receipts tax (GRT) holiday for appliances rated as Energy Star qualified by the US Environmental Protection Agency (EPA).

The credit ranges from \$25 for an energy efficient circulation fan to \$300 for an advanced evaporative cooler (“swamp” cooler) and is in effect from tax year 2007 to tax year 2013, when it expires (table 1). Energy Minerals and Natural Resource Department (EMNRD) will verify the eligibility of appliances and provide information and procedures to taxpayers. A taxpayer can claim up to \$300 against current tax year liability. The effective date is January 1, 2007, allowing appliances purchased prior to passage of SB542 to be eligible.

The GRT holiday will take place every November starting November 2007.

Table 1: Eligible Appliances for PIT Credit

	Energy use criteria	Credit amount
Advanced air circulation fan	No more than 2% of total energy of attached furnace	\$ 25.00
Furnace or hot water boiler	95% fuel efficient	75.00
Electric heat pump water heater	energy factor at least 2	150.00
Electric heat pump	Seasonal performance factor of at least 9; Seasonal energy efficiency ratio of at least 15; Total energy efficiency ratio of at least 13	150.00
Geothermal heat pump - closed loop	Energy efficiency ratio of 14.1 and heating coefficient of 3.3	150.00
Geothermal heat pump - open loop	Energy efficiency ratio of 16.2 and heating coefficient of 3.6	150.00
Geothermal heat pump - direct expansion	Energy efficiency ratio of 15 and heating coefficient of 3.5	150.00
Central air conditioner	Seasonal energy efficiency ratio of at least 15; Total energy efficiency ratio of at least 13	150.00
Energy/water efficient advanced evaporative cooling system (swamp cooler)	90% effectiveness	300.00

FISCAL IMPLICATIONS

Taxation and Revenue Department (TRD) has provided the following fiscal impact analysis:

	<u>Estimated Impact on</u>		Recurring or	Funds
	<u>Revenues</u>		Nonrecurring	
	<u>FY 2008</u>	<u>Full Year</u>	<u>Impact</u>	<u>Affected</u>
Income tax credits	(900)	(945)	Recurring	General Fund
GRT holiday	(495)	(520)	Recurring	General Fund
GRT Holiday	(330)	(347)	Recurring	Local Governments

Income tax credits:

The provisions of the bill closely parallel those of the federal Internal Revenue Code Section 25C. The credit rates proposed in the bill are one-half the credit rates provided in federal statute. The Joint Committee on Taxation of the U.S. Congress estimates that the federal credits will reduce revenues by \$275 million in FY 2007. Adjusting this figure for New Mexico’s share of the U.S. population and for the reduced credit rate yields an estimate of approximately \$900 thousand. Given the limit of \$300 per taxpayer implies that at least 3,000 taxpayers per year would take advantage of the credits.

Energy Star GRT “Holiday” assumptions:

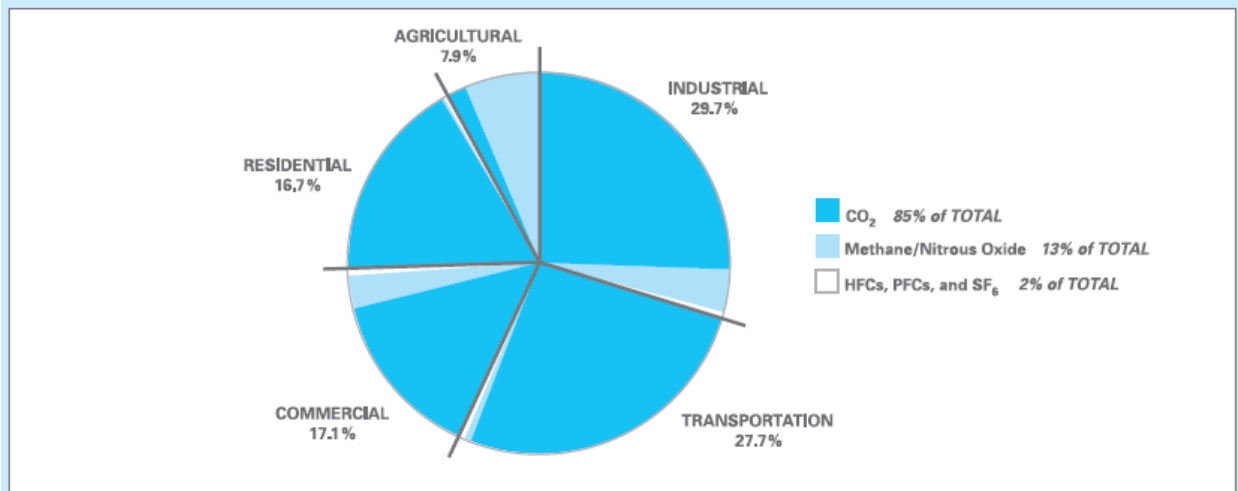
Total New Mexico appliance sales in each category were estimated using the state’s share of U.S. population times the national appliance figures drawn from Appliance magazine. Average appliance prices were drawn from the same source. Energy Star market share for each appliance was drawn from the U.S. Government’s Energy Star program. Total annual sales of Energy Star appliances in New Mexico are estimated to be \$62.5 million. The one-month holiday on these sales is assumed to account for 20 percent of annual sales or \$12.5

million. At a 6.6% average statewide tax rate, the total GRT foregone would be \$825 thousand, of which 60% is State General Fund revenue and the remainder is local government revenue.

SIGNIFICANT ISSUES

EPA has identified greenhouse gas emissions as a serious factor in global climate change. Residential and commercial emissions account for 34 percent of greenhouse emissions. The Energy Star program, targeting these two sectors, has helped decrease these emissions by 34.2 metric tons and saved 151.2 billion kilowatt-hours of energy (Table 2).

Figure 1: US Greenhouse Gas Emissions by Sector



NOTE: Totals may not add to 100% due to independent rounding.
Source: EPA 2006

Table 2: Energy Star Program Achievements in 2005

	2005				2006	
	ENERGY SAVED (BILLION KWH)		EMISSIONS AVOIDED (MMTCE)		ENERGY SAVED (BILLION KWH)	EMISSIONS AVOIDED (MMTCE)
	GOAL	ACHIEVED	GOAL	ACHIEVED	GOAL	GOAL
All Qualified Products ¹	—	68.3	13.0	14.9	—	14.5
Commercial Building Improvements ²	—	71.7	10.5	14.8	—	11.5
New Homes ³	—	1.0	0.3	0.3	—	0.5
Industrial Improvements ⁴	—	10.2	3.5	4.2	—	3.7
PROGRAM TOTAL for ENERGY STAR	116.8	151.2⁵	27.3	34.2	130.0	30.2
ACHIEVEMENTS BY PRODUCT TYPE						
	ENERGY SAVED 2005 (BILLION KWH)			EMISSIONS AVOIDED 2005 (MMTCE)		
Consumer Electronics ⁶	9.3			1.9		
Residential Appliances ⁷	0.6			0.1		
Residential Office Equipment	9.5			1.9		
Lighting	7.0			1.4		
Heating and Cooling	3.8			1.8		
All Residential Products	30.2			7.2		
Commercial Appliances	0.9			0.2		
Office Equipment	34.6			7.0		
Commercial Lighting	1.5			0.3		
Other	1.1			0.2		
All Commercial Products	38.2			7.7		

¹ Results for qualified products from Webber et al., 2006.
² Results from building improvements based on methodology presented in Horowitz, 2004.
³ Results for qualified homes from CPPD, 2006.
⁴ Results from industrial improvements from ICF International, 2006.
⁵ The kWh savings imply peak demand savings of more than 28 gigawatts (GW), based on conservation load factors developed by LBNL (Kooimey et al., 1990).
⁶ A small portion of consumer electronics may be used in commercial buildings such as hotels. For reporting purposes, all consumer electronics results are included under Residential Products.
⁷ EPA results only, does not include products under the responsibility of DOE.
 Totals may not equal sum of components due to independent rounding.
 ___ : Not applicable

EMNRD:

SB 542 will promote the purchase of energy efficient equipment over the less efficient models, which will result in reduced energy consumption throughout New Mexico. The tax credit and gross receipts tax exemption will stimulate the demand for energy efficient equipment thereby helping to bring prices down in the future. Purchase of more energy efficient equipment will both lower the utility bills of participating taxpayers and help reduce New Mexico’s total greenhouse gas emissions.

ADMINISTRATIVE IMPLICATIONS

TRD:

The income tax credit provisions are closely parallel to those of federal Internal Revenue Code Section 25C. The administrative and compliance costs of the proposal could both be reduced if EMNRD uses the federal law definitions to determine which equipment is eligible for the credit.

As is the case for other deductions under the GRT, the current reporting requirements would not require taxpayers to separately state the deductions they claim under the GRT holiday for

Energy Star appliances. This makes it difficult to calculate how much revenue is foregone due to a deduction and eliminates the possibility of auditing the program without doing field visits. As an alternative, the proposal could require an informational return, to accompany the November CRS-1 return, to document the amount of sales that qualify for this deduction in order to track the impact.

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