F I S C A L   I M P A C T   R E P O R T

SPONSOR Giannini **ORIGINAL DATE** 01/30/10 **LAST UPDATED** **HB** 134

SHORT TITLE Voltage Regulation Equipment Tax Credits **SB**

ANALYST Clifford

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY10	FY11	Future Years		
	NFI	(Up to $2,000.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)
Department of Finance and Administration (DFA)
Energy, Minerals and Natural Resources Department (EMNRD)

SUMMARY

Synopsis of Bill

Taxpayers purchasing and installing voltage regulation equipment in their residence, business or agricultural enterprise would be eligible for a tax credit of 30 percent of the purchase price up to $9,000. Qualified equipment would be certified by EMNRD. Credit in excess of a taxpayer's liability could be carried forward for up to ten years. A maximum of $2 million per year in credits could be awarded. Credits earned by a pass-through entity could be awarded proportionately to the owners. Provisions would apply to tax years beginning on or after January 1, 2011 for equipment purchased between 2011 and 2022.

FISCAL IMPLICATIONS

EMNRD:

Based on EMNRD Energy Conservation and Management Division's (ECMD) administrative experience with other clean energy incentives, the $2,000,000 annual cap would probably not be reached in the early years of the program. The actual tax credits issued may be quite low, because EMNRD may not receive applications that can be certified.

TRD states that information provided by EMNRD indicates there is no evidence that voltage regulation equipment reduces energy consumption. As a result, and because the bill does not quantify the required energy savings, EMNRD indicates that it will not certify such equipment.

SIGNIFICANT ISSUES

EMNRD:

> It is possible for electric utilities' voltage to vary in the delivery of electricity to customers. This is not desirable and can lead to inefficient use of electricity, thus increasing utility bill costs. The tax credit for installation of voltage regulation devices at homes and businesses is intended to reduce utility customer energy costs. However, voltage regulation in New Mexico is not believed to be a problem that requires this remedy.
>
> EMNRD believes that the energy savings claims of voltage regulation devices are not proven on a universal basis that can be applied arbitrarily to any facility, utility service territory, or state. The devices may be effective in certain areas where utility voltage regulation is a problem, but this is not the case for New Mexico. If the devices were implemented in New Mexico, the result would be minimal or no energy cost savings on utility customer electricity bills, due to minimal or no voltage regulation occurring. State government support of this technology through tax credits would not necessarily provide any energy savings or environmental benefits to New Mexico residents. There would be very few or no certified applicants eligible for the tax credit.

ADMINISTRATIVE IMPLICATIONS

TRD estimates the bill would have a moderate impact. An FTE would be needed at a cost of $45,000 per year for approving and manually tracking and monitoring the credit throughout the carry-forward and transfers.

EMNRD:

> HB 134 requires EMNRD to adopt rules in 2011 that would establish procedures for certification of voltage regulation devices. EMNRD would be required to certify the devices before taxpayers would be eligible for a tax credit from the Taxation and Revenue Department. A range of voltage regulation devices would be evaluated, from small residential to large commercial facilities, and the number of applications could be high. The anticipated rulemaking and subsequent years of administration are estimated to cost ECMD about $5,000 per year in staff resources. If ECMD's General Fund is reduced, ECMD will not have the necessary staff resources to allocate to rulemaking and program administration.

TECHNICAL ISSUES

TRD:

> Subsection B of Sections 1 and 2 implies that the credit is non-refundable but does not explicitly state this.

EMNRD:

> HB134 does not make it clear whether the aggregate annual $2,000,000 cap is for personal income tax and corporate income tax, together, or whether the aggregate cap is $2,000,000 for personal income tax and $2,000,000 for corporate income tax, each.

LFC notes that implementing a cap requires procedures for handling claims that exceed the cap. One approach would be to treat those claims as eligible for credits in the subsequent year.

TC/svb

The Legislative Finance Committee has adopted the following principles to guide responsible and effective tax policy decisions:

1. ***Adequacy:*** *revenue should be adequate to fund government services.*
2. ***Efficiency:*** *tax base should be as broad as possible to minimize rates and the structure should minimize economic distortion and avoid excessive reliance on any single tax.*
3. ***Equity****: taxes should be fairly applied across similarly situated taxpayers and across taxpayers with different income levels.*
4. ***Simplicity****: taxes should be as simple as possible to encourage compliance and minimize administrative and audit costs.*
5. ***Accountability/Transparency:*** *Deductions, credits and exemptions should be easy to monitor and evaluate and be subject to periodic review.*

More information about the LFC tax policy principles will soon be available on the LFC website at www.nmlegis.gov/lcs/lfc