

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the NM Legislature. The LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

Current FIRs (in HTML & Adobe PDF formats) are available on the NM Legislative Website (www.nmlegis.gov). Adobe PDF versions include all attachments, whereas HTML versions may not. Previously issued FIRs and attachments may be obtained from the LFC in Suite 101 of the State Capitol Building North.

FISCAL IMPACT REPORT

ORIGINAL DATE 02/02/15
LAST UPDATED 03/20/15 **HB** _____

SPONSOR Stewart

SHORT TITLE Extend Solar Market Development Tax Credit **SB** 391/aHWMC

ANALYST Dorbecker/Graeser

REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY15	FY16	FY17	FY18	FY19		
			(\$5,000.0)	(\$5,000.0)	Recurring	General Fund

(Parenthesis () indicate revenue decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY15	FY16	FY17	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	\$60.0	\$60.0	\$60.0	\$180.0	Recurring	General Fund

Parenthesis () indicate expenditure decreases

SOURCES OF INFORMATION

LFC Files

Responses Received From

Taxation and Revenue Department (TRD)

Energy, Minerals and Natural Resources Department (EMNRD)

SUMMARY

Synopsis of HWMC Amendment

The House Ways and Means Committee amendment to Senate Bill 391 extends the sunset from December 31, 2020 to December 31, 2024 and sets out the tax credit to be applied through the tiered structure below:

Period	Share of Purchase and Installation Costs
Prior to January 1, 2019	Up to 10 percent
After January 1, 2019 and prior to January 1, 2021	Up to 9 percent
After January 1, 2021 and prior to January 1, 2022	Up to 8 percent
After January 1, 2022 and prior to January 1, 2023	Up to 7 percent
After January 1, 2023 and prior to January 1, 2024	Up to 6 percent
After January 1, 2024 and prior to January 1, 2025	Up to 5 percent

Synopsis of Original Bill

Senate Bill 391 extends the sunset date of the Solar Market Development Tax Credit, Section 7-2-18.14 NMSA 1978, by four years, from December 31, 2016 to December 31, 2020.

FISCAL IMPLICATIONS

With the extension on the purchases and installation period, TRD assumes the tax credit for photovoltaic systems will reach the \$3 million cap. Historical claims on photovoltaic system averages about \$2.7 million per year and therefore the impact of the extension would be about \$300 thousand for photovoltaic systems in FY2017. The solar thermal systems credit is barely utilized, according to EMNRD as there have been about 20 historical claims per year on average with the highest aggregate being about \$165 thousand. Historical expenditures have been growing and reached almost \$3 million in FY2014 according to TRD. It is determined that if both credits combined continue to grow at the same rate, the solar market development tax credit will meet the \$5 million cap.

This bill may be counter to the LFC tax policy principle of adequacy, efficiency and equity. Due to the increasing cost of tax expenditures revenues may be insufficient to cover growing recurring appropriations.

Estimating the cost of tax expenditures is difficult. Confidentiality requirements surrounding certain taxpayer information create uncertainty, and analysts must frequently interpret third-party data sources. The statutory criteria for tax expenditure may be ambiguous, further complicating the initial cost estimate of the expenditure’s fiscal impact. Once a tax expenditure has been approved, information constraints continue to create challenges in tracking the real costs (and benefits) of tax expenditures.

SIGNIFICANT ISSUES

TRD notes given the steady increase in the number and size of claims for this credit, it is likely that the solar market is beginning to mature, potentially to the point where the subsidy will soon no longer be necessary.

The solar market development tax credit is available to an individual taxpayer who purchases or installs a solar thermal system or a photovoltaic system in a residence, business or agricultural enterprise. EMNRD must certify each system for the tax credit and each credit is limited to 10 percent of the costs up to \$9 thousand. SB 391 would extend the deadline for installing a system that is eligible for the credit from December 31, 2016 to December 31, 2020.

According to EMNRD, significant investments in solar systems are occurring throughout much

of New Mexico. During the 2014 calendar year, \$27 million was invested by homeowners and EMNRD approved \$2.6 million in Solar Market Development Tax Credits for these homeowners. Installation of all of these solar systems involved about \$5.5 million in labor costs. There were 1,023 household-scale solar-systems installed statewide that added 6 megawatts of solar capacity to the electric grid¹.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is not met since TRD is not required in the bill to report annually to an interim legislative committee regarding the data compiled from the reports from taxpayers taking the deduction and other information to determine whether the deduction is meeting its purpose.

DUPLICATION

This bill is a duplicate of HB 70.

ADMINISTRATIVE IMPLICATIONS

TRD reports minimal administrative impact from the bill. Modifications to the publications and instructions related to the tax credit would be required at a minimal cost. Modification of the business rules in the business credit module of Gentax would also be necessary. Taxpayer and Department employee education would be needed.

EMNRD notes since the tax credit is currently in place, the department would not incur in additional costs to manage and review applications and provide certifications moving forward, regardless of the extended sunset date proposed by SB 391.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

The sunset date for New Mexico's Solar Market Development Tax Credit will remain at December 31, 2016.

Does the bill meet the Legislative Finance Committee tax policy principles?

1. **Adequacy:** Revenue should be adequate to fund needed government services.
2. **Efficiency:** Tax base should be as broad as possible and avoid excess reliance on one tax.
3. **Equity:** Different taxpayers should be treated fairly.
4. **Simplicity:** Collection should be simple and easily understood.
5. **Accountability:** Preferences should be easy to monitor and evaluate

HD/bb/je

¹ EMNRD data from certified Solar Market Development Tax Credit applications. For additional information see www.CleanEnergyNM.org.