

**SALES AND USE TAX
Energy Efficient Products**

May 9, 2001

	Yes	No
Separate Official Fiscal Note Requested		X
Fiscal Impact		
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 2086 (Abrams) / S.F. 1871 (Rest) – **As Amended in Senate Sales and Income Tax Division, April 18, 2001 and Included in the Senate Tax Omnibus Bill**

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>	<u>FY2005</u>
	(000's)			
General Fund	(\$13,300)	(\$14,800)	(\$15,100)	(\$15,400)

Effective for sales and purchases made after June 30, 2001, and before July 1, 2007.

EXPLANATION OF THE BILL

Current Law: Sales of tangible personal property, unless otherwise exempted, are generally subject to the sales and use tax. The sale of a motor vehicle is generally subject to the motor vehicle sales tax.

Proposed Law: The following energy efficient products, with an energy star label, would be exempt from the sales and use tax: insulation, doors and windows, residential lighting fixtures and compact fluorescent bulbs, and ground or air source heat pumps.

Energy efficient products, with an energy guide label that meets or exceeds certain standards, would be exempt including electric heat pump hot water heaters, natural gas water heaters, natural gas heat pumps, furnaces, air conditioners, boilers, refrigerators, clothes washers, and dishwashers.

Cogeneration devices would be exempted. These are defined as small energy production devices that generate both electricity and heat using an electromechanical process (a fuel cell) or a microturbine that generates electricity and heat through burning natural gas. Photovoltaic devices would also be exempted. These are defined generally as a solid state electrical device, such as a solar module, that converts light directly into direct current electricity.

REVENUE ANALYSIS DETAIL

Energy Star Label and Energy Guide Label

- National value of shipments information from the U.S. Census was adjusted to reflect retail sales nationwide.
- The national sales estimate was apportioned to Minnesota based on economic activity in Minnesota as a percentage of U.S. economic activity.
- The percentage of items within each category that qualify as an Energy Star Label was received from representatives of the Energy Star Label Program.
- It is assumed that the Energy Guide efficiency standards described in the proposed law are comparable to Energy Star qualifying criteria.
- Relevant growth factors were applied.

Cogeneration Devices

- Items in this category are limited to small energy production devices: either a fuel cell that generates both electricity and heat using an electromechanical process or a microturbine that generates electricity and heat through burning natural gas. The device must use both the electricity and heat that it generates, have an electricity-only generation efficiency of greater than 35 percent, and have a nameplate capacity of between two and 40 kilowatts.
- Information from the Energy Division at the Department of Commerce indicates that fuel cell technology is at a developmental stage and not currently widely used in Minnesota. They do not expect that the necessary market distribution channels for sales will be developed enough to account for other than minimal sales during the next 4 year period (i.e. 5-10 electromechanical process devices and 10-15 microturbines).

Photovoltaic Equipment

- These devices are solar modules that convert light into electricity. The solar module produces a specified power output under defined test conditions.
- Information from the Energy Division at the Department of Commerce indicates that there are three dealers of this equipment in Minnesota and that they install about 25 systems per year. The cost is \$10,000 to \$12,000 per kilowatt and most systems are one kilowatt systems.
- It is assumed that the number of systems installed per year does not increase dramatically during the next few years. It should be noted that developments like grants from a renewable development fund do have some potential to create higher yearly growth factors than assumed for this analysis.

Other

- The fiscal year 2002 estimate was reduced to reflect 11 months of collections

Number of Taxpayers Affected: In a given year, many Minnesota households will purchase one of items in this estimate.

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ADMINISTRATIVE/OPERATIONAL IMPACT:

There will be no significant administrative or operational costs or savings to DOR in administration of the bill.

Source: Minnesota Department of Revenue
Tax Research Division
<http://www.taxes.state.mn.us/polic.html#analyses>

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