

**WIND ENERGY PRODUCTION TAX AND PROPERTY TAX**

**Exemption of Wind Energy Generation Plants, and New Production Tax**

April 2, 2001

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

Department of Revenue  
 Analysis of H.F. 2236 (Mulder) / S.F. 2129 (Lesewski)

	<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:		(Negligible)	(Negligible)	(Negligible)

Effective August 1, 2001.

**EXPLANATION OF THE BILL**

**Current Law:** Small scale wind energy conversion systems installed after January 1, 1991, producing less than two megawatts of power are exempt from property tax. Medium scale wind energy conversion systems installed after January 1, 1991, and producing between 2 and 12 megawatts of energy are partially exempt. Large scale wind energy conversion systems installed after January 1, 1991, which produce more than 12 megawatts of energy also are partially exempt.

**Proposed Law:** Wind energy conversion systems installed after January 1, 1995, would be exempt from property tax and subject instead to a payment in lieu of tax. A payment in lieu of property tax would be payable to county treasurers for wind energy conversion, equal to 0.3 cents per kilowatt-hour of electricity produced. The payment in lieu of tax is imposed on the purchaser, and the utility shall recover the cost of the tax in the rates charged to customers. The production tax paid to county treasurers shall be distributed to all taxing districts in the same manner as the property tax.

**REVENUE ANALYSIS DETAIL**

- According to the Department of Commerce, about 132,400,000 kilowatt-hours of electrical energy was produced by wind energy conversion systems in the state in 1998 for systems brought into operation after January 1, 1995. About 137.6 megawatts of additional wind energy conversion capacity has been brought online in 1999. Approximately 207 million kilowatt-hours of energy is currently produced. At 0.3 cents per kilowatt-hour, the total proposed electrical production tax would be about \$622,000 per year.
- According to department data, the total taxable market value of personal property for wind energy conversion systems brought online since January 1, 1995, is about \$30,900,000. Total estimated tax for the personal property for taxes payable in 2002 is about \$1 million.

### **REVENUE ANALYSIS DETAIL (CONT.)**

- The proposed exemption of the taxable market value of wind energy conversion systems will reduce the local tax base and result in increased state-paid general education aid to the local school districts. Because general education levies are fixed in statute, and the corresponding general education aid is also constant at the statewide level, the exemption will cause a redistribution of state education aid, but no increase in statewide cost.
- Although the exemption will shift property tax burdens, the proposed payment in lieu of taxes will offset the shift with additional local revenue. Any increase in homeowner property tax refunds as a result of the shift would be negligible.

**Number of Taxpayers Affected:** All taxpayers in counties with wind energy conversion systems would be affected.

### **ADMINISTRATIVE/OPERATIONAL IMPACT**

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

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