

**INDIVIDUAL INCOME TAX  
CORPORATE FRANCHISE TAX  
Tax Credit for Geothermal Equipment**

**PRELIMINARY ANALYSIS**

April 19, 2001

Department of Revenue  
Analysis of S.F. 2274 (Stumpf)

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

	<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 Total	(\$0)	(\$3,900)	(\$4,300)	(\$4,800)

Effective for tax years beginning after December 31, 2001

**EXPLANATION OF THE BILL**

**Current Law:** There is no provision for a state tax credit for the expenditures to acquire and to install a geothermal heating and cooling system. There is a federal tax credit equal to 10% of the investment in solar and geothermal energy facilities.

**Proposed Law:** A nonrefundable credit would be allowed against the individual income tax and corporate franchise tax equal to 50% of a taxpayer's excess expenditures to acquire and to install a geothermal heating and cooling system. Excess expenditures are defined as costs in excess of the cost of a conventional heating and cooling system. Unused credit could be carried forward for five years.

The Commissioner of Commerce would determine the amounts that qualify as excess expenditures for various common types of geothermal systems and provide that information to the Commissioner of Revenue.

**REVENUE ANALYSIS DETAIL**

- Based on information provided by members of the industry, it is estimated that \$12 million will be invested in geothermal heating and cooling facilities in Minnesota in 2001.
- It is estimated that roughly 65% of the total would be the excess over the cost of a conventional system. The excess was multiplied by the credit rate of 50%.
- Growth from 2001 was assumed to be 15% the first year and 10% annually in subsequent years.
- It was assumed that 80% of the credit available in a year could be used to offset tax.
- Because the proposal begins with tax year 2002, the impact would first occur in fiscal year 2003

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**Number of Taxpayers Affected:** Approximately 700 to 800 per year.

**ADMINISTRATIVE/OPERATIONAL IMPACT**

Because the department is currently formalizing a reengineered process for the income tax, the operational impact of this provision cannot be precisely estimated. However, there will be some administrative costs associated with processing new nonrefundable credits on the individual and business income tax forms.

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

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