

**WIND ENERGY PRODUCTION TAX
AND PROPERTY TAX
Exemption of Wind Energy Generation
Plants, and New Production Tax**

February 20, 2002

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

Department of Revenue
Analysis of S.F. 3190 (Lesewski) / H.F. 3450 (Mulder)

<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:
Homeowner PTR increase (Unknown) (Unknown)

Effective for assessment year 2002, taxes payable 2003 and thereafter.

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. Current law provides a process by which the developer of a new or existing medium or large scale wind energy conversion system may negotiate with the city or town and the county a payment in lieu of personal property tax used to generate electric power.

Proposed Law: Wind energy conversion systems installed or substantially modified after January 1, 2002, would be exempt from property tax. The land would remain taxable under the property tax. Medium and large-scale wind energy conversion systems would be subject to the production tax. Small-scale systems of less than 2 megawatts but greater than .25 megawatts also would be subject to the production tax, while smaller systems would be exempt. The proposal would apply different tax rates per kilowatt-hour of electricity to large, medium and small systems over .25 megawatts, but fails to specify the rates. The rates would be annually adjusted for inflation by the commissioner of revenue. 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

- Because the proposal does not specify tax rates for the proposed production tax, the amount of the proposed tax is unknown.

REVENUE ANALYSIS DETAIL (CONT.)

- The proposed exemption of the taxable market value of wind energy conversion systems will reduce the local tax base and shift property tax burden to other taxpayers if the proposed production tax is less than the current property tax.
- Depending upon the amount of production tax collected, the proposed payment of production tax could offset the shift with additional local revenue
- Because the payment of production tax is unknown, the possible impact of the proposal on the homeowner property tax refund is unknown.

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

ADMINISTRATIVE/OPERATIONAL IMPACT

There will be minimal administrative or operational costs to DOR in administration of this bill. DOR will incur costs for form design, postage, and paper.

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