

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

March 27, 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) **revised for new information and an amendment**

	<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:		\$0	\$0
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As amended, effective for systems installed or contracted for after January 1, 2002.

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 contracted for 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. **As amended, the local production tax rates would be .12 cents per KWH for large scale systems, .036 cents per KWH for medium scale, and .012 cents per KWH for small scale systems between .25 MW and 2MW.** 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

- The Navitas NAE energy company has two wind energy projects in development in Lincoln County. One project involves a small-scale single turbine wind energy generator of 1.8 MW. The other project involves a 50 MW wind energy generator, to be completed by 2004. According to a company spokesman, the small generator would yield a local production tax of about \$600 per year at a tax rate of .012 cents per kilowatt hour.
- The additional production tax from the small scale project will increase local revenue but would not affect the state general fund. Because the 50MW project will not be completed until 2004, the property tax exemption would not take effect until 2006, beyond the forecast period.

Number of Taxpayers Affected: All taxpayers in counties with new 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>