April 03, 2014

PROPERTY TAX

Solar energy systems exempted from property taxation

	Yes	No
DOR Administrative Cost/Savings		X

Department of Revenue
Analysis of S.F. 2482 (Koenen) as proposed to be amended by SCS2482A-1

	Fund Impact			
	FY2014	**FY2015**	**FY2016**	**FY2017**
		(000's)		
General Fund	$0	$0	(negligible)	(negligible)

Effective beginning with taxes payable 2015.

EXPLANATION OF THE BILL

The proposal would exempt the personal property of solar energy generating systems from property taxation and impose a solar energy production tax on solar energy systems used as a power source. The value of the real property on which the system is located shall be valued in the same manner as similar property that has not been improved with a solar energy generating system. A solar energy generating system is defined as a set of devices whose primary purpose is to produce electricity by means of any combination of collecting, transferring, or converting solar-generated energy. The rate of tax on the production of solar energy would be $1.20 per megawatt-hour, with the exemption of systems with a capacity of one megawatt alternating current or less.

Provisions are proposed to determine the total size of a solar energy system. Unless the systems are interconnected with different distribution systems, the nameplate capacity of more than one solar energy system would be combined if (1) they are constructed within the same 12-month period and (2) they exhibit characteristics of being a single development. The commissioner of commerce shall make determinations on the total size of a system and the combining of systems.

Owners of solar energy systems subject to tax would be required to file a report with the commissioner of revenue annually by January 15 detailing the amount of electricity that was produced in the previous year. If an owner fails to file the report by the due date, the commissioner shall determine the tax based upon the nameplate capacity of the system multiplied by a capacity factor of 30 percent. The commissioner shall then notify the owners of the tax due to each county for the current year by February 28.

Payment of production tax would be paid in the same manner as property taxes and is subject to the same enforcement, collection, and interest and penalties as delinquent personal property taxes. The revenue from the production taxes imposed must be distributed by the county auditor or county treasurer to local taxing jurisdictions in which the solar energy systems are located as follows: 80 percent to counties and 20 percent to cities and townships.

REVENUE ANALYSIS DETAIL

- According to the Department of Commerce, Minnesota currently has 14 megawatts of solar energy capacity producing about 16,000 megawatt-hours of energy per year. Capacity is expected to grow to 400 megawatts by 2020 due to the renewable energy standards set by legislation. 265 megawatts of the projected growth is expected to be large, utility-scale solar energy systems that would qualify for the production tax. Construction is expected to be focused mostly in central and southern Minnesota.
- There are currently two solar energy systems that have capacities greater than one megawatt that would be subject to the production tax. They have a combined capacity of 3 megawatts and produce about 3,800 megawatt-hours per year.
- Revenue from production taxes at current capacity would be around $4,500, but is expected to grow based on projections from the Department of Commerce.
- Because photovoltaic devices are currently exempt from property taxes, expanding the exemption to solar energy generating systems is assumed to have a negligible effect on the state general fund.

Number of Taxpayers: All taxpayers in counties, cities, and townships with qualifying solar energy systems would be affected.

PROPERTY TAX BENCHMARKS **(Minn. Stat. § 270C.991)**

Transparency, Understandability, Simplicity & Accountability	Decrease	Decrease in simplicity because of a new tax being imposed.
Efficiency & Compliance	Neutral	
Equity (Vertical & Horizontal)	Neutral	
Stability & Predictability	Neutral	
Competitiveness for Businesses	Neutral	
Responsiveness to Economic Conditions	Neutral	

The bill is scored on a three point scale (decrease, neutral, increase) for each principle in comparison to current law.

Source: Minnesota Department of Revenue
Property Tax Division - Research Unit
www.revenue.state.mn.us/research_stats/
pages/revenue-analyses.aspx

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