DEPARTMENT OF REVENUE

PROPERTY TAX
Wind energy and solar energy production property valuation modification

March 16, 2021

	Yes	No
DOR Administrative Cost/Savings	X	

Department of Revenue
Analysis of S.F. 0578 (Weber) / H.F. 1843 (Carlson) as introduced

	Fund Impact			
	FY2022	**FY2023**	**FY2024**	**FY2025**
		(000's)		
Property Tax Refund Interaction	$0	$0	($160)	($160)

Effective the day following final enactment.

EXPLANATION OF THE BILL

Under current law, wind energy conversion systems and solar energy generating systems are exempt from property taxes. If these systems are part of a utility company that is subject to state assessment through unitary valuation, they are included in the unit value of the company, but then subsequently removed from the company's Minnesota Allocated Unit Value as depreciable excludable property in order to arrive at a taxable MN unit value. When removing depreciable excludable property from the company's Minnesota Allocated Unit Value, such as wind and solar assets, the depreciable excludable property is removed at a depreciated value derived from the total depreciation of the system plant, as opposed to each individual asset's depreciation.

The proposal would change how depreciation is applied to wind energy conversion systems and solar energy generating systems qualifying as exempt property and placed in service or repowered after December 31, 2019. These qualifying systems would be removed from the utility company's Minnesota Allocated Unit Value as depreciable excludable property using the individual asset depreciation on the company's books for those systems, instead of applying the system plant depreciation.

REVENUE ANALYSIS DETAIL

- It is assumed that the proposal would take effect beginning with assessment year 2022 for taxes payable in 2023.
- In the short-term, the proposal would reduce the taxable MN unit value of utility companies with wind energy conversion systems and solar energy generating systems placed in service or repowered after December 31, 2019.
    - The actual depreciation rate of the individually affected wind energy conversion systems and solar energy generating systems would be less than the system depreciation rate for the entire company in the short-term, which would increase the exempt value of the systems compared to the current method.

- The values of these exempt systems are removed from the Minnesota Allocated Unit Value of utility companies to determine the taxable MN unit value. Because the proposal would increase the exempt value of wind energy conversion systems and solar energy generating systems in the short-term, it would reduce the taxable MN unit value of utility companies in the same time frame.
- Within the forecast window, it is estimated that the taxable MN unit value of utility companies would decrease by $272 million statewide for taxes payable in 2023 and $257 million for taxes payable in 2024 under the proposal.
    - Under unitary valuation, statewide taxable MN unit value is apportioned to all properties operated by a utility company. Therefore, the proposed decrease in taxable MN unit value would most affect taxing jurisdictions with significant electric utility tax base.
- Due to the decrease in taxable MN unit value, the proposal would shift an estimated $6 million in property taxes away from utility companies and onto all other properties, including homesteads. As a result of property taxes shifting onto homesteads, property tax refunds paid by the state would increase by $160,000 for fiscal years 2024 and 2025.

- In the long-term, as the actual depreciation of the affected wind energy conversion systems and solar energy generating systems increases, the excluded exempt value of the systems would decline. Eventually, the actual depreciation rate of these systems would be greater than the system plant depreciation rate used under the current method. This would result in a higher taxable MN unit value of utility companies compared to the current method.
- Due to the higher taxable MN unit value, the proposal would shift property taxes onto utility companies and away from all other properties, including homesteads. The resulting long-term property tax shifts and effect on property tax refunds is unknown.

- The same cycle of short-term decrease and long-term increase in taxable MN unit value would occur for any wind energy conversion systems and solar energy generating systems constructed or repowered by utility companies in the future. It is unknown how many systems would be affected by this proposal in the long-term.

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

Transparency, Understandability, Simplicity & Accountability	Increase	Increases transparency and understandability for taxpayers.
	Decrease	Decreases simplicity of unit value assessment.
Efficiency & Compliance	Decrease	Complexity for administrators is increased.
Equity (Vertical & Horizontal)	Neutral	
Stability & Predictability	Neutral	
Competitiveness for Businesses	Neutral	
Responsiveness to Economic Conditions	Increase	Increases responsiveness to economic conditions by using actual depreciation.

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

sf0578(hf1843)_pt_1/wms