

April 7, 2021

	<b>Yes</b>	<b>No</b>
<b>DOR Administrative Costs/Savings</b>	X	

Department of Revenue  
Analysis of H.F. 1850 (Bierman) / S.F. 2026 (Frentz)

	<b>Fund Impact</b>			
	<b><u>F.Y. 2022</u></b>	<b><u>F.Y. 2023</u></b>	<b><u>F.Y. 2024</u></b>	<b><u>F.Y. 2025</u></b>
			(000's)	
General Fund	(\$5,000)	(\$5,000)	(\$5,000)	\$0

Effective for tax years 2021 through 2023.

**EXPLANATION OF THE BILL**

**Current Law:** The federal residential renewable energy tax credit is a nonrefundable income tax credit for residential solar energy systems and other renewable energy expenses. Set to be phased-out completely by 2024, the maximum allowable credit for solar-electric property is based on a percentage of the cost of systems placed in service in a given taxable year.

- For systems placed in service in 2017 through 2019, the credit rate is 30%.
- For systems placed in service in 2020 through 2022, the credit rate is 26%.
- For systems placed in service in 2023, the credit rate is 22%.

There is no maximum credit for systems placed in service after 2008. The home served by the system does not have to be the taxpayer's principal residence.

The credit has been extended multiple times, most recently through the Taxpayer Certainty and Disaster Tax Relief Act of 2020. There is a similar business energy credit for solar energy property.

**Proposed Law:** The bill creates a nonrefundable credit against the individual income tax or corporate franchise tax for solar energy system installations. A taxpayer receiving retail electric service from a municipal utility or a cooperative electric association is eligible for a credit equal to a percentage of purchase and installation costs.

- For systems placed in service in tax year 2021, the credit rate is 15%.
- For systems placed in service in tax year 2022, the credit rate is 13%.
- For systems placed in service in tax year 2023, the credit rate is 11%.

The maximum allowable credit is \$5,000 for a solar energy system installed on a taxpayer's homestead and \$20,000 for a solar energy system installed on business property. If the amount of the credit exceeds that tax due for the given year, the excess credit may be carried over for up to ten years.

For nonresidents and part-year residents, the credit must be apportioned based on the taxpayer's share of income attributable to Minnesota.

### **EXPLANATION OF THE BILL (Cont.)**

Credits granted to multiple owners of a property, a partnership, limited liability company, or S corporation, are passed through to the owners, partners, or shareholders based on their share of the entity's assets.

The Commissioner of Revenue may not issue more than \$5 million in credits for any tax year, and at least \$2.5 million must be issued for homestead solar energy credits.

The credit will expire after tax year 2023.

### **REVENUE ANALYSIS DETAIL**

- Minnesota solar installation data was provided by the MN Department of Commerce and the Public Utilities Commission.
- In 2020, coops and municipal utilities reported nearly 800 solar installations totaling 10.7 megawatts.
- An average growth rate of 29% is assumed, based on historical growth in reported installations from 2015 to 2020.
- Assuming an average installation cost of \$4 per watt, total demand for credits is expected to exceed \$5 million in each year from tax year 2021 to 2023.
- The maximum of \$5 million in credits are expected to be claimed in each year, with no carryovers.

**Number of Taxpayers:** At the maximum credit of \$5,000 per homestead, 1,000 taxpayers could receive the credit each year. If 50% of credits went to businesses, 125 businesses and 500 individuals could receive the maximum credit.

Minnesota Department of Revenue  
Tax Research Division  
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