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BILL ANALYSIS

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**Senate Bill 823 (as reported without amendment)****Sponsor: Senator Doug Carl****Committee: Energy****Date Completed: 5-31-88****RATIONALE**

Since 1979, homeowners and rental housing owners have been able to claim credits against their State income tax for purchasing and installing solar, wind, or water conversion devices. The amount of the purchase and installation costs currently eligible for the energy tax credit is 30% of the first \$2,000 and 15% of the next \$3,000 for devices in single family dwellings and 15% of the next \$7,000 for devices in other types of housing. The tax credit program reportedly was designed to promote the development of renewable energy sources and reduce the State's reliance on foreign fossil fuels. It was necessary, some claimed, because many of the renewable energy technologies were unable to compete economically with conventional heating and cooling systems and conventional sources of electricity. Proponents of the program claim that it has been successful in encouraging the use of renewable energy sources and in fostering the growth of the alternative energy source industry, thus making it more profitable to manufacture products in Michigan and bringing jobs and capital to the State. For these reasons, they argue, the program which is to expire in 1989 should be extended.

**CONTENT**

The bill would amend the Income Tax Act to extend to 1993 the income tax credit that homeowners and rental housing owners may claim for purchasing and installing solar, wind, or water energy conversion devices. Currently, the credit applies through the 1988 tax year.

According to the Act, the percentage of the cost of energy devices installed in single family dwellings that was eligible for the tax credit for the 1979 to 1982 tax years ranged from 15% to 25% of the first \$2,000 and 5% to 15% for the next \$8,000, depending on the tax year for which the tax credit was claimed. For the 1983 through 1988 tax years, the percentage of the cost that could be claimed was set at 30% for the first \$2,000 and 15% for the next \$3,000. For devices installed in housing other than single family dwellings, the percentage ranged from 15% to 25% for the first \$2,000 and 5% to 15% for the next \$13,000 for the 1979 to 1982 tax years and was set at 30% of the first \$2,000 and 15% of the next \$7,000 for the 1983 to 1988 tax years. The act specifically states that the section allowing the energy tax credit does not apply for tax years after 1989.

The bill, however, would continue the energy tax credit at the current rate of 30% of the first \$2,000 and 15% of the next \$3,000 for devices in single family dwellings and 15% of the next \$7,000 for devices in other types of housing.

The bill also would delete a technical reference to the energy administration which has been transferred to the

Public Service Commission and no longer exists as a separate entity.

MCL 206.262

**BACKGROUND**

A report by the Michigan Public Service Commission entitled "Michigan Renewable Energy Tax Incentive Program: Report on the 1986 Tax Year" (January 1988) offers this information:

- Over 1,000 Michigan homeowners qualified for renewable energy tax credits in 1986: a decrease of more than 90% in the number of applications approved from the previous year, due primarily to the 1985 expiration of the Federal renewable energy tax credit.
- Michigan solar tax credits for 1986 totaled over \$900,000: the eight-year total for the program is over \$25 million in tax credits granted.
- Michigan residents invested over \$4 million to purchase renewable energy systems that qualified for State tax credits in 1986. This brings the eight-year total investment for renewable energy systems to over \$135 million.
- Investments made in conjunction with renewable energy system purchases constitute a substantial amount of additional economic activity. Over the last three years, these additional investments have totaled over \$14 million more than the costs that qualified for the State tax credits. Most of these additional investments were made for energy conservation products that enhance the renewable energy systems performance and provide additional energy savings to the households.
- Michigan residents who qualified for this tax credit were expected to cut their annual energy use in 1987 by over \$263,000, or \$262 per home, as a direct result of the solar and renewable energy systems reported in the approved 1986 tax credit applications. Assuming that systems installed over the years of the program are still in operation, the over 33,000 Michigan households qualifying for renewable energy tax credits since 1979 were expected to have accumulated over \$13 million in energy savings by the end of 1987.

**FISCAL IMPACT**

In 1986, the solar credit reduced GF/GP revenues by approximately \$1 million.

**ARGUMENTS****Supporting Argument**

The bill would continue for another five years a tax credit program that has been instrumental in the development of renewable energy technology, the diversification of the State's economy, the reduction of the State's dependence

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on foreign fossil fuels, and an increase in the number of jobs created and amount of capital available to rebuild the economy. The program has been especially important in making alternative energy sources affordable in rural areas of the State that do not have access to the variety of energy sources available to urban and suburban areas.

### ***Opposing Argument***

The bill would extend the life of a program that is not a good public policy, i.e., the use of tax dollars to promote the development of a technology and its related industries that should, and would, be evolving anyway in response to the demands of the marketplace. The State's scarce tax revenues should be used to fulfill more pressing needs of its citizenry.

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.