

Fiscal Estimate Narratives

DOR 3/24/2010

LRB Number	09-3731/1	Introduction Number	AB-0794	Estimate Type	Original
Description Nonrefundable individual and corporate income and franchise tax credits for purchasing a thermal biomass heating system and fuel for such a system, property tax exemptions for thermal biomass heating systems and facilities used to store fuel for such systems, and a sales and use tax exemption for purchasing a thermal biomass heating system					

Assumptions Used in Arriving at Fiscal Estimate

This bill creates an individual income tax and corporate income and franchise tax credit for the purchase of thermal biomass heating systems, an individual income tax and corporate income and franchise tax credit for the purchase of fuel for thermal biomass heating systems, a sales and use tax exemption for the purchase of thermal biomass heating systems, and real and personal property tax exemptions for thermal biomass heating systems.

A system is defined as a stove, furnace, or boiler that generates heat from biomass and provides an energy efficiency conversion of at least 75%. Biomass, with some exceptions, is a resource that derives energy from wood or plant material or residue, biological waste, crops grown for use as such a resource, or landfill gases. The system must comply with all state requirements related to emissions of air contaminants and the provisions of the federal Clean Air Act.

These tax expenditures are discussed by tax type in their respective sections. The fiscal estimates presented below are based on current economic conditions. To the extent that this bill creates an incentive for individuals and corporations to invest in thermal biomass heating systems, the fiscal effect could be significantly larger.

INDIVIDUAL INCOME TAX AND CORPORATE INCOME AND FRANCHISE TAX

This bill provides a nonrefundable individual income tax credit and a corporate income and franchise tax credit equal to 100% of the installed cost of a thermal biomass heating system that the taxpayer paid during the taxable year for a system that is installed in the claimant's primary residence or place of business in Wisconsin.

The bill also provides a nonrefundable individual income tax credit and a corporate income and franchise tax credit equal to 100% of the amount paid in the taxable year for fuel used in a thermal biomass heating system installed in the claimant's primary residence or place of business in Wisconsin.

The credits may not be claimed by a nonresident or part-year resident of Wisconsin. Unused credits may be carried over and used for up to 15 years.

Partnerships, limited liability companies, and tax-option corporations may not claim the credit but the eligibility for, and the amount of, the credit are based on their payment of amounts. Partners, members of limited liability companies, and shareholders of tax-option corporations may claim the credit in proportion to their ownership interests.

Using information from Focus on Energy (a consortium of public/private organizations that promotes energy conservation), Global Energy Options Consulting, and retail vendors, it is estimated that approximately 6,600 eligible biomass systems are sold annually in the state for residential use. The average cost, including installation is \$3,680. Using average installation costs, the credit for 100% of the cost to install a biomass heating system would result in an individual income tax revenue reduction of an estimated \$24.3 million annually (6,600 x \$3,680).

According to the U.S. Census of Housing, in 2007 there were approximately 90,700 thermal biomass heating systems in owner occupied housing in Wisconsin. Under the energy efficiency standard in the bill, it is estimated that 80% of these systems would be eligible for the individual income tax credit for the cost of fuel. Combined with the 6,600 new sales estimated previously, approximately 79,160 residential thermal biomass heating systems would be eligible for the fuel credit. Based on information from retail vendors the

average annual fuel cost is estimated to be \$463 for these systems. As a result, the fiscal impact of the individual income tax credit for 100% of the cost of fuel would be a reduction in revenue of \$36.6 million annually ($79,160 \times \463).

Based on information from the Wisconsin Energy Conservation Corporation, the average cost of a commercial/industrial biomass heating system is \$40,000, and Focus on Energy is currently working on five industrial biomass heating projects. Assuming the same average cost and annual number of systems installed, the credit for 100% of the cost to install a biomass heating system would result in a reduction in corporate income and franchise tax revenue of an estimated \$200,000 annually ($\$40,000 \times 5$).

Based on information from Focus on Energy, industrial biomass heating units in Wisconsin that meet the efficiency standards in the bill use an estimated 10,000 tons of wood fuel and 10,000 tons of wood pellet fuel in a year. The average cost of wood fuel is \$114 per ton, and the average cost of wood pellet fuel is \$180 per ton. Therefore, the credit for 100% of the cost of woody biomass fuel for systems that meet the efficiency standard under the bill would result in an annual corporate income and franchise tax revenue loss of an estimated \$2.9 million ($10,000 \times \$114 + 10,000 \times \180).

Combined, the bill will reduce individual income tax and corporate income and franchise tax by \$64.1 million annually.

SALES AND USE TAX

The bill creates a sales and use tax exemption for the sale of thermal biomass heating systems (including accessories, attachments, and repair parts). The exemption would not, however, include equipment or components that would be present as part of a conventional energy system. The exemption would become effective on the 1st day of the 3rd month beginning after publication.

Assuming sales of qualifying thermal biomass heating systems are \$24.5 million annually (\$24.3 million from individuals and \$0.2 million from corporations), the bill is expected to decrease state sales and use tax collections by approximately \$1.23 million annually ($\$24.5 \text{ million} \times \text{the state sales tax rate of } 5.0\%$).

County and stadium tax collections were approximately 7.8% of state tax collections in fiscal year 2009. Assuming that this proportion remains constant, the bill is expected to decrease local sales tax collections by an approximately \$100,000 annually ($\$1.23 \text{ million} \times 7.8\%$).

PROPERTY TAX

The bill creates a property tax exemption for thermal biomass heating systems, including accessories, attachments, and repair parts for such systems, but excluding equipment or components that are part of a conventional heating system. In addition, the exemption also applies to property used to store fuel made from biomass fuel that is intended for use in a biomass heating system.

The Department of Revenue does not have sufficient information to make a reasonable estimate of the amount of property which could become exempt under the bill. However, given the number of units that are sold every year, and the number of units that are in active use, the shift in property taxes could be significant in some localities.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2009 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):			
II. Annualized Costs:		Annualized Fiscal Impact on funds from:	
		Increased Costs	Decreased Costs
A. State Costs by Category			
State Operations - Salaries and Fringes	\$		\$
(FTE Position Changes)			
State Operations - Other Costs			
Local Assistance			
Aids to Individuals or Organizations			
TOTAL State Costs by Category	\$		\$
B. State Costs by Source of Funds			
GPR			
FED			
PRO/PRS			
SEG/SEG-S			
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)			
	Increased Rev		Decreased Rev
GPR Taxes	\$		\$
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			
TOTAL State Revenues	\$		\$
NET ANNUALIZED FISCAL IMPACT			
	State		Local
NET CHANGE IN COSTS	\$		\$
NET CHANGE IN REVENUE	\$SeeText		\$SeeText
Agency/Prepared By		Authorized Signature	
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		Date	
		3/24/2010	