State of Rhode Island
Budget Office
Department of Administration

State Fiscal Note for Bill Number: 2023-H-6107

Date of State Budget Office Approval: **Thursday, June 1, 2023**

Date Requested: **Thursday, May 18, 2023**

Date Due: **Sunday, May 28, 2023**

Impact on Expenditures		*Impact on Revenues*	
FY 2023	n/a	FY 2023	n/a
FY 2024	n/a	FY 2024	n/a
FY 2025	n/a	FY 2025	n/a

Explanation by State Budget Office:

This bill would amend R.I. Gen. Laws Chapter 44-57 entitled "Residential Renewable Energy System Tax Credit" to allow the taxpayer to elect to donate the credit to "a nonprofit entity organized to assist low-income residents with the payment of electricity and related costs." It would also amend Chapter 44-30 of the Rhode Island General Laws, "Personal Income Tax," to allow the taxpayer to subtract the amount of a donated residential renewable energy system tax credit from their federal adjusted gross income (AGI) for the purposes of Rhode Island personal income taxes.

Comments on Sources of Funds:

Personal income taxes and business corporation taxes are general revenues.

Summary of Facts and Assumptions:

R.I. Gen. Laws Chapter 44-57 creates a credit for taxpayers who install residential renewable energy system, including photovoltaic (solar) systems, solar domestic hot water systems, active solar heating systems, wind energy systems, and geothermal systems. The credit is in the amount of 25% of the system cost up to a cap of $7,000 to $15,000, determined by the type of system. Currently this credit may only be taken against business corporation taxes. Although R.I. Gen. Laws § 44-57-1 indicates that the tax credit can be used against tax liability for corporate taxes or personal income taxes, the credit is not listed among the allowable tax credits against personal income taxes contained in R.I. Gen. Laws § 44-30-2.6(c)(3)(F). It is unclear if the intent of the bill is to reinstate the renewable energy system tax credit as an allowable credit against personal income tax liability. In recent years, no residential renewable energy tax credits have been redeemed against business corporation taxes.

The Division of Taxation has submitted a letter outlining its concerns regarding lack of clarity in the bill in key areas that would affect tax clarity and administration. Some of these issues make determining the intent and analyzing the impact of the bill difficult. It is unclear how the tax credits would be redeemed by the nonprofit organizations to which they would be donated. It is possible that the intent is for this to be outlined in regulations promulgated by the Division of Taxation. However, per R.I. Gen. Laws § 44-57-1, the credit is nonrefundable. Therefore, it is unclear if or how nonprofit organizations, which do not pay corporate income taxes, could redeem the credits they might receive in donation. Therefore, the Office of Revenue Analysis (ORA) is unable to determine the impact on actual application, certification, or usage of credits.

As noted above, usage of the credit against business corporation tax liability has been

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zero. The bill is unlikely to increase usage of the tax credit by corporate taxpayers because it offers the proposed income modification only to personal income tax filers. Therefore, the revenue impact of the bill as it relates to the corporate income tax credit is likely to be zero. As the law currently stands and as the bill is drafted, it is unclear if any personal income taxpayer could utilize the pathway of donating the credit and taking the adjustment to AGI because currently personal income tax filers cannot be certified for the credit.

However, assuming the intent of the bill is to reinstate the renewable energy credit as an allowable credit against personal income tax liability, it is likely that this would result in significant uptake of the credit. The revenue impact of doing this alongside the proposed donation and AGI modification provision is difficult to forecast due to the lack of data concerning how many taxpayers would elect to donate the credit versus applying it to their own tax liability. The tax liability reduction to the taxpayer would be larger if they keep the tax credit and use it themselves than if they donated it and took the modification to AGI. Assuming that the questions related to the process for transferring the credits to nonprofits and how the credits are ultimately used after being donated are resolved, this would presumably mean the tax credit is being used both against tax liability for someone and reducing the tax liability of the donor, effectively increasing the revenue loss to the State for every tax credit for which the original recipient chooses the donation option. However, precisely how many taxpayers would be expected to choose this path is undeterminable.

In an attempt to provide some analysis of what the possible impact of the bill could be, assuming the credit was allowable against personal income tax and there was a viable mechanism for donation, ORA looked at national market trend data in residential solar installations. ORA assumes residential solar systems would constitute the majority of the usage of the renewable energy tax credit. Combining data from various sources, including ISO New England and the National Renewable Energy Laboratory, ORA was able to calculate a rough maximum impact of $6,600,000 in foregone general revenue in the initial tax year (and roughly half of that in the first fiscal year due to the beginning of the applicable tax year halfway through the fiscal year). This impact would likely grow significantly in subsequent years as the robust growth that has been seen in the residential solar industry in recent years is forecast to continue. This estimate assumes all recipients qualify for the statutory maximum credit, which ORA believes is a reasonable assumption based on the current average cost of a residential solar system. It also assumes approximately 1,700 new qualifying systems are installed in Rhode Island in the initial year. Finally, and most importantly, as noted above this rough estimate assumes that the questions regarding usage of the credits after donation are resolved in such a way that all credits are used, that the credit is made allowable against personal income taxes, and that all recipients opt to donate their credits.

Summary of Fiscal Impact:

FY 2023: An indeterminate revenue loss is forecast due to the assumed effective date of July 1, 2023, however the Division of Taxation has suggested that for the purpose of clarity and tax administration that the effective date be amended to January 1, 2024, which would eliminate any potential impact on FY 2023 revenues.

FY 2024: An indeterminate revenue loss is forecast due to implementation uncertainties.

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FY 2025: An indeterminate revenue loss is forecast due to implementation uncertainties.

Budget Office Signature: Digitally signed by Joseph Codega Date: 2023.06.01 16:22:23 -04'00'

Fiscal Advisor Signature:

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