

MINUTES OF THE MEETING OF THE HOUSE TAXATION COMMITTEE
January 21, 1983

The meeting was called to order at 8:00 a.m. by Chairman Yardley. Roll call was taken and all committee members were present except Representative Harrington, who came later.

Testimony was heard on HB 261 and HB 264 during this meeting.

HOUSE BILL 264

REPRESENTATIVE KATHLEEN MCBRIDE, District 85, said the main purpose of HB 264 is to reenact the tax credit for installing alternative energy systems. The credit terminated December 31, 1982. House Bill 264 would allow the credit to apply to this tax year and all following years.

The tax credit applies to solar heating (space and hot water), wind and small scale hydroelectric. She said wood stove heating does not qualify. The amount of credit is 5% of the first \$1,000 and 2.5% of the next \$3,000 spent on the energy system with a maximum credit available of \$125. The average claim amount is \$85 per claimant. Representative McBride said just over 1,000 people claimed the credit in 1981.

REPRESENTATIVE MCBRIDE said the credit produces a desired effect of providing an incentive for people to invest in energy systems.

Proponents

LEO BERRY, Director of the Department of Natural Resources and Conservation, said HB 264 was requested by his department. The credit is a small step to provide an alternative to high utility rates.

JIM MCNAIRY, representing the Alternative Energy Resources Organization, said alternative forms of energy should be pursued. The state should continue to provide modest tax credits for renewable energy systems. He said the Department of Natural Resources and Conservation estimated \$83,000 was given out in tax credits for 1981. That is a small level of state involvement.

MR. MCNAIRY said allowing this modest tax credit to expire won't help Montana's struggling renewable energy businesses and is the wrong signal to send to the people of the state. (See EXHIBIT 2.)

SHEILA DAHL, owner of Day Star Solar, testified in favor of HB 264. She said solar systems are an expensive investment and the tax credit helps the customers out.

KAREN STRICKLER, representing the League of Women Voters, said the league pushed for alternative energy resources and the tax incentive is one way to get people to buy alternative energy systems.

DON REED, representing the Montana Environmental Information Center, said the tax credit puts Montana on record in support of energy conservation and pushing towards renewable resources. The tax credit is a realistic incentive at a low cost to the state. He also said low income people are using this tax credit. After taxes, expenditures for energy represent the largest flow of money out of the community. (See EXHIBIT 3.)

REPRESENTATIVE DAVE BROWN said he supports the passage of HB 264.

There were no opponents testifying on HB 264.

REPRESENTATIVE MCBRIDE, in closing, said it would be prudent to increase the tax credit but because of the decreased revenue for the state, it is probably impossible to do that at this time.

REPRESENTATIVE NILSON asked what other states are doing as far as energy tax credits. Mr. Reed said most states have an alternative energy tax credit of the same sort as Montana. However, Montana is tied with North Dakota on the bottom of the list for having a 5% tax credit. Most of the other states have a 15-20% credit.

REPRESENTATIVE HARP said during the last legislative session, we examined the Alternative Energy Program funding. He asked how the program is doing now. Representative Brown said the Environmental Quality Council was directed to review the Alternative Energy Program. A subcommittee was formed and a report is being printed on the results of the examination. The program was given a clean bill of health and is a worthwhile effort.

REPRESENTATIVE DEVLIN asked if the state revenue will be severely affected, in the future, because more and more people might take advantage of this credit. Representative McBride said the increases that are projected are fairly modest. If you consider the cost of building a new power plant, it will be a savings all Montanans will think will be worth investing in.

The hearing on HB 264 was closed.

HOUSE BILL 261

REPRESENTATIVE DAVE BROWN, District 83, told committee members that HB 261 turned out to be more than what he wanted it to be. The original intent of the bill was to help people, for example, who have been overseas, serving in the armed forces. He told a

story of a couple who served 30 months overseas and when they came back home and went to license their car they found out they had to pay the three years' back taxes. Their car had been in storage and they thought it unfair to have to pay taxes on the years it was stored. Representative Brown agreed with the couple and introduced this bill to correct that type of problem. The language in the bill, as written, covers a much broader spectrum than what was intended.

REPRESENTATIVE BROWN said he didn't know if the bill could be amended to become a more workable bill or not.

There were no other proponents testifying on HB 261.

CHAIRMAN YARDLEY had to leave the meeting. Vice-Chairman Neuman took over as acting chairman.

Opponents

CHARLES GRAVELEY, representing the county treasurers, county assessors, and the county coronors, said they would have no problem providing exemption to individuals in the military service but could not support the bill the way it is written now. He said he thought there was a provision in the Montana Codes now to allow vehicles to be exempted from taxes while the owner is in the service. If there is not such a code but that type of language could be amended into the bill he would not oppose the bill.

GREG GROEPPER, Department of Revenue, said in its present form, HB 261 is a fairly expensive bill and would encourage people to not pay property taxes by saying their car was in storage. He said there should be a statement in the bill as to who this bill was intended to serve.

JIM STRAW, County Commissioner from Yellowstone County, said he was asked to speak in opposition to this bill by the Yellowstone County Treasurer. He said a bill such as HB 261 would be detrimental to the tax base of Yellowstone County.

LARRY MAJERUS, Department of Motor Vehicles, Department of Justice, said HB 261 would encourage people to not register their cars.

REPRESENTATIVE BROWN, in closing, said if it is the desire of this committee to try to amend this bill, he would try to work out some amendments. Chairman Neuman asked Representative Brown to do so.

REPRESENTATIVE REAM asked what the fiscal impact will be if HB 261 is passed. Mr. Groepper said they anticipate the fiscal impact to be \$1.5 million annually, if the bill passes as written.

MR. GROEPPER said the concern is to have a mechanism so that people will not just come in and say they haven't had the vehicle on the highway for years and therefore not be subject to the taxes.

The hearing on HB 261 was closed.

The meeting was adjourned at 9:10 a.m.



DAN YARDLEY, Chairman



Vicki Lofthouse, Secretary

HB 264

INFORMATION FOR KATHLEEN MCBRIDE

The income tax credit for alternative energy is available to resident taxpayers who install renewable energy systems in their homes. The types of systems that qualify for the credit include solar space heating (both passive and active), solar hot water, wind, and small scale hydroelectric. Wood stoves do not qualify. The amount of credit available to a taxpayer is 5 percent of the first \$1,000 and 2-1/2 percent of the next \$3,000 spent on the system with a maximum credit of \$125.

TAX YEAR	NUMBER OF TAXPAYERS CLAIMING CREDIT	DOLLAR VALUE OF CREDIT (FISCAL IMPACT)
1979	379	\$30,414
1980	699	\$61,077
1981	1,010	\$83,572

Several factors enter into a decision to invest in a renewable energy system, the state tax credit being just one. There is no method of determining the precise effect the state tax credit has on an individual's decision to invest. However, the tax credit does reduce the cost of renewable energy systems and must be considered a contributing factor to the increase in the number of Montanans investing in renewable systems as evidenced by the increase in taxpayers claiming the credit.

After comprehensive study, Montana's members of the Northwest Power Planning Council will soon be adopting a regional energy plan for the Pacific Northwest. The plan will emphasize the

importance renewable energy and energy conservation can play in the energy future of Montana and the region. It does not make sense to allow the alternative energy tax credits to expire and discourage investments in renewable energy when the regional energy plan will clearly document their importance. A more prudent response would be to increase the tax credits and hasten the development of renewable energy. However, one must also respect the fiscal posture of the state.

Answers to possible questions:

What is the cost-effectiveness of the tax credit?

The Department of Revenue's administrative expenses for the alternative energy tax credit are minimal since forms are only provided upon taxpayer request.

What are the renewable energy savings associated with the alternative energy tax credit?

The level of information required of taxpayers who claim the credit is not sufficient to make such an estimate.

Is there a difference between investments that qualify for the state and federal tax credits?

Yes, the federal tax credit is limited to investments in solar, wind and geothermal energy. In addition to solar and wind, systems that utilize solid or organic wastes and small scale hydroelectric systems qualify for the state tax credit. Geothermal systems do not qualify for the state tax credit. Wood stoves do not qualify for either credit.

If the federal tax credit is repealed will the state tax credit double?

Yes. Given the strong congressional support the federal tax credit received when the President proposed its elimination, it is doubtful the federal tax credit will be repealed. If the federal tax credit rate is reduced, the state tax credit will be unaffected. If this is a particular problem, the bill can be amended to keep the credit at its current level.



Alternative Energy Resources Organization

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PREPARED TESTIMONY IN SUPPORT OF HB 264

My name is Jim McNairy and I'm here representing the Alternative Energy Resources Organization, commonly known as AERO. AERO has about 600 Montana members who share a common belief that conservation and renewable energies are extremely important to Montana's future and should be aggressively pursued.

We are in favor of HB 264, and believe that the state should continue to provide modest tax credits for renewable energy systems.

Montana has a very good mix of available renewable energies that could be utilized to help meet a growing portion of the state's energy needs while spurring local economic development. Two-thirds of the state receives abundant sunshine, parts of the state have ideal wind and small-scale hydro potential, and the agriculture sector produces the feed stocks necessary for alcohol fuel and methane production.

The current alternative energy tax credit allows taxpayers a maximum credit of \$125 on an investment of \$4000. The Department of Natural Resources and Conservation estimates that in 1981 just over 1000 Montana taxpayers claimed the credit, which resulted in a total cost to the state of about \$83,000. It's our feeling that this \$83,000 figure is not unreasonable and is in fact a very small level of state involvement.

There are currently about 200 businesses in Montana that sell renewable energy products. These businesses are as hard pressed to make ends meet as we all are in these tough economic times. In addition to the people directly employed in these 200 Montana businesses, there are an untold number of people involved in the installation and maintenance of these renewable systems. Several studies have been done in recent years comparing the job creation potential of equal

dollar investments in renewable energies and various conventional energy sources. One such study, entitled Jobs and Energy by James Benson, concludes, using Long Island as an example, that twice as many jobs could be created on Long Island if aggressive solar energy and conservation were pursued instead of investing in a proposed nuclear power plant.

In closing, one thing is certain - allowing this modest tax credit to expire won't help Montana's struggling renewable energy businesses and is the wrong signal to send to the people of this state. Many Montanans are reeling from the combined effects of constantly rising utility bills and the recent news of further cutbacks in the mineral extraction industry. If the state is serious about trying to help promote clean, sound, and sustainable economic growth and is also concerned about reducing our dependence on fossil fuels, then the Legislature should renew the alternative energy tax credits. Some thought should also be given to increasing the amount of credit offered as a way to spur more rapid development of renewable energies. A bill to raise the tax credit level is being drafted and AERO hopes that it will be given due consideration.

HB 264

Testimony presented to the House Committee on Taxation
By the Montana Environmental Information Center
January 21, 1983

Mr. Chairman and members of the committee:

HB 264 will renew Montana's Alternative Energy Systems Tax Credit by eliminating the current sunset provision of December 31, 1982. Without this legislation, the tax credit will expire as of that date.

This credit puts Montana on record in support of energy conservation through the increased use of renewable energy systems. Eliminating the sunset provision will enhance the attractiveness of this credit by demonstrating Montana's commitment to renewable energy to the burgeoning renewable energy industry. This legislation will send a message of stability to both consumers and producers of alternative energy systems alike.

By the same token, failing to pass this bill to renew the credit would send a negative signal to businesses and consumers in Montana and around the country.

The tax credit provides consumers with a realistic incentive to employ renewable energy. It does so at a very reasonable cost to the state. At a maximum, an individual can claim only \$125 in credit against an investment of \$4,000 or more. This limit keeps any individual from taking unfair advantage of the credit.

The cost to the state is minimal. The Department of Natural Resources estimates that the credit had a fiscal impact on the state of only \$83,572 in 1981.

More taxpayers are taking advantage of the tax credit and the benefits of using renewable energy. The number of individuals taking the credit has increased from 379 to 1,010 from 1979 to 1981.

Low-income consumers use the credit. An analysis of the credits taken in 1978 and 1979 shows that the distribution of credit users centers around the \$20,000 to \$25,000 annual income group. Yet more individuals with lower incomes claimed the credit than did those in higher income groups. Individuals claiming the deduction are more likely to be from a lower income group than from a higher income group.

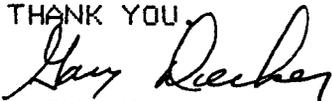
The tax credit and the use of renewable energy in general is good for economic development. After taxes, expenditures for energy represent the largest flow of money out of a community. If we were able to keep that money within our communities, it would circulate and contribute to local wages and employment.

RE: HOUSE BILL 264

DEAR COMMITTEE MEMBERS-

THE MISSOULA VALLEY ENERGY CONSERVATION BOARD WOULD LIKE TO GO ON RECORD AS BEING GENERALLY SUPPORTIVE OF HOUSE BILL 264. OUR RESERVATIONS ARE NOT WHETHER THE CREDITS SHOULD BE EXTENDED IN TIME BUT RATHER WITH THE AMOUNT OF THE CREDITS AVAILABLE. IN TALKING WITH VARIOUS RETAILERS AND INSTALLERS OF ALTERNATIVE ENERGY EQUIPMENT WE HAVE CONCLUDED THAT, IN ORDER FOR THE CREDITS TO WORK AS A MORE POSITIVE INCENTIVE TO THE PURCHASE OF SUCH EQUIPMENT, THE CREDITS SHOULD BE MUCH LARGER. A MINIMUM SHOULD BE 10% ON THE FIRST \$2000 AND 5% ON THE NEXT \$3000 IRREGARDLESS OF THE FEDERAL CREDITS. IF THIS IS NOT FEASIBLE OR POSSIBLE, WE WOULD AT LEAST LIKE TO SEE THEM MAINTAINED FOR THE SIMPLE REASON THAT IT LETS PEOPLE KNOW THAT MONTANA IS SUPPORTIVE OF RENEWABLE ENERGY PRODUCTION AND IS WILLING TO BACK THAT SUPPORT WITH FINANCIAL INCENTIVES.

THANK YOU



GARY DECKER, PRESIDENT
MISSOULA VALLEY ENERGY CONSERVATION BOARD

WITNESS STATEMENT

Name Thomas Hedron Committee On Taxation
Address Box 6037 Wolf Point Mont. Date 1-20-83
Representing Personal Farming Support H-B, 261
Bill No. H.B. 261 Oppose _____
Amend _____

AFTER TESTIFYING, PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

1. I keep a mileage record of each vehicle each year. as of old 1955 Chevy Truck used for spraying weed in my fields in the summer and
2. hauling logs to the lake in winter averages less than 150 miles per year. Taking this with a license fee I don't
3. believe is at all fair compared to a vehicle that drives the state highways daily.
- 4.

Itemize the main argument or points of your testimony. This will assist the committee secretary with her minutes.

WITNESS STATEMENT

Name Karen Strickler Committee On Taxation
Address 1500 Jerome Pl. Date 1-21-83
Representing LWV Support X
Bill No. 264 Oppose _____
Amend _____

AFTER TESTIFYING, PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

1. The League of Women Voters has had a position favoring transition to alternative energy sources since 1970.
2. We favor tax incentives as one method of promoting the use of alternative energy sources.

3.

4.

Itemize the main argument or points of your testimony. This will assist the committee secretary with her minutes.

WITNESS STATEMENT

Name Leo BERRY Committee On _____
Address _____ Date _____
Representing DNRC Support X
Bill No. 264 Oppose _____
Amend _____

AFTER TESTIFYING, PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

- 1.

- 2.

- 3.

- 4.

Itemize the main argument or points of your testimony. This will assist the committee secretary with her minutes.

STANDING COMMITTEE REPORT

Page 1 of 2

February 3, 19 83

MR. **SPEAKER:**

We, your committee on **TAXATION**

having had under consideration **HOUSE** Bill No. **261**

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A BILL FOR AN ACT ENTITLED: "AN ACT TO PROVIDE THAT LICENSE FEES OR PROPERTY TAXES MAY NOT BE ASSESSED AGAINST MOTOR VEHICLES FOR YEARS IN WHICH THEY ARE NOT OPERATED ON THE HIGHWAYS OF THE STATE; PROVIDING A PENALTY; AMENDING SECTIONS 61-3-303 AND 61-3-304, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE."

Respectfully report as follows: That **HOUSE** Bill No. **261**
be amended as follows:

1. Title, line 5.
Following: "AGAINST"
Insert: "CERTAIN"
2. Page 2, line 12.
Following: "(2)"
Strike: "A"
Insert: "Except as provided in [section 3], a"
3. Page 2, lines 19 and 20.
Following: "assessed" on line 19
Strike: line 19 through "registration" on line 20

~~XXXXXX~~
50 PASS

February 3, 1923

4. Page 2, lines 23 and 24.

Following: "61-3-532" on line 23

Strike: line 23 through "registration" on line 24

5. Page 3, line 5 through line 8.

Following: "." on line 5

Strike: line 5 through line 8 in their entirety

6. Page 4, line 7.

Following: line 6

Insert: NEW SECTION. Section 3. Certain vehicles exempted from taxes and fees - when. The county treasurer may not assess or collect taxes or fees, other than the new motor vehicle sales tax, for a taxable period when a vehicle was not registered or operated on the highways of the state if:

(1) the owner of the vehicle is:

(a) a Montana resident, a member of the regular armed forces of the United States and is on active duty outside of the state;

(b) an unemployed resident of Montana who has left the county to seek employment; and

(2) the vehicle has been in storage for the entire taxable period and the owner provides the affidavit required in 61-3-304.

NEW SECTION. Section 4. Codification instruction.

Section 3 is intended to be codified as an integral part of Title 61, chapter 3, part 5, and the provisions of Title 61, chapter 3, part 5 apply to section 3."

Renumber: subsequent section

AND AS AMENDED
DO NOT PASS

STANDING COMMITTEE REPORT

January 26,

1983

MR. SPEAKER:

We, your committee on TAXATION

having had under consideration HOUSE Bill No. 264

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A BILL FOR AN ACT ENTITLED: "AN ACT TO RENEW THE TAX CREDIT
FOR INSTALLING ALTERNATIVE ENERGY SYSTEMS; AMENDING SECTION
15-32-201, MCA; AND PROVIDING AN APPLICABILITY DATE."

Respectfully report as follows: That HOUSE Bill No. 264

DO PASS