

**NORTH CAROLINA GENERAL ASSEMBLY  
LEGISLATIVE FISCAL NOTE**

**BILL NUMBER:** HB 1473 (REVISED Senate Finance Committee Substitute)

**SHORT TITLE:** Renewable Energy Manufacturer Credit

**SPONSOR(S):** Senate Finance Committee Substitute

**FISCAL IMPACT**

Yes (X)      No ( )      No Estimate Available ( )

FY 1999-00    FY 2000-01    FY 2001-02    FY 2002-03    FY 2003-04

**REVENUES**

**GENERAL FUND**

Energy Mfr. Credit

No estimate available

State Gross Receipts Tax

Redistribution of tax proceeds among cities

**PRINCIPAL DEPARTMENT(S) &**

**PROGRAM(S) AFFECTED:** Department of Revenue

**EFFECTIVE DATE:** Sections 1 and 2 (tax credit) of this act are effective for taxable years beginning on or after January 1, 2000. The franchise tax distribution change becomes effective for distributions taking place on or after October 1, 2000.

**BILL SUMMARY:**

**Renewable Energy Credits.** Replaces the corporate tax credit for constructing a photovoltaic (PV) equipment facility with a corporate tax credit for constructing a renewable energy equipment facility. The tax credit is taken in five equal installments over five years. Unused tax credits have a 10 year carryforward. No taxpayer may receive more than one tax credit for this type of facility.

**Franchise Tax Distribution.** Makes a slight modification to the distribution of the State franchise tax on utility gross receipts that is shared with cities.

**BACKGROUND:**

**Franchise Tax Distribution.** Under the \$1.2 billion State budget fix in 1991, the State eliminated the future growth to cities of this shared revenue. When the 1993 General Assembly restored growth, effective beginning with 1995-96, it was decided that the State would "holdback" an amount equal to the growth of the distribution base from 1990-91 to 1994-95 as the contribution of each city to the State's budget problems.

After growth was restored in 1995-96, it was discovered that some cities received less net distribution than in 1990-91, the last year prior to the "growth freeze". The reason had to do with

the fact that in a handful of cities the source of the 1990-91 to 1994-95 growth had disappeared. A good example is the town of Denton in which an apparel manufacturing plant that had come on line during the freeze period had closed down. This meant that Denton was being penalized for a distribution holdback that came from a plant that was no longer part of the franchise tax base.

The 1997 General Assembly modified the holdback to try to hold harmless 41 cities to approximately the 1990-91 distribution level. After the law was enacted the Town of Denton discovered that because the apparel manufacturing plant had not fully closed by 1995-96, the use of that year as the calculation base meant that the Town was still facing a substantial distribution loss, when compared to 1990-91.

**This bill adjusts the 1997 holdback fix by replacing the 1995-96 fiscal year with 1998-99 to calculate the hold harmless provision.**

#### **ASSUMPTIONS AND METHODOLOGY:**

##### **Energy Tax Credit**

The current corporate income tax credit for constructing photovoltaic manufacturing facilities has not been used since it was created in 1981. The Department of Revenue reported no usage of the credit from 1981 to 1987. After 1987, no separate accounting was done for each energy credit. Officials with the North Carolina Solar Center and the North Carolina Solar Energy Association do not recall this credit ever being used. These solar energy advocates believe the existing law's 5-year carry forward period is too short for new companies to show a profit and benefit from the tax incentive. The credit in HB 1473 lengthens the carry forward period from 5 to 10 years and expands credit eligibility to include biomass and wind energy equipment.

This fiscal note cannot predict the number of firms that will apply for this revised corporate tax credit nor the amount of credit to be requested. However, if only one firm applies for the credit, there will be a General Fund revenue loss due to the absence of applicants for the current tax credit program. The Chief of the Renewable Energy Branch of the U.S. Department of Energy (DOE) believes North Carolina is a good candidate for a small photovoltaic (PV) company using specialized technology and for a biomass equipment company working with the wood products industry. An example of a small PV company is Atlantis Energy, which built a \$1.5 million plant in Cape Charles Virginia in 1995 to produce custom designed PV modules. A biomass equipment plant might be attracted to the North Carolina wood products industry, that produced 1,730 million kilowatt hours of energy from wood and wood waste in 1995. (DOE/Energy Information Administration)

The Chief of the DOE Renewable Energy Branch believes that manufacturers of photovoltaic (PV) and biomass equipment will expand production capacity over the next five years. The Million Solar Roofs Initiative that DOE began in 1997 aims to install a million solar energy systems on one million U.S. buildings by the year 2010. Since 64% of the shipments from the nation's 24 manufacturers of PV cells and modules (DOE 1995 estimate) are exported, an increase in domestic demand should prompt an expansion of PV plant capacity.

**Franchise Tax Distribution**

Based on actual tax base, holdback, and distribution data from the Department of Revenue, it is estimated that in future years the Town of Denton will receive an additional \$14,000 per year. There is no State budget impact because the Denton funds will come from a pro rata reduction in the distribution of other cites.

**FISCAL RESEARCH DIVISION 733-4910**

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