



Arizona State Senate Issue Brief

August 3, 2018

Note to Reader:

The Senate Research Staff provides nonpartisan, objective legislative research, policy analysis and related assistance to the members of the Arizona State Senate. The *Research Briefs* series is intended to introduce a reader to various legislatively related issues and provide useful resources to assist the reader in learning more on a given topic. Because of frequent legislative and executive activity, topics may undergo frequent changes. Nothing in the Brief should be used to draw conclusions on the legality of an issue.

TAX INCENTIVES FOR RENEWABLE ENERGY

Arizona offers a variety of tax incentives for individuals and businesses for the manufacturing and use of renewable energy products. These tax incentives may be in the form of exemptions from Transaction Privilege Tax (TPT) as well as reductions in the amount of income and property taxes owed to the state.

TPT EXEMPTIONS

Solar Energy Devices

Solar energy devices were first provided a TPT exemption in the retail classification by Laws 1977, Chapter 42. This exemption was scheduled to expire January 1, 1985, but was repealed by Laws 1984, Chapter 134.

Laws 1991, Chapter 176 created an exemption from the retail classification of TPT for solar energy devices of up to \$5,000 per device sold by a solar energy retailer registered with the Arizona Department of Revenue (ADOR). The exemption was originally scheduled to expire on January 1, 1997; but was made permanent by Laws 1996, Chapter 322. In 2000, the Legislature retroactively expanded the exemption to prime contractors who supply and install a solar energy device. Laws 2006, Chapter 333 eliminated the \$5,000 cap on the TPT exemptions under both the retail and prime contracting classifications.

PROPERTY TAX EXEMPTIONS

Solar Energy Devices

Laws 2006, Chapter 333 provided a property tax exemption for qualifying solar energy devices and for any other device or system designed for the production of solar energy for on-site consumption. For property tax assessment purposes, these devices are considered to add no value to the property. Laws 2009, Chapter 101 expanded the exemption to include energy efficient building components, renewable energy equipment and combined heat and power systems.

Renewable Energy Equipment

Laws 2000, Chapter 214 provided for reduced property taxes for renewable energy equipment by valuing the equipment at 20 percent of its depreciated cost. The reduced valuation is available to entities that generate, transmit or distribute renewable energy not intended for self-consumption. Originally set to expire in 2011, Laws 2008, Chapter 306, extended the effect of these provisions through December 31, 2040.

Arizona Renewable Energy Tax Incentive Program: Property Tax Reduction

Laws 2009, Chapter 96 established the Arizona Renewable Energy Tax Incentive Program which offers a real and personal property tax reduction. In order to receive the reduction, a business must make a capital investment of \$25 million or more, including expenditures in facilities, equipment, land and infrastructure. All qualifying properties are placed in Class Six. The property reclassification is limited to either 10 years or 15 years, depending on the amount of high-paying jobs produced:

- 10 years of property tax savings, if at least 51 percent of the net new full-time employment (FTE) positions are paid between 125 percent and 199 percent of the state's annual median wage; or
- 15 years of property tax savings, if at least 51 percent of the net new FTE positions are paid at least 200 percent of the state's annual median wage.

There is no limitation on the amount of property tax savings to a qualified business. Nor is there a limit on the total amount of property tax savings available in any calendar year. However, the last year for new properties to be reclassified to Class Six under this program is tax year 2019.

The company claiming the credits must operate in Arizona for a minimum of 10 years

after receiving approval for participating in the tax credit program. The program is administered by the Arizona Commerce Authority (ACA) in cooperation with ADOR.

INCOME TAX INCENTIVES

Conversion of a Wood Stove to a Qualifying Wood Stove, Fireplace, or Gas Fireplace

In 1993, as part of legislation to comply with the air quality control measures of the 1990 Clean Air Act, the Legislature enacted an incentive that allows Arizona taxpayers to deduct the cost of converting an existing wood fireplace to a qualifying wood stove, wood fireplace or gas-fired fireplace. The cost to purchase and install all necessary equipment is tax deductible, up to a maximum of \$500. Qualifying wood stoves must meet the standards of performance for new wood heaters manufactured after July 1990, or sold after July 1992, pursuant to 40 Code of Federal Regulations part 60, subpart AAA.

Personal and Corporate Income Tax Credits for Non-Residential Solar Installations

Laws 2006, Chapter 333 established a solar energy device tax credit for solar energy devices installed in a taxpayer's trade or business located in this state for commercial or industrial purposes or any other non-residential applications through December 31, 2018. The credit is equal to ten percent of the installed cost of a solar energy device, not to exceed \$25,000 in the same building or \$50,000 in total in any year. The tax credit is non-refundable; any amount that exceeds taxes due may be carried forward for up to five consecutive years. ACA administers the application and approval of the tax credit and may not issue more than \$1 million in credits in any year. A third party organization that financed, installed or manufactured a qualifying solar energy device, may be eligible to claim the tax credit if the taxpayer or a tax-exempt entity that would otherwise qualify for the credit, transfers the credit to the third party organization.

Personal Income Tax Credit for Residential Solar Installations

Arizona offers individual taxpayers a tax credit for installing a solar energy device in the taxpayer's residence located in Arizona. The allowable solar energy credit is equal to 25 percent of the cost of the device to a maximum of \$1,000 for all solar energy devices installed in the same residence. If the allowable credit exceeds the taxes that are due, the taxpayer may carry the credit forward for up to five consecutive years.

Arizona Renewable Energy Tax Incentive Program: Refundable Income Tax Credits

Laws 2009, Chapter 96, established the Arizona Renewable Energy Tax Incentive Program. Administered by the ACA in cooperation with ADOR, this program offers both personal and corporate income tax credits to new or expanded renewable energy manufacturing industries and/or headquarters operations in Arizona.

Eligibility: Businesses making new qualifying investments in manufacturing and/or headquarters operations in Arizona in renewable energy industries are eligible for a tax credit if they meet the following requirements:

- at least 51 percent of the net new FTE positions at the facility are paid a wage that is 125 percent or more than the state's annual median wage; and
- the company pays 80 percent of the employee's health insurance costs for all net new FTE positions at the facility.

Amount of credit available: Qualifying applicants may receive up to a 10 percent income tax credit on the company's total qualifying investment for projects that meet the following employment requirements:

- for renewable energy manufacturing operations, at least 1.5 new FTE positions created for each \$500,000 of capital investment; and
- for renewable energy business headquarters, at least one FTE position created for each \$200,000 increment of capital investment.

The income tax credits are refundable, and the taxpayer is required to claim the tax credit in five equal installments over five consecutive taxable years. The amount of the income tax credit program is capped at \$70 million per year for five years. The company claiming the credits must operate in Arizona for a minimum of 10 years after receiving approval for participating in the tax credit program. The tax credits are available through December 31, 2019.

ADDITIONAL RESOURCES

- Arizona Commerce Authority
333 North Central Avenue Suite 1900
Phoenix, Arizona 85004
602-845-1200
<http://www.azcommerce.com/>
- [DSIRE: Database of State Incentives for Renewable Energy](#)
- Income Tax Incentives Statutes:
 - ◇ A.R.S. § 41-1511 (Arizona renewable energy tax incentive program). See also A.R.S. §§ 43-1083.01 and 42-1164.01.
 - ◇ A.R.S. § 43-1027 (subtraction for cost of converting a wood fireplace)
 - ◇ A.R.S. § 43-1083 (individual tax credit for residential solar installations)
 - ◇ A.R.S. § 43-1085 (individual tax credit for commercial, industrial and non-residential solar installations)
 - ◇ A.R.S. § 43-1164 (corporate tax credit for commercial, industrial and non-residential solar installations)
- Property Tax Incentives Statutes:
 - ◇ A.R.S. § 41-1511 (Arizona renewable energy tax incentive program). See also A.R.S. § 42-12006.
 - ◇ A.R.S. § 42-11054 (exemption for solar energy devices)
 - ◇ A.R.S. § 42-14155 (reduced valuation for renewable energy equipment)
 - ◇ TPT Exemption Statutes: A.R.S. §§ 42-5001, 42-5061 and 42-5075.