

**FISCAL NOTE
PUBLIC COST**

- I. Department Title: DEPARTMENT OF REVENUE**
Division Title: Director of Revenue
Chapter Title: Sales/Use Tax - Contractors

Rule Number and Name:	12 CSR 10-112.020 Solar Photovoltaic Energy Systems Sales Tax Exemption
Type of Rulemaking:	Proposed Rule

II. SUMMARY OF FISCAL IMPACT

Affected Agency or Political Subdivision	Estimated Cost of Compliance in the Aggregate
State of Missouri –General Revenue	(\$5,549,040-\$7,420,560) annually
Dept. of Elementary & Secondary Education – School District Trust Fund	(\$1,849,680-\$2,473,520) annually
Dept. of Conservation – Conservation Commission Fund	(\$231,210-\$309,190) annually
Dept. of Natural Resources – Park, Soil & Water Funds	(\$184,968-\$247,352) annually
Local Political Subdivisions with a sales tax funds	Aggregate to all local political subdivisions with sales tax funds (\$7,454,210 to \$ 9,968,286) annually

III. WORKSHEET

IV. ASSUMPTIONS

SB 745 and SB 820 signed into law in the 2022 legislative session added a sales tax exemption to statutes in Section 144.030.2(46). The sales tax exemption is for solar photovoltaic energy systems and the purchases and materials that go with it. The exemption is only available to certain customers. This proposed rule helps clarify what materials and who can qualify for the exemption.

The Department of Revenue (DOR) had to update our computer systems, our website and our forms for this exemption. This was done using existing year end resources. No other political subdivision would have costs for implementation of this exemption.

The State sales tax is 4.225% and is distributed as shown below. The local sales tax rate used for fiscal notes is a weighted average of 4.03%.

General Revenue Fund is	3%
School District Trust Fund is	1% (Section 144.701)
Conservation Commission Fund is	.125% (Article IV, Section 43(a))

Parks, Soil & Water Funds	.1% (Article IV, Section 47(a))
Local	4.03%

A sales tax exemption would result in a loss of revenue to each of the state sales tax funds as well as to any local political subdivision with a sales tax. DOR records indicate that all 114 counties plus the City of St. Louis, 682 cities and 779 special taxing districts also have a sales tax. Each of these districts could potentially have a loss of sales tax if exempt materials were purchased in their political subdivision.

DOR calculated the impact to the state and local political subdivisions using data published by the Solar Energy Industries Association (SEIA). Missouri has 361.6MW of current solar capacity and they project another 937MW coming online in the next five years. Based on data published by the U.S. Energy Information Administration (EIA), current utility scale solar energy generation in Missouri is 120MW. Based on this information, the Department estimates that 33.2% ($120\text{MW} / 361.6\text{MW}$) of all solar energy generation in Missouri comes from a utility scale solar generation system.

DOR assumed that the projected 5-year capacity increase will be equal each year, for a total yearly increase in solar generation capacity of 187.4MW and that the 33.2% utility project proportion will remain constant over the next five years. Under these assumptions, each year's utility scale projects will add 62.2MW and residential systems will add 125.2MW in solar production capacity.

Based on additional data published by SEIA, the average cost for a utility scale solar project was \$0.82 to \$1.36 per watt, with a one MW solar farm costing between \$820,000 and \$1,360,000. Therefore, this provision could exempt \$51,004,000 (62.2MW average yearly capacity increase x \$820,000 per 1MW cost) to \$84,592,000 (62.2MW average yearly capacity increase x \$1,360,000 per 1MW cost) in taxable sales.

Based on data published by the Solar Review the average cost for a residential solar system is \$2.33 to \$2.84 per watt. However, that cost includes items (such as profit and marketing) that would not be exempt under this provision. Using additional data provided by Solar Review, it was determined that approximately 45.9% of the per watt cost is directly related to equipment used in a residential solar system. Therefore, the qualifying per watt cost for a residential system is \$1.07 to \$1.30. Therefore, this provision could exempt \$133,964,000 ($125,200,000$ watts average yearly capacity increase x \$1.07 per watt cost) to \$162,760,000 ($125,200,000$ watts average yearly capacity increase x \$1.30 per watt cost) in taxable sales.

DOR noted that solar energy systems (including utility scale) can generally be completed in less than a year. Therefore, this would result in a full year's impact starting with FY23. Based on the data found, the Department estimates that this provision could reduce general revenue by \$5,549,040 to \$7,420,560 annually and this could reduce local sales tax revenues by \$7,454,210 to \$9,968,286 annually.

Table 1: Estimated Revenue Impact

<u>State Funds</u>	Low	High
General Revenue	(\$5,549,040)	(\$7,420,560)
Education (SDTF)	(\$1,849,680)	(\$2,473,520)
Conservation	(\$231,210)	(\$309,190)
DNR	(\$184,968)	(\$247,352)
Total State Revenue Loss	(\$7,814,898)	(\$10,450,622)
<u>Local Funds</u>		
Local Sales Tax	(\$7,454,210)	(\$9,968,286)

The Department however, is unable to determine the loss per specific local political subdivision. That would be dependent on the number of these residential solar systems being installed in their political subdivision. For this fiscal note we will show the aggregate estimated loss.