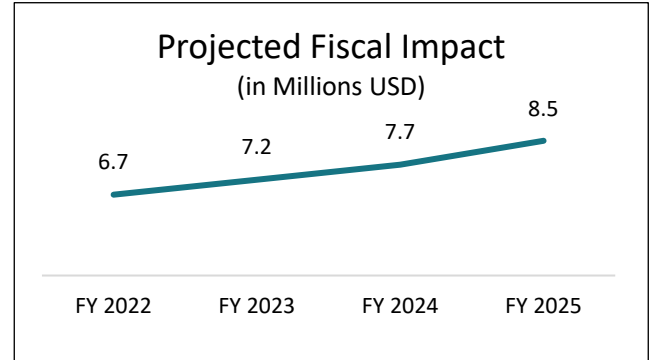


Solar Energy Systems

Tax Expenditure Initial Review - TEB 4.27

Tax Expenditure Facts

Year Enacted	2005
Statute	Minn. Stat. § 297A.67, Subd. 29
Tax Type	General Sales and Use Tax
Provision Type	Exemption - Particular Goods and Services
Latest Fiscal Impact Estimate	\$7,700,000 – Fiscal Year 2024
Latest Claims Estimate	Direct measure of this estimate not available
Expiration Date	None



Tax Expenditure Description

Solar energy systems are exempt from the sales and use tax. A solar energy system is a set of devices whose primary purpose is to collect solar energy and convert and store it for useful purposes including heating and cooling buildings or other energy-using processes, or to produce generated power by means of collecting, transferring, or converting solar-generated energy.

Additional Background Information

Individual components of a solar energy system are covered under this expenditure. A solar energy system generally includes solar thermal electric and solar photovoltaic technologies. A similar sales tax exemption for photovoltaic devices was enacted in 2001 and expired in 2005.ⁱ

Beneficiaries of the exemption on solar energy systems include all taxpayers who purchase a solar energy system, or components to solar energy system. This exemption reduces the amount of sales and use tax revenue that would otherwise be generated. General sales and use tax collections are deposited in the state General Fund except as provided in the Minnesota Constitution or Statutes 297A.94. This exemption is administered by the Department of Revenue.

Proposed Tax Expenditure Objective for Consideration

The objective of the solar energy systems general sales and use tax exemption is to incentivize and promote the implementation and utilization of solar energy systems in the state of Minnesota to achieve a greater percentage of renewable energy contributions to the state's electricity fuel generation mix.

Sources

An explicit tax expenditure objective was not identified in the legislative record.

The goals and benchmarks under Minnesota Statute 216B.1691 for renewable energy standards were considered to develop an objective for this tax expenditure. Per MS 216B.1691, subd. 2f, by 2020 at least 1.5 percent of retail electric sales to retail customers must be generated by solar energy. The statute establishes a goal that by 2030, 10 percent of retail electric sales must be generated by solar energy. The use of tax incentives is one of several state efforts to promote renewable energies. Other efforts focus on increasing supply, supporting demand, funding the development of supporting infrastructure, and funding research. Minnesota's legislative efforts in these areas are further summarized by the Minnesota House Research Department's 2005 Short Subjects brief, [Minnesota Statutes Promoting Renewable Sources of Electricity](#).ⁱⁱ

Nineteen separate states and U.S. territories have implemented a sales tax exemption to promote the use of solar energy across residential use, commercial use, and utility providers.ⁱⁱⁱ This includes the states bordering Minnesota. At the federal level, a nonrefundable tax credit is available for homeowners that install certain energy efficient technologies.

Potential Metrics and Performance Measures

An analysis of the program's participation by submission of exemption certificates may identify trends in uptake of the tax incentive.^{iv}

A review of the state's solar capacity over time categorized by sector contribution (residential, commercial, community, and utility) may identify increases in implementation of solar energy systems. An analysis of the geographical distribution of solar energy systems throughout the state may indicate variance in the utilization of solar energy systems by region.

A review of solar energy projects permitted by the Minnesota Department of Commerce may provide further insights into trends in solar energy implementation and utilization.

A comprehensive report to analyze the state's solar potential was prepared for the Department of Commerce and The Minnesota Solar Pathways Project in 2018.^v This report may be referenced to consider alternatives to assess the state's solar potential and the relationship to the solar energy systems tax exemption.

Contact Information and Disclaimer

This tax expenditure review was prepared by the Legislative Budget Office for the Tax Expenditure Review Commission pursuant to [Minnesota Statute 3.8855](#).

Notice: Proposed tax expenditure objective statements are not binding authority and should not be used as a legal interpretation of any tax expenditure statute.

For questions regarding this review, please contact the Legislative Budget Office at 651-297-7146 or lbo@lbo.mn.gov.

For more information, please visit the [Tax Expenditure Review Commission website](#).

ⁱ Laws of Minnesota 2001, chapter 5, article 12, section 44.

ⁱⁱ Elef, B. (2005, December). Minnesota Statutes Renewable Sources of Electricity. St. Paul: Research Department of the Minnesota House of Representatives, <https://www.house.leg.state.mn.us/hrd/pubs/ss/ssrnegst.pdf>.

ⁱⁱⁱ Programs. (2022, September). Retrieved from Database of State Incentives for Renewables and Efficiency (DSIRE): <https://programs.dsireusa.org/system/program>.

^{iv} Minnesota Department of Revenue. (2019, July). Form ST3, Certificate of Exemption.

^v Putnam, M; Perez, M. (2018). Solar Potential Analysis Report. Napa: Clean Power Research.