

Utility-Scale Solar Machinery & Tool Tax Exemption

VACo Economic Development & Planning Committee

November 10, 2019

Joe Lerch, AICP

Director of Local Government Policy

Virginia Association of Counties



State-mandated Exemption for Machinery & Tool Tax (M&T)

100% exemptions for:

- 20MW or less (interconnection request filed on or before 12-31-2018);
- 20MW or less that serve public or private colleges; and
- 5MW or less (interconnection request is filed on or after 1-1-2019).

80% exemptions for:

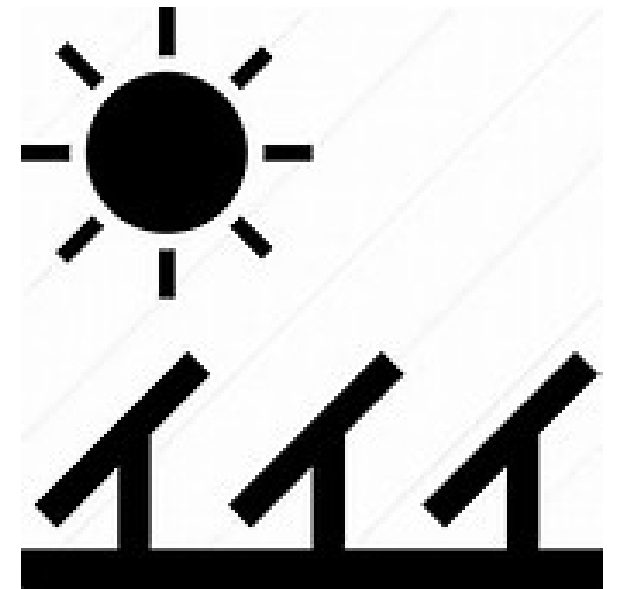
- Projects greater than 20MW (interconnection requested filed before 7-1-2018)
- Greater than 20MW and less than 150MW (interconnection request was filed after 7-1-2018);

Local Option for 150MW and above

Exemption for 20MW-150MW sunsets January 1, 2024

Impact of Applicable Local Government Taxes on Utility Scale Solar

- M&T Tax exemption does not apply to the real estate – potential offset for loss in M&T revenue;
- Nuance in application of M&T – projects greater than 25 MW then are taxed at the applicable real estate rate. In most counties the result is significantly less revenue over the life of a project;
- Rollback taxes on real estate due on land no longer eligible for use valuation (farmland, timber); and
- Real estate currently assessed under agricultural use designation will change to industrial/commercial use designation.



Impact of Applicable Local Government Taxes (cont.)

Depreciation schedule for value of utility-scale solar equipment

- Virginia State Corporation Commission (SCC) Public Service Taxation Division developed a depreciation schedule for the fair market value (FMV) of utility-scale solar equipment (above 25 MW);
- Years 1 through 5 the taxable FMV is 90% of original capitalized costs; and
- Percentage of taxable FMV declines steadily years 6 through 23, and reaches a floor of 10% in year 24 and beyond.

By comparison, solar panel efficiency declines at a rate of less than 1% per year. Therefore, the SCC depreciation schedule underestimates the commercial value of solar panels over time.

Maryland-DC-Delaware-Virginia Solar Energy Industries Association (MDV-SEIA)

Industry legislative proposals to amend the mandatory M&T exemption

1. Mandate a 100% exemption for solar equipment and provide local option to tax solar energy production (e.g. energy tax); OR
2. Provide a minimal reduction in the mandatory exemption for solar equipment while at the same time eliminating the 2024 sunset provision for projects 20 MW or greater, thereby establishing this property tax exemption in perpetuity.
3. Create an additional conditional zoning process specifically for utility-scale energy projects that will place limits on what a locality may require under current law.

VACo Analysis of Industry Tax Proposals

Energy Tax Proposal

- Removes the sunset provision for projects in the 20 MW – 150 MW range;
- Mandates a 100% exemption on all (including 150 MW and greater) projects greater than 5 MW; and
- Creates a new local option revenue tax of \$0.45 per megawatt hour (MWh) produced by any project greater than 5 MW.

VACo Analysis of Industry Tax Proposals (cont.)

Reduction in Mandatory M&T Exemption

- Removes the sunset provision for projects in the 20 MW – 150 MW range;
- Mandates an exemption on all (including 150 MW and greater) projects greater than 5 MW; and
- Reduces the mandatory exemption of 80% under the following schedule:
 - 80% exemption for the first 5 years of operation;
 - 70% exemption for years 6-10; and
 - 60% exemption for years 11 and beyond.

VACo Concerns with industry proposals

- Removal of the sunset provision further erodes local revenue authority and unduly burdens counties with a state-mandated tax incentive;
- The law currently allows counties, at their discretion, to provide a tax incentive for these larger installations (150 MW or greater). Extension of the mandatory tax exemption to these projects removes this discretionary authority;
- Key assumptions of the model to generate tax through energy production overestimate the relative revenue over the life of a project; and
- A separate enabling statute for conditional zoning for utility-scale solar projects will significantly alter the review process for these projects and place limits on what a locality may consider as conditions for approval when reviewing an application.

Draft Legislative Position

VACo supports returning the authority to counties to determine local tax incentives for utility-scale solar installations and opposes any expansion or extension of the state-mandated tax exemption on local property taxes for solar equipment. Additionally, VACo opposes changes to local authority to address impacts associated with utility-scale solar projects.

