

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 2918 – SB 3335

February 20, 2012

SUMMARY OF BILL: Authorizes a refund of state and local sales tax to certain individuals and businesses that paid sales tax to one or more retailers on qualified purchases of geothermal supplies or geothermal heat pump systems having a cost per item of \$3,200 or less. Defines “geothermal supplies” and “geothermal pump system”. Caps the total refund due any claimant at \$2,500 when the qualified purchases are related to a residence and at \$4,500 when the qualified purchases are related to a commercial building. Establishes application procedures for potential claimants. Requires the Department of Revenue (DOR) to establish guidelines concerning administration. Authorizes DOR to assess civil penalties up to \$25,000 against any claimant that knowingly files a false or fraudulent application.

ESTIMATED FISCAL IMPACT:

**Increase State Expenditures – \$9,600/One-Time
\$1,605,300/Recurring**

Assumptions:

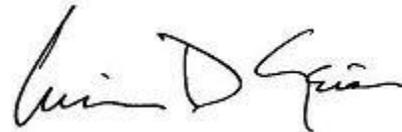
- According to the Energy Information Administration (EIA), there were 115,442 geothermal heat pump shipments made in the United States during 2009.
- Based on EIA data, geothermal heat pump shipments increased by an annualized rate of 13.97 percent from 2000 through 2009.
- Geothermal heat pump shipments to Tennessee are estimated to be two percent of national shipments.
- Assuming three years of growth since 2009, an annual rate of 13.97 percent, the number of geothermal heat pump shipments to Tennessee for FY12-13 is estimated to be 3,418 $[(115,442 \times 113.97\% \times 113.97\% \times 113.97\%) \times 2.0\%]$. This number is assumed to remain constant in subsequent years under current law.
- One hundred percent of geothermal heat pumps shipped to Tennessee will be installed in Tennessee residences or commercial buildings.
- Based on research conducted by Fiscal Review Committee staff, total costs for installing a geothermal heating system (prior to any tax, but including costs for materials, supplies, equipment, parts, labor, etc.) can range from \$9,000 to \$25,000. The average total cost is reasonably estimated to be \$15,000.

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- Labor represents 40 percent of average total costs (approximately \$6,000); the remaining 60 percent represents non-labor costs (approximately \$9,000).
- One hundred percent of non-labor costs related to installing geothermal heat pump systems are considered sales-taxable under current law.
- Fifty percent of non-labor costs (or \$4,500) is for the cost of the geothermal heat pump unit, which exceeds the price threshold for any one item established in this bill.
- The portion of average total costs for which a refund of state and local sales tax will be applicable is estimated to be \$4,500 (\$15,000 average total cost - \$6,000 labor - \$4,500 heat pump unit).
- The current state sales tax rate is 7.0 percent; the local option sales tax rate is estimated to be 2.5 percent.
- Assuming \$4,500 of average total costs for which a refund of state and local sales tax is applicable, the average amount of state sales tax paid under current law is estimated to be \$315.00 (\$4,500 x 7.0%); the average amount of local option sales tax paid under current law is estimated to be \$112.50 (\$4,500 x 2.5%). Therefore, the average total of sales tax (state and local) paid under current law is estimated to be \$427.50 (\$315.00 + \$112.50).
- All refund payments issued to claimants will be paid from the General Fund.
- The recurring increase in state expenditures from the General Fund is estimated to be \$1,461,195 (3,418 systems x \$427.50 tax).
- The number of civil penalties assessed by DOR for reporting of false information is estimated to be not significant; therefore, any increase in state revenue from civil penalties is estimated to be not significant.
- Based on information provided by DOR, the Department will require two additional positions to process and administer refund payments to approximately 3,000 claimants per year. The recurring increase in state expenditures associated with the positions is estimated to be \$144,100 (\$86,600 salaries; \$29,700 benefits; and \$27,800 other). One-time state expenditures associated with the positions are estimated to be \$9,600 (computers and software).
- The total recurring increase in state expenditures as a result of the bill is estimated to be \$1,605,295 (\$1,461,195 + \$144,100).

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Lucian D. Geise, Executive Director

/rnc