Arizona State Tax Incentives Encouraging Electricity Generation from Renewable Energy Sources & Impacting Renewable Energy Demand

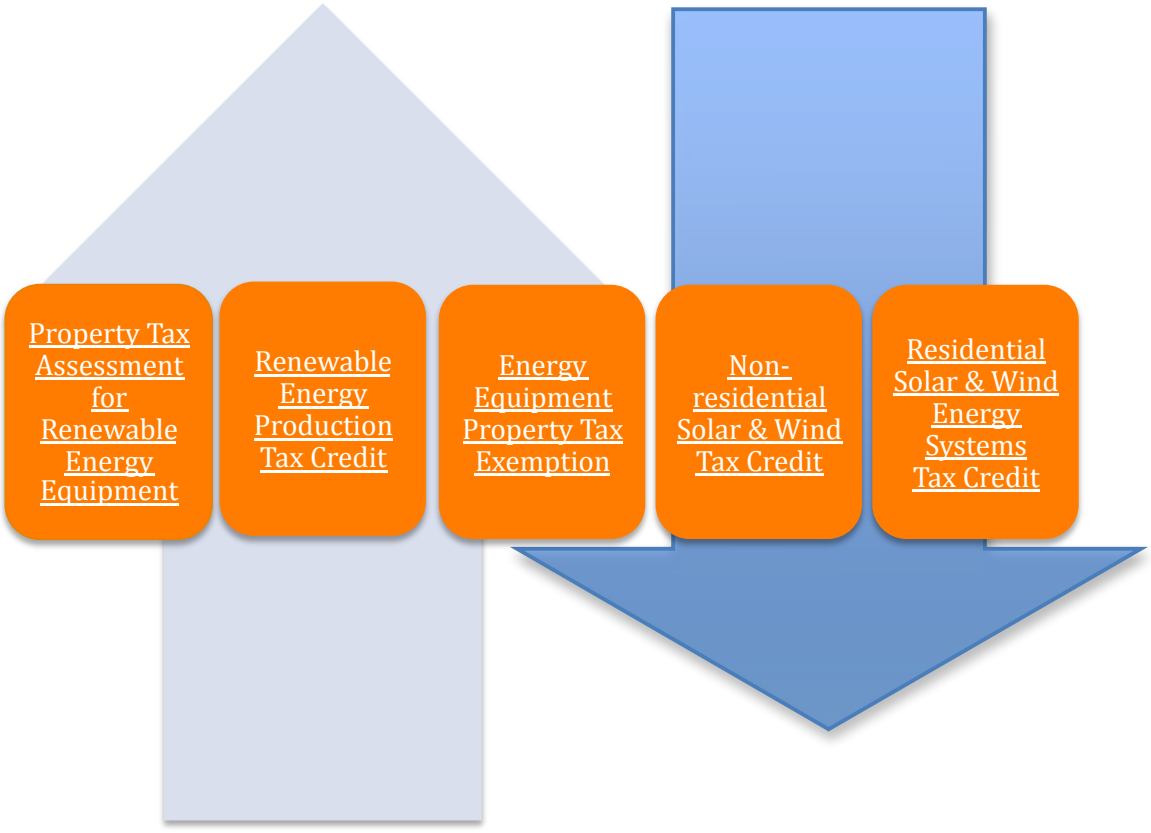
The Essentials:

- The Arizona state tax code provides incentives for the generation of electricity from utilities, corporations and residences.
- These incentives are in the form of two property tax valuation adjustment policies and three tax credits
- In addition, the code encourages a decrease in overall electricity demand by encouraging adoption of energy efficiency measures such as passive solar systems, insulation, and double-pane windows.

Policy details

Arizona uses its tax code to impact both supply and demand of electricity generated by renewable energy sources. It influences supply primarily through decreased taxes for renewable energy generators, either through lower property assessments or through tax credits. Arizona's tax code also encourages adoption of energy efficiency measures to decrease overall electricity demand.

STATE TAX POLICIES DRIVING RENEWABLE ENERGY GENERATION & DEMAND:



SUPPLY

Property Tax Assessment for Renewable Energy Equipment (see A.R.S. §42-14155)
Encourages utilities and other electricity generators, transmitters and distributors to invest in non-petroleum based energy sources, including biomass and hydropower plants.

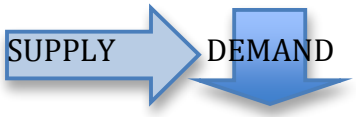
- Enacted April 2000. Expires December 2040.
- Renewable energy equipment prices generally decrease over time through improved technology, economies of scale, and installation efficiencies. Utilities and other energy generators are reluctant to purchase equipment that will likely cost less the next year. This policy encourages energy generators, transmitters and distributors to purchase renewable energy equipment now by off-setting the expected cost depreciation through lower property tax assessment valuation at 20% of the depreciated cost of the renewable energy equipment. This assessment adjustment is solely for energy generation not intended for use on-site.
- For instance, if a solar panel development installed in 2009 at a cost of $10 million depreciated to $9 million by 2010, the property tax assessment is based on a $1.8 million property value. However, this calculation only applies if the Renewable Energy Tax Incentive Program (RETIP) does not apply to the project. The RETIP reclassifies the property and lowers the assessment ratio to 5%. Applicants must receive post-approval for RETIP from the Arizona Commerce Authority, and can only apply if they expended at least $25 million.

SUPPLY

Renewable Energy Production Tax Credit (Corporate & Personal) (See A.R.S. §43-1083.02)
Encourages installation of non-residential distributed generation renewable energy technologies

- Enacted December 2010. Expires December 2020.
- This policy establishes a tax credit of up to $2 million for electricity produced by qualified renewable energy systems. The credit is based on a set kWh price for a 10-year period.
    - Qualified renewable energy systems include the following types of systems of a size that can generate at least 5 MW
        - The solar thermal electric and photovoltaics tax credit depends on a pricing schedule. The first year a claimant can claim a

credit of $0.04 per kWh. By the tenth year the credit decreases to $0.01 per kWh.
    - The wind, landfill gas/biomass systems tax credit is $0.01 per kWh each year of the 10-year period.
- There is an annual program cap of $20 million. The first application round was in January 2012; five applications were submitted and approved for a total of $1.3 million.



Energy Equipment Property Tax Exemption (see A.R.S. §42-11054)
Attracts business investment in energy efficiency and renewable energy systems

- Enacted June 2006. Does not expire.
- This policy lowers tax rates by excluding the following items from property value tax assessments by up to 100% of increased value:
    - Solar energy devices & other renewable energy technologies. Solar and renewable energy equipment is defined as equipment that is used to produce energy primarily for on-site consumption from renewable resources.
    - Combined heat and power systems
    - Energy efficient building components that meet or exceed the efficiencies prescribed by the EPA Energy Star Program, LEED green building rating standards, or equivalent green building standards that are at least 15% more efficient than the International Energy Conservation Code in effect at the time of building permit issuance. For examples, high-performance glass in windows that enhance rooms through natural light while also decreasing excess solar radiation and glare could qualify.

Non-residential Solar & Wind Tax Credit (Corporate & Personal) (see A.R.S. §§43-1085; 4301164; 41-1510.01)
Encourages installation of non-residential distributed generation renewable energy technologies

- Enacted January 2006. Expires December 2018.
- This tax credit is similar to §43-1083.02, but in addition to encouraging the non-residential adoption of active power generating systems it encourages the incorporation of passive energy systems. The tax credit is attached to the installation cost as opposed to §43-1083.02's kWh production schedule.

- This policy incentivizes businesses, schools, and other non-residential building occupants to install distributed generation systems by allowing these organizations to claim a one-time corporate or personal tax credit for 10% of the equipment's installed cost.
    - A solar energy device is "a system or series of mechanisms designed primarily to provide heating, to provide cooling, to produce electrical power, to produce mechanical power, to provide solar daylighting or to provide any combination of the foregoing by means of collecting and transferring solar generated energy into such uses either by active or passive means, including wind generator systems that produce electricity. Solar energy systems may also have the capability of storing solar energy for future use. Passive systems shall clearly be designed as a solar energy device, such as a trombe wall, and not merely as a part of a normal structure, such as a window."
    - There is a $25,000 cap for each building per year and a $50,000 cap per year for each business claiming the credit.
    - The credit can be carried over for up to 5 consecutive taxable years (which may be useful in the event the credit exceeds the claimant's tax liability for that year).

Residential Solar and Wind Energy Systems Tax Credit (See A.R.S. §43-1083)
Incentivizes installation of residential renewable energy systems and energy efficiency measures

- Enacted January 1995. Does not expire.
- This policy supports homeowners who want to install certain solar, wind and energy efficiency systems in their homes by allowing a maximum $1,000 tax credit for each household.
- A household may qualify for the tax credit if they install
    - Active renewable energy systems, including: solar domestic water heating systems, solar swimming pool and spa systems, photovoltaic phones and street lights, wind turbines and wind-powered pumps
    - Passive energy systems, including: trombe walls, thermal mass, solar daylighting systems (not including conventional skylights).

Read more
Database of state incentives for renewables and efficiency: **DSIRE.org**

- A comprehensive, state-by-state website detailing tax and other financing incentives for renewable and efficiency projects. Created and managed by North Carolina Solar Center and the Interstate Renewable Energy Council (IREC)

Contact information

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