NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: Senate Bill 716 (D)
SHORT TITLE: Cogenerating Power Tax Credit
SPONSOR(S): Proposed Committee Substitute

FISCAL IMPACT: **Expenditures: Increase ( ) Decrease ( )**
REVENUES: Increase ( ) DECREASE (X)
No Impact ( )
No Estimate Available ( )

FUNDS AFFECTED: General Fund (X) Highway Fund ( ) Local Fund ( )
Other Fund ( )

BILL SUMMARY
Amends G.S. 105-130.25 to allow each partner of a partnership the same income tax credit allowed corporations for the purchase and installation of electrical and or mechanical power generation equipment. The credit is 10% of the purchase and installation costs of the equipment. The act extends the credit to cogeneration power plants using natural gas.

The proposed legislation expands the credit by allowing the costs incurred in years before the plant became operational to be carried forward and taken into account when computing the amount of the credit for the year in which the plant began operations. The amount of the credit is limited to 10%, not to exceed 1/4 of the tax owed and may be carried forward for 10 years. The total amount of tax credits allowed to taxpayers under this section made in a calendar year may not exceed $5,000,000. The act requires that the distributive shares of the credit be determined according to the federal tax code, sections 702 and 704.

EFFECTIVE DATE: For plants using natural gas, the effective date for costs paid on or after January 1, 1998, and January 1, 1994 for all others.

PRINCIPAL DEPARTMENT(S)/PROGRAM(S) AFFECTED:
State income tax returns for those corporations and partnerships that are eligible to take the credit.

FISCAL IMPACT
Estimate

		FY 94-95	**FY** 95-96	**FY** 96-97	**FY** 97-98	**FY** 98-99
EXPENDITURES						
RECURRING	$	(275,000)	(300,000)	(525,000)	(550,000)	(800,000)

ASSUMPTIONS AND METHODOLOGY: (1) The estimate is based on the best determination of the number and costs of those plants that would be eligible to take the credit over the next five fiscal years. At least one plant expects to be eligible for the credit in FY 94-95. At least three plants have filed and received a "Certificate of Need" from the Utilities Commission" and are expecting to be operational by FY 95-96. These plants will operate primarily on natural gas and have an expected equipment cost of $2 million. It is not possible to say how many additional plants would be eligible for the credit because most corporations are reluctant to reveal their current plans for future construction due to competition reasons. For reasons stated under "TECHNICAL CONSIDERATIONS", it may be reasonable to assume that at least one taxpayer is currently taking the tax credit.

SOURCES OF DATA:
Westmoreland Energy Inc., Kentucky
Public Service Company of N.C.

TECHNICAL CONSIDERATIONS: The Department of Revenue reports that the total revenue loss from eligible taxpayers taking the allowed tax credits for a cogenerating power plant, the donation of real property to the State, and for the purchase of certain conservation tillage equipment used in a farming business did not exceed $394,000 in fiscal year 1991-92. Due to laws governing the confidentiality of taxpayers and the few taxpayers taking each of these credits the Department could not tell how much revenue is lost under separate credits.

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