



## How is Solar Taxed in Vermont

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### History:

Vermonters and the Vermont Legislature support local renewable energy for many reasons – job creation, keeping energy dollars local, stable energy costs and climate change mitigation. It is widely recognized that solar PV draws little to no state or municipal services, such as schools and transportation services. Many states, for example Connecticut, that want homeowners and businesses to “go solar,” have chosen tax exemptions for solar projects. In Vermont, solar PV are taxed generally based on Fair Market Value. Larger SPEED or utility projects are taxed differently from smaller, net-metered systems. Most net metered projects, by their nature, must have a home, business, non-profit or other institution as off-taking customers. The fact that this customer is going solar is no different from the customer investing in energy efficiency or simply utilizing less energy. In addition, the economics of these projects are different from larger PV and often customers receive a guaranteed savings, anywhere from 5% to 25% of the value. As a result, the Vermont Legislature provided a property tax exemption for small solar 50kW or less, and reduction in taxable value by the first 50kW for larger systems. This was seen as both fair to the customer and economical for tax collection.

For projects of all size, the Legislature decided to fix the tax value (rather than have it depreciate and go down over time) over 25 years. This is done utilizing .70 of the initial project value.

While many question why tax solar at all, this taxation methodology received the support of Renewable Energy Vermont, the Vermont League of Cities and Towns, the Vermont Assessors and Listers Association, and the Vermont Tax Department.

### Overview:

State Education Fund Tax: \$4 per kW for systems larger than 50 kW (AC).

Municipal tax:

- Exempts the first 50 kW of a net-metered system.
- Uses a valuation methodology by averaging the value of the system over its 25 year Sandia Modeled life. This yields a .70 value factor of initial PV Value.
- Pre-existing municipal agreements were not changed with the 2014 Law. Town have the option go beyond this statute and exempt all or part of systems. All projects retain the option to enter into agreements or seek exemptions for systems (utilizing Titles 24 and 32) and can now use this methodology as a ceiling.
- Title 32 will remove the inclusion of “1/2 acre” for exemption, making it easier for towns to exempt solar from municipal tax if they so choose.

### **Areas of clarification:**

1. The municipal tax for *non*-net metered projects (utility projects, the 2.2 MW Standard Offer projects, etc.) went up on average of \$0.20/kW per year over the 25 year tax life of the system under the new law.
2. The .70 of assessed value is not a 30% reduction in value. That 30% "reduction" was a reflection that the chosen project valuation tool by the Tax Department (Sandia National Laboratory's Solar Photovoltaic Value tool) modeled systems depreciating to \$0 in value over 25 years. Based on the modeling of the Assessors, 70% of the PV Value in Year 1 *fixed* over 25 years was determined to be fair to both the towns and solar owners over that period. That nets an average of \$0.20/kW *higher* for non-net metering than under previous law, so towns will get more tax than before.

### **How to Estimate a Municipal Tax on Solar:**

1. Deduct 50 kW from the size of the system if net-metered.
2. Enter that kW size into Sandia National Labs tool. The tool then provides the \$\$ value as determined by the Department of Energy's Sandia National Laboratory.
3. Take this value and multiple by .7. This number was identified through the modeling of the Assessors in which 70% of a PV systems Value in Year 1 *fixed* over 25 years was determined to be fair to both the towns and solar owners over that period.
4. Then take this \$ amount, divide by \$100 and multiply by the underlying local tax rate. This maintains individual towns ability to set tax rates according to their local choices - this was a key item for Vermont League of Cities and Towns.

### **Tax Department info here:**

<http://www.state.vt.us/tax/pvrsolar.shtml>

### **2014 Statute available here (solar tax language begins on page 49):**

<http://www.leg.state.vt.us/docs/2014/bills/Passed/H-884.pdf>