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S.F. No. 2026 – Temporary solar energy system credit

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This bill provides a temporary income or corporate franchise tax credit based on the purchase and installation cost of a solar energy system, effective for tax years 2021 to 2023.

Section 1. Temporary solar energy system credit.

Subd. 1. Definitions. Provides definitions applicable to the credit:

“**Business property**” means property classified as commercial-industrial, as defined in the property tax statutes.

“**Energy storage system**” means commercially available technology capable of absorbing and storing electrical energy and dispatching stored electrical energy at a later time.

“**Homestead**” means property classified as either residential or agricultural homestead, as defined in the property tax statutes.

“**Photovoltaic device**” means a system that generates electricity from sunlight, regardless of whether the device is able to store the energy produced for later use.

“**Solar energy system**” means a photovoltaic device, solar water heater, or solar thermal system installed alone or in combination or conjunction with an energy storage system.

“**Solar thermal system**” means a flat plate or evacuated tube that meets statutory solar energy system standards with a fixed orientation that collects solar energy and transfers it to a storage medium for distribution as energy to heat or cool air or water, but excluding equipment used to heat water at a residential property for domestic use if less than one-half of the energy used for that purpose is derived from the sun, or for use in a hot tub or swimming pool.

“Solar water heater” means an active, closed-loop system that pumps a nonfreezing heat-transfer fluid through a flat-plate collector that collects solar energy and a heat exchanger to heat water.

Subd. 2. Credit allowed; limitation. Allows an income or corporate franchise tax credit to taxpayers receiving electric service at retail from a municipal utility or electric cooperative that is subject to the net-metering statute, which governs how a utility must interact with an owner of an electric generating facility who is a customer connected to the utility’s system. The credit equals the lesser of:

- \$5,000 for a system installed onsite at a taxpayer’s homestead or \$20,000 for a system installed on business property; or
- a maximum allowable percentage of the purchase amount of the system according to the year the system is placed into service:
 - 2021: 15%;
 - 2022: 13%; and
 - 2023: 11%.

The credit is allocated for nonresidents or part-year residents under provisions of current law. The credit is nonrefundable but may be carried forward for up to ten years. Credits granted to a pass-through entity are passed through to partners, members, shareholders, or owners on a pro-rata basis according to their share of the entity’s assets, or as otherwise provided in an organizational document.

Subd. 3. Application. Requires taxpayers to apply for the credit as prescribed by the commissioner of revenue. Applications may not be filed until the system has been installed. A taxpayer may apply separately for a credit for a system installed at the taxpayer’s homestead and for a system on one or more properties owned by the taxpayer.

Subd. 4. Certificates; limitations. Requires the commissioner to issue credit certificates on a first come, first served basis. No more than \$5 million in credits may be issued in a taxable year, with \$2.5 million set aside for credits issued to taxpayers installing a system at their homestead. If, by September 30 of a taxable year, not all of the \$2.5 million set-aside is allocated, the remaining amount is available for allocation to other applicants. Any allocable amounts remaining after a taxable year are available for allocation in the following taxable year.