



Peter A. Cooper

*Bill Analysis*  
*Legislative Service Commission*

**H.B. 641**  
123rd General Assembly  
(As Introduced)

Rep. Hartley

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**BILL SUMMARY**

- Allows corporations and individuals to claim franchise and personal income tax credits for installing solar, wind, biomass, or hydrothermal energy systems or a system that improves energy efficiency. The credit equals 10% of the cost of a system, and is nonrefundable.
- Exempts such systems from sales and use taxation.
- Exempts such systems from property taxation to the extent they are considered real property.
- The tax credits and tax exemptions expire at the end of 2010.
- Requires the Director of Development to establish guidelines governing what constitutes a biomass energy system or energy efficient system.
- Requires the Director of Development, upon request, to determine whether a system complies with those guidelines.
- Prohibits gas companies from denying service to homes with solar energy systems and prohibits utilities from discriminating against homes using alternative energy systems in their schedules for curtailing service.

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**CONTENT AND OPERATION**

**Tax credits for alternative energy systems and efficiency improvements**

(secs. 5733.062, 5733.98, 5747.053, 5747.08, 5747.98)

The bill grants corporation franchise and personal income tax credits for corporations, other businesses, and individuals that purchase and install certain qualifying alternative energy systems or systems that improve energy efficiency of

buildings or structures. For the purposes of the tax credits, an alternative energy system includes solar, wind, hydrothermal, and biomass energy systems that satisfy guidelines established by the Director of Development (see below).

The credit equals 10% of the purchase and installation cost of the alternative system or the energy efficiency system, except that the personal income tax credit may not exceed \$1,000. The credit is nonrefundable, meaning that if the amount of the credit exceeds a taxpayer's net end-of-year tax liability, the difference is not refunded to the taxpayer. The corporation franchise tax credit cannot be carried over and applied to liability in future years; the personal income tax credit may be carried over for up to two additional years.

Taxpayers claiming the credit must certify that the system satisfies the guidelines established by the Director of Development and must certify the purchase and installation cost. The corporation franchise tax credit must be claimed in the taxable year in which the system is completely installed and placed into service; the personal income tax credit must be claimed in the following taxable year. The credit may be claimed only once for each building or structure.

If a system is installed in a building or structure owned by a partnership, the personal income tax credit is divided among the partners in proportion to their respective ownership shares in the building or structure (the total divided among the partners is subject to the \$1,000 limit). If a married couple is eligible to claim the credit and they file separate returns instead of a joint return, the credit is divided equally among the spouses.

The tax credits may be claimed for purchase and installation costs incurred from the bill's effective date through the end of 2010. These credits were available between August 14, 1979, and December 31, 1985, but they applied only to solar, wind, and hydrothermal energy systems.

### **Sales tax exemption**

(sec. 5739.02(B)(13) and (B)(27))

The bill exempts the sale of the alternative energy systems and energy efficiency systems from the sales and use taxes. To be exempted, a system must satisfy the Director of Development's guidelines. The sales are exempted from the bill's effective date through the end of 2010.

The bill also exempts components of such systems that are purchased by a construction contractor for incorporation into a building or structure. To be exempted, the contractor's purchase must be made between the bill's effective date and December 31, 2010.

Sales of wind, solar, and hydrothermal energy systems (including sales to construction contractors) were exempted from sales and use taxation between August 14, 1979, and December 31, 1985.

**Property tax exemption**

(sec. 5709.53)

The bill exempts the alternative energy systems and energy efficiency systems from property taxation to the extent the system is considered part of real property. To be exempted, a system must be completely constructed or installed between the bill's effective date and December 31, 2010.

Solar, wind, and hydrothermal energy systems were exempted from property taxation between August 14, 1979, and December 31, 1985.

**Qualifying alternative energy systems and energy efficiency systems**

(sec. 1551.20)

The bill requires the Director of Development to establish guidelines identifying the kinds of systems that constitute energy efficiency systems and solar, wind, hydrothermal, and biomass energy systems. The guidelines are to be used to determine eligibility for the tax credits and exemptions granted under the bill. Under current law the Director is required to establish such guidelines for solar, wind, and hydrothermal systems, but the requirement has effectively lapsed because the previous tax credits and exemptions expired at the end of 1985.

At the request of a person who designs, manufactures, installs, or constructs an alternative energy system or energy efficiency system, the Director must determine whether the system satisfies the guidelines and, if it does, include that system on a list of qualifying systems. If a person intends to design or install a system for the person's own use, the person may request that the Director review plans for the system to determine whether the system complies with the guidelines, and the Director must issue a compliance certificate to the person if the system does comply.

For the purposes of the bill, an energy efficiency system is a system that improves energy efficiency in a cost-efficient manner by using the most appropriate national, federal, or other standards for such products and the best practices for using technology products, or services in the context of a total facility or building. The guidelines for energy efficiency systems must indicate the product standards and practices that best promote cost-efficient energy efficiency.

A biomass energy system is a process that generates energy from fuel sources derived specifically from crop residues, or from herbaceous plants, rice hulls, corn stalks, and "energy production grown trees."

A solar or wind energy system is a method to heat or cool space, heat water, provide industrial process heating, or power through the collection, conversion, or storage of solar or wind energy. A solar energy system includes a passive solar system, but does not include any part of a conventional heating, cooling, or power system or any part of a home that only incidentally provides solar energy.

A hydrothermal energy system is a method to directly provide heating or cooling by thermal exchange with the earth, including water sources, using appropriate heat exchange equipment.

**Prohibition against denying gas service to a home with a solar system**

(sec. 4933.31)

Between August 14, 1979, and December 31, 1985, gas companies were prohibited from denying gas service to a residence that employed a solar energy heating system satisfying the Director of Development's guidelines.

The bill restores this prohibition until December 31, 2010.

**Prohibition against curtailment of utility service to homes with alternative systems**

(sec. 4933.32)

Under current law, utility companies' schedules and PUCO orders regarding the curtailment of utility service to residential customers must be applied uniformly to all residential customers and must not distinguish between residences with solar, wind, or hydrothermal energy systems and those without those systems.

The bill extends this prohibition to residences with biomass energy systems and energy efficiency systems.

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**HISTORY**

ACTION	DATE	JOURNAL ENTRY
Introduced	04-04-00	p. 1756

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