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**FISCAL IMPACT STATEMENT**

**LS 6459**

**BILL NUMBER:** HB 1934

**NOTE PREPARED:** Dec 5, 2002

**BILL AMENDED:**

**SUBJECT:** Tax Deduction for Energy Efficient Items.

**FIRST AUTHOR:** Rep. Ayres

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:**  GENERAL  
 DEDICATED  
 FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** The bill establishes an Adjusted Gross Income (AGI) Tax deduction for an individual taxpayer who purchases for personal use certain energy-efficient electrical appliances, heating and cooling products, or fuel cells. The bill makes the amount of the deduction the lesser of: (1) the cost of the purchase, delivery, and installation of one or more specified items; or (2) \$1,000. The bill also establishes requirements for claiming the deduction.

**Effective Date:** January 1, 2003 (retroactive).

**Explanation of State Expenditures:** The Department of State Revenue (DOR) would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate this deduction. These expenses presumably could be absorbed given the DOR's existing budget and resources.

**Explanation of State Revenues:** The bill would reduce state AGI Tax liabilities of individual taxpayers who purchase qualifying energy-efficient electrical appliances or heating and cooling products. The revenue loss relating to deductible costs of purchasing energy-efficient clothes washers, refrigerators, dishwashers, and room air conditioners could potentially total \$3.1 M in FY 2004 and \$2.6 M in FY 2005. Due to data limitations, potential deductible costs of purchasing other energy-efficient appliances and products (such as de-humidifiers, boilers, central air conditioners, heat pumps, furnaces, and programmable thermostats) could not be estimated. Thus, the impact of the proposed deduction could be higher.

***Background:*** The bill establishes an AGI Tax deduction equal to the lesser of: (1) the cost of the purchase, delivery, and installation of one or more qualifying energy-efficient electrical appliances or heating and

cooling products; or (2) \$1,000. The deduction must be claimed in the tax year in which the appliance or product is purchased. The appliance or product must be purchased for personal use and it must meet or exceed applicable Energy Star efficiency standards developed by the U.S. Environmental Protection Agency (EPA) and the U.S. Department of Energy (DOE). The following appliances and products are eligible for the deduction: clothes washers, refrigerators, dishwashers, room air conditioners, de-humidifiers, boilers, central air conditioners, electric air source heat pumps, furnaces, geothermal heat pumps, and programmable thermostats. The bill requires a taxpayer claiming the deduction to submit proof to the Department of State Revenue of the taxpayer's cost for the purchase, delivery, and installation of the appliances or products used to claim the deduction.

Since the deduction is effective beginning in tax year 2003, the fiscal impact would begin in FY 2004. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of this revenue is deposited in the Property Tax Replacement Fund.

The estimates shown above are based on the average price of each type of qualified Energy Star appliance, the estimated market share of each type of qualified appliance, and the estimated total number of units of each type of appliance sold in Indiana. The analysis also assumed that the bill's effective reduction in the price of qualified appliances would increase the number purchased by approximately 2% each year. This increase is in addition to the estimated growth in the market share of Energy Star appliances as a result of changes in federal standards and in manufacturing efficiencies.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** Because the proposed deduction would serve to decrease taxable income, counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) may, as a result, experience an indeterminable decrease in revenue from these taxes.

**State Agencies Affected:** Department of State Revenue.

**Local Agencies Affected:** Counties with a local option income tax.

**Information Sources:** Association of Home Appliance Manufacturers; U.S. Bureau of Labor Statistics, *Consumer Expenditure Survey*; Bill McNary, D and R International, 301-588-9387; U.S. EPA and U.S. Department of Energy, [www.energystar.gov](http://www.energystar.gov).

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