

S.F. No. 42 – Climate action tax credit (as proposed to be amended by the A-3 amendment)

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Section 1. Climate action tax credit.

Subdivisions 1 to 19 provide definitions applicable to the credit. In pertinent part:

Climate action expenditure means the sum of qualifying appliance expenditures, qualifying energy efficiency measures expenditures, and qualifying large improvement expenditures. The amount of expenditure eligible for the credit in each category is limited to \$1,000. Qualifying appliance expenditures are limited by specific amounts for each type of appliance.

Qualifying appliance expenditures means the sum of expenditures for the following appliances: electric vehicle residential charger; heat pump water heater; induction range; and smart thermostat.

Qualifying energy efficiency measure expenditures means the sum of amounts of expenditures for energy efficiency measures. “Energy efficiency measures” means:

- any insulation material, system, or component that is specifically and primarily designed to reduce the heat loss or gain of a residence in which it is installed that meets or exceeds the 2021 International Energy Conservation Code (IECC) standards; and
- any air barrier material, system, or component that is specifically and primarily designed to prevent air leakage in a resident in which it is installed that meets or exceeds the 2021 IECC standards.

Qualifying large improvement expenditures means the sum of the amount of the expenditures for the following large improvements: air-source heat pump; ductless mini-split heat pump; electrical service panel upgrade; electric vehicle; energy storage system; ground-source heat pump; photovoltaic device; and solar water heater.

Subdivision 20. Credit allowed; limitations. Allows an income tax credit equal to the amount of climate action expenditures, up to \$2,000. The amount of each category of expenditure may only be included once in the calculation of the credit. A married separate filer may not use amounts claimed by the other spouse to claim that spouse’s credit.

Subdivision 21. Credit to be refundable. Provides that the credit is refundable for residents and nonrefundable for nonresidents.

Subdivision 22. Phaseout. Provides the phaseout schedule for the credit. The maximum credit would phase out by \$1 for every \$30 of AGI over \$150,000 for married joint filers, and by \$1 for every \$15 of AGI over \$75,000 for all other filers.

Subdivision 23. Appropriation. Appropriates an amount sufficient to pay refunds for the credit.

Subdivision 24. Sunset. provides that the credit expires after tax year 2027.

Effective for taxable years beginning after December 31, 2022.