

AB 533

Water Conservation Tax Relief Legislation Helps Keep California Out of Drought

California water agencies have been tasked to make water conservation a California way of life to help mitigate future droughts. This means increasing consumer rebate programs that save water year round. **AB 533 excludes from gross income, under personal income and corporation tax laws, amounts received as rebate, voucher or other financial incentive by a local water agency for participation in water efficiency or storm water runoff improvement programs.** An exemption is necessary to develop and expand these proven water-saving programs, and also to ensure that agencies who administer them avoid having to issue burdensome 1099 tax forms to participating customers.



Consumer rebates are a proven, cost effective tool for increasing participation in water conservation and stormwater management.

For example, since 1990, The Metropolitan Water District of Southern California (MET) has invested more than \$780 million in rebates and other conservation incentives, resulting in an estimated water savings of 2.8 million acre feet, enough to provide water for nearly 9 million households. MET recently announced that it will double its conservation incentives for turf replacement and spend \$50 million on the program per year. This type of scaled-up utility investment in water rebate programs is expected to play a central role in utility efforts to meet the State's new water efficiency requirements.



Taxing water rebates is a disincentive for consumers and agencies to expand these effective programs.

The experience of California's utilities shows that fewer individuals and corporations will avail themselves of financial incentives if they are deemed to be taxable income. If rebates from water efficiency and storm water improvement programs are considered taxable income in California, cities and water agencies are required to send tax documents, i.e. 1099s, to each program participant. This creates an unnecessary administrative burden on these agencies.



Rebates provide year-round incentives to conserve water.

When the state is not faced with drought and water use restrictions, it is difficult to maintain public participation in conservation measures. Rebates provide a much needed financial incentive to conserve year-round. Reducing that incentive by making rebates taxable income would be a major disincentive for households and businesses and will undermine their success.

AB 533: Income taxes: exclusion: water efficiency and storm water runoff improvement programs.

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Background

California has a long history of enacting urban water conservation and efficiency legislation. More recently, in May 2018, SB 606 (Hertzberg) and AB 1668 (Friedman) were enacted as part of then-Governor Brown's initiative to make "Water Conservation a California Way of Life" in response to California's longest drought in history.

Utility-sponsored financial incentives, including consumer rebates, are among the most important and cost-effective tools available to local water providers to achieve water use efficiency objectives, particularly for turf replacement, irrigation controllers, leak detection devices, and other high cost water-saving options. However, the rebate funds that individuals and businesses receive in connection with these programs is taxable under state law.

Consumer rebate programs not only allow public utilities to save money while building resilience, they can also stimulate local economies and have a profound collective impact upon environmental and energy sustainability. When the state is not faced with drought conditions or water use restrictions, it is very difficult to maintain a compelling conservation message and garner consumer support. The rebate programs across the state provide a much needed incentive to conserve regardless of water supply conditions. Reducing that financial incentive by making rebates taxable income would be a major disincentive for customer participation and will undermine their success.

Summary

This bill would exclude any amount received as a rebate, voucher, or other financial incentive issued by a local water agency or supplier for expenses incurred to participate in a water efficiency or storm water improvement program from gross income for individuals and corporations.

This continued incentive will encourage future participation in these programs with the end goal of increasing water efficiency and improving storm water management in California.

Economic Impact

There is no doubt that consumer incentives have been an effective tool in advancing efficiency objectives statewide. California law permanently exempts rebates for water efficient toilets and clothes washers, certain plumbing for recycled water, and energy conservation from both personal and corporate taxes. (Cal. Rev. & Tax Code §§ 17138, 17138.1, 24308.1.) When these exclusions were enacted, the Franchise Tax Board found that they would have negligible economic impact because efficiency rebates were already treated as refunds or price adjustments for income tax purposes. Exempting financial incentives issued by a water agency for participation in a water efficiency or storm water runoff improvement programs as set out in AB 533 simply treats these programs the same as any other water or energy incentive program that is already part of California tax code.

Co-Sponsors of AB 533 (Holden)



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