Water Conservation Rebate Tax Parity

STRATEGIC PLAN REFERENCE

Policy Goal 2, Existing Water Supplies: Identify, develop, and advocate policies that will enhance and protect member water supplies and ensure that new initiatives do not adversely affect AMWUA members.

Policy Goal 3, Water Resources Stewardship: Identify, analyze, and advocate for effective and efficient water management practices to protect and enhance members’ economic prosperity.

Operational Goal 1, Education: Enhance educational and public outreach services to the AMWUA members, regional, state, and federal policy makers, water professionals, neighboring state, and the general public to advance the mission and vision of AMWUA.

SUMMARY

Since 1992, energy conservation and efficiency rebates have been exempted from federal income tax. This is not the case for water conservation and efficiency and stormwater runoff management rebates. Water utilities must issue notice of miscellaneous income (Form 1099) to customers who receive rebates in excess of $600 a year. This imposes additional administration on the utility and, more significantly, it creates a disincentive to customer participation in these programs. These rebates are not income but they simply defray upfront costs as an incentive to spur private investment in improvements to increase efficiency, reduce water demand, and improve stormwater management.

As water providers are increasingly offering rebates greater than $600 to encourage conversion to water-efficient landscapes, water harvesting, and improvements to reduce stormwater runoff, this issue has come to the fore, particularly in the western states.

In January 2016, the Internal Revenue Service and the Treasury Department confirmed that congressional action is necessary to exempt these rebates from the federal income tax. The Treasury Department has listed this change as a desired amendment in its “green book” budget request, and the Congressional Joint Tax Committee determined that the impact on the federal
budget would be negligible. Congressman Huffman (D-CA) has introduced a bill (HR4615) to address the problem. Senator Feinstein (D-CA) has also drafted a bill.

Several AMWUA members provide rebate checks to customers and must issue 1099 forms as a result (those that provide credits on water bills do not). Tucson Water is also affected and concerned. The Northern Arizona Municipal Water Users Association’s Board of Directors recently sent letters in support of HR4615 to Arizona’s congressional delegation.

At a national level, the Alliance for Water Efficiency has been championing this issue for several years and is part of a coalition that includes the Western Urban Water Coalition and water utilities. The Texas Water Foundation has issued a resolution similar to the attached draft AMWUA resolution.

AMWUA member conservation and resources staff have recommended that AMWUA support efforts to exempt these rebates from the federal income tax code. This simple, effective change will help ensure that residential customers continue to participate in municipal efforts to advance water conservation and efficiency and will create parity between energy and water conservation rebates.

AMWUA staff have drafted the attached resolution for consideration. If adopted by the Board of Directors, this resolution would be delivered to Arizona’s congressional delegation, provided to the Alliance and the national coalition advocating for this change, and distributed as otherwise appropriate to inform policymakers and others.

**RECOMMENDATION**

At its May 10, 2016 meeting, the AMWUA Management Board recommended unanimously that the AMWUA Board of Directors adopt the attached resolution.

**ATTACHMENTS**

- **Attachment A:** “Resolution of the AMWUA Board of Directors Regarding Water Conservation and Stormwater Management Rebate Tax Parity”