

POLICY BRIEF: TAXING WATER REBATES DETERS EFFICIENCY & CONSERVATION



Municipalities nationwide are creating programs to encourage property owners to install water efficiency and green infrastructure measures by providing rebates to defray costs. In most cases, these measures operate primarily to the benefit of the utility and ratepayers – as opposed to individual property owners – because they improve water management, supply reliability, and water quality.

Rebate programs have proven to be remarkably effective, but are now threatened by indications from the Internal Revenue Service (IRS) that it may be moving to treat water conservation and green infrastructure rebates as taxable income. Taxing water rebates would significantly deter property owner participation, undermining the ability of public water providers to address critical local water infrastructure challenges and to support new innovation and technology.

34 Members of Congress wrote to the IRS in December urging the agency to issue a Revenue Ruling clarifying that water efficiency and green infrastructure rebates are not taxable income. The Representatives maintain that rebates for these measures should not be taxed because:

- They effectively represent a reduction in the purchase price of water efficiency or green infrastructure installations (comparable to automobile rebates)
- They are not intended to confer a net benefit to property owners and rarely, if ever, exceed out-of-pocket installation costs
- Utilities themselves are the primary beneficiaries of efficiency and green infrastructure measures - by reducing costs and improving water management

There is no specific legal requirement that the IRS must treat water rebates as taxable income. The IRS's current position appears to be that the term "gross income" covers income from all sources and therefore could include rebates. Bi-partisan legislation to address this issue has been introduced in the House of Representatives (H.R. 4615). Nevertheless, it may be possible to resolve the matter without legislation; WaterNow Alliance has raised this issue with key water officials within the Federal Administration and is working with a coalition of water and municipal associations, nonprofit organizations and others on a resolution.