

**SUMMARY ANALYSIS OF AMENDED BILL**

Author: Berryhill/Huffman Analyst: Jennifer Bettencourt Bill Number: AB 1132  
 Related Bills: See Prior Analysis Telephone: 845-5163 Amended Date: January 15, 2008  
 Attorney: Douglas Powers Sponsor: \_\_\_\_\_

**SUBJECT:** Graywater Irrigation System Credit

- DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as amended January 15, 2008.
- AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.
- AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced February 23, 2007.
- FURTHER AMENDMENTS NECESSARY.
- DEPARTMENT POSITION CHANGED TO \_\_\_\_\_.
- REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED/AMENDED \_\_\_\_\_ STILL APPLIES.
- OTHER – See comments below.

**SUMMARY**

This bill would allow a credit for a percentage of the costs to install an irrigation system utilizing graywater.

**SUMMARY OF AMENDMENTS**

The January 15, 2008, amendments defined several terms, revised the operative dates and percentages allowed for the credit, and changed the carryover period from three to five years. As a result of the amendments, the revenue estimate provided in the analysis of the bill as introduced February 23, 2007, has been revised. In addition, the amendments resolved all but one of the "Implementation Considerations" previously discussed. The remaining consideration has been included below for convenience. Except for the "Effective/Operative Date," "This Bill," and "Economic Impact" sections provided in this analysis, the department's analysis of the bill as introduced February 23, 2007, still applies.

Board Position:	Asst. Legislative Director	Date
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<input checked="" type="checkbox"/> PENDING	Patrice Gau-Johnson	2/15/08

**EFFECTIVE/OPERATIVE DATE**

As a tax levy, this bill would be effective immediately upon enactment and operative for taxable years beginning on or after January 1, 2008, and before January 1, 2018.

**POSITION**

Pending.

**ANALYSIS**

THIS BILL

For taxable years beginning on or after January 1, 2008, and before January 1, 2018, this bill would allow an income and franchise tax credit based on an applicable percentage of the qualified costs of a qualified graywater system.

The bill would define “applicable percentage” as the following:

- 10% for a multi-family, commercial, industrial, or institutional building.
- For a single family dwelling as follows:

For a system installed on or after:	The lesser of:
January 1, 2008, and before January 1, 2013	50% or \$1,750
January 1, 2013, and before January 1, 2016	40% or \$1,400
January 1, 2016, and before January 1, 2018	20% or \$700

This bill would also define the following terms:

- “Qualified costs” would mean the cost of materials as referenced in Appendix G of the Plumbing Code, and the labor necessary to install a qualified graywater system, excluding any regulatory fees or costs for permits.
- “Graywater” would be defined by reference to the definition of that term in Section 14876 of the California Water Code, which provides that graywater means untreated wastewater that has not been contaminated by any toilet discharge or affected by infections, unhealthy bodily wastes, and does not present a threat from contamination by unhealthful processing, manufacturing, or operating wastes and includes wastewater from bathtubs, showers, bathroom washbasins, clothes washing machines, and laundry tubs, but does not include wastewater from kitchen sinks or dishwashers.
- “Qualified taxpayer” would include the person who pays the qualified costs without reimbursement of those costs.

- “Qualified graywater system” would be defined by reference to the definitions in Section 14877, 14877.2, and 14877.3 of the California Water Code, which provides that a graywater system means a system and devices attached to the plumbing system for the sanitary distribution or use of graywater. In addition, the city or county having jurisdiction over the installation determines whether the system complies with the standards they have adopted as appropriate for the local area.

This bill would allow any amount of unused credit to be carried over to the following year, and the succeeding four taxable years, until the credit is exhausted.

This credit would be repealed as of December 1, 2018.

### IMPLEMENTATION CONSIDERATION

The department has identified the following implementation concern. Department staff is available to work with the author’s office to resolve this concern and other concerns that may be identified.

The department lacks the expertise to determine whether graywater or the irrigation system utilizing graywater meets the requirements set forth in the Water Code. As a result, it would be difficult for the department to audit compliance with the graywater and irrigation system requirements for claiming this credit. Often credits requiring specialized expertise contain language that specifies an appropriate state agency for certification purposes. The author may wish to amend the bill to specify a certifying agency.

### **ECONOMIC IMPACT**

#### Revenue Estimate

Based on data and assumptions discussed below, this bill would result in the following revenue losses:

Estimated Revenue Impact of AB 1132 Effective for Tax Years BOA 1/1/2008 Assumed Enactment Date After 6/30/2008		
2008/09	2009/10	2010/11
-\$150,000	-\$500,000	-\$500,000

This estimate does not consider the possible changes in employment, personal income, or gross state product that could result from this bill.

## Revenue Discussion

The revenue impact of this bill would be determined by the amount of graywater tax credits applied to reduce personal and corporate tax liabilities. Industry contacts indicate the number of systems installed each year is approximately 150. This proposed tax credit would likely increase the number of systems installed to a few hundred per year.

The cost of a single family dwelling graywater irrigation system varies from approximately \$1,200 for a small owner-installed system to several thousand dollars. This estimate assumes the cost of most single-family dwelling systems would exceed \$3,500. Therefore, the maximum available credit of \$1,750 per system has been used for tax years 2008 through 2012, and the maximum available credit of \$1,400 per system has been used for tax year 2013. This estimate assumes that 150 graywater irrigation systems would be installed during the 2008 tax year. It is anticipated that fewer than 50% of taxpayers who install graywater irrigation systems would be aware of the credit for tax year 2008. Therefore, the amount of credit claimed in 2008 would be less than \$150,000. (150 systems x \$1,750 x 50% credits claimed = \$131,250) Awareness of the credit would likely increase to 60% for tax year 2009 and 65% for tax year 2010. The number of graywater irrigation systems qualifying for this credit would likely increase to 300 systems for the 2009 tax year and 375 systems for the 2010 tax year. Therefore, the amount of credit claimed would be approximately \$315,000 (300 systems x \$1,750 x 60% credits claimed) for the 2009 tax year and approximately \$427,000 (375 systems x \$1,750 x 65% credits claimed) in the 2010 tax year.

This estimate assumes 90% of the credits claimed would be utilized. This high rate of utilization is based on the assumption that personal income taxpayers claiming this credit would tend to be higher income taxpayers with sufficient tax liability to fully absorb the credit within the carryover period.

Multi-family, commercial, industrial, or institutional building graywater irrigation systems have been very few and the credit for these systems is limited to 10% of costs. As a result, credits associated with these systems would not significantly increase the revenue impact.

Tax year estimates have been converted to fiscal year cash flow estimates in the table above.

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