

## BILL ANALYSIS

Department, Board, Or Commission	Author	Bill Number
<b>Franchise Tax Board</b>	<b>Gomez</b>	<b>AB 2434</b>

### SUBJECT

Exclusion of Rebate Incentives for Expenses to Participate in Turf Removal Water Conservation Program

### SUMMARY

This bill would, under the Personal Income Tax Law and Corporation Tax Law, exclude from gross income amounts received for participation in a turf removal water conservation program.

### REASON FOR THE BILL

The reason for this bill is to clarify that financial incentives provided to taxpayers for participation in turf removal water conservation programs are not taxable.

### EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective immediately upon enactment and specifically operative for taxable years beginning on or after January 1, 2014, and before January 1, 2019.

### FEDERAL/STATE LAW

Existing federal and state law allows taxpayers to exclude from gross income any subsidy provided (directly or indirectly) by a public utility to customers for the purchase or installation of any energy conservation measure. An "energy conservation measure" is any installation or modification primarily designed to reduce consumption of electricity or natural gas or improve the management of energy demand in a dwelling unit as defined by federal law.

Existing state law provides that amounts received as a rebate from a local water or energy agency or supplier for expenses paid or incurred by a taxpayer for the purchase or installation of a water conservation water closet, water and energy efficient clothes washer, or plumbing device necessary to serve the recycled water uses are treated as a refund or price adjustment of amounts payable to that agency or supplier.

Existing state law also provides that any amounts received as a rebate, voucher, or other financial incentive issued by the California Energy Commission, the Public Utility Commission, or a local publicly owned electric utility for any expenses paid or incurred by a taxpayer for the installation of thermal system, solar system, wind energy system device, or fuel cell generating system, are excluded from gross income.

Gail Hall, FTB Contact Person (916) 845-6333 (Office)	Executive Officer Selvi Stanislaus	Date 08/29/14
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In general, in order to be excluded from gross income and treated as a refund or price adjustment of amounts payable, a rebate must be based on or related to the cost of the property purchased; the rebate must be received from someone having a reasonable connection to the sale of the property such as the manufacturer, distributor, or seller and installer; and the rebate must not represent payment or compensation for services.

### **THIS BILL**

For taxable years beginning on or after January 1, 2014, and before January 1, 2019, this bill would exclude from gross income any amount received as a rebate, voucher, or other financial incentive issued by a local water agency or supplier for participation in a turf removal water conservation program.

This bill would remain in effect only until December 1, 2019, and as of that date would be repealed.

### **LEGISLATIVE HISTORY**

AB 1968 (Nation, Chapter 843 of the Statutes of 2002), excludes from gross income any type of rebate, voucher, or other financial incentive received for the purchase or installation of a thermal energy system, a solar energy system, or a wind energy system.

AB 952 (Kelley, Chapter 212 of the Statutes of 2001), excludes from gross income any amount received as a rebate from a local water agency or supplier for the purchase of certain water conservation products.

### **OTHER STATES' INFORMATION**

The states surveyed include *Florida, Illinois, Massachusetts, Michigan, Minnesota, and New York*. These states were selected due to their similarities to California's economy, business entity types, and tax laws.

*Massachusetts* allows a homeowner to exclude from gross income the value of public utility subsidies received for the purchase or installation of energy conservation measures.

Review of *Florida, Illinois, Michigan, Minnesota, and New York* laws found no comparable exclusions from gross income.

### **FISCAL IMPACT**

This bill would not significantly impact the department's costs.

**ECONOMIC IMPACT**

Estimated Revenue Impact of AB 2434 Assumed Enactment After June 30, 2014		
2014-15	2015-16	2016-17
- \$100,000	- \$80,000	- \$80,000

This analysis does not account for changes in employment, personal income, or gross state product that could result from this bill.

**Revenue Discussion**

Using data from NASA’s Ames Research Center, water agencies, Census of housing, and industry data the department estimates up to \$3.2 billion in rebates if all turf in California is replaced. This estimate assumes that two percent of taxpayers would receive rebates each year. Since the average residential rebate is less than the \$600 threshold for issuing 1099s, it is assumed that two percent of residential owners who receive rebates would include them in taxable income. A marginal tax rate of six percent was then applied.

Commercial owners generally follow financial reporting guidelines and treat financial incentives or rebates as refunds or price reductions, excluding them from taxable income, or decreasing the asset basis by the amount of financial incentive received. It is assumed that there would be no change in the way commercial owners treat rebates.

The tax year estimates are then converted to fiscal year estimates as reflected in the table above.

**APPOINTMENTS**

None.

**SUPPORT/OPPOSITION<sup>1</sup>**

Support: California Landscape Contractors Association; California Pool & Spa Association; California Special Districts Associations; City of Los Angeles; City of Pasadena; Coachella Valley Water District; Eastern Municipal Water District; San Diego County Water Authority; Sonoma County Water Agency; The Metropolitan Water District of Southern California.

Opposition: None provided.

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<sup>1</sup>As noted in the Senate Governance & Finance Committee bill analysis dated June 20, 2014.

**VOTES**

	<b>Date</b>	<b>Yes</b>	<b>No</b>
Assembly Floor	05/27/14	77	0
Senate Floor	08/11/14	36	0

**LEGISLATIVE STAFF CONTACT****Contact**

Marybel Batjer, Agency Secretary, CalGovOps

Nancy Farias, Deputy Secretary for Legislation, CalGovOps

Selvi Stanislaus, Executive Officer, FTB

Gail Hall, Legislative Director, FTB

**Work**

916-651-9024

916-651-9373

916-845-4543

916-845-6333