

SUMMARY ANALYSIS OF AMENDED BILL

Author: Melendez Analyst: Jessica Deitchman Bill Number: AB 585
 Related Bills: See Prior Analysis Telephone: 845-6310 Amended Date: July 15, 2015
 Attorney: Bruce Langston Sponsor _____

SUBJECT:	Outdoor Water-Efficiency Improvement Credit/Outdoor Water-Efficiency Act of 2015
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SUMMARY

This bill would, under the Personal Income Tax Law (PITL), allow a tax credit for water-efficient improvements to outdoor landscapes.

RECOMMENDATION

No position.

SUMMARY OF AMENDMENTS

The July 15, 2015, amendments modified the bill’s operative date, clarified the credit limitation, added a certification process, and resolved the implementation, technical, and policy concerns discussed in the department’s analysis of the bill as amended February 24, 2015, and March 16, 2015.

Except for the “Effective/Operative Date”, “This Bill” and “Economic Impact” sections, the remainder of that analysis still applies. The “Fiscal Impact” and “Support/Opposition” sections have been restated for convenience.

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, 2016, and before January 1, 2021.

THIS BILL

For taxable years beginning on or after January 1, 2016, and before January 1, 2021, this bill would, under the PITL, provide a tax credit of 25 percent of the amount paid or incurred during the taxable year by a qualified taxpayer for water-efficiency improvements for outdoor landscapes on qualified real property in this state.

The credit could not exceed \$2,500 per taxable year for each qualified real property. For each qualified real property, the credit allowed could not cumulatively exceed \$2,500 for all taxable years.

Board Position:	Legislative Director	Date
_____ S _____ NA _____ X _____ NP	Gail Hall	8/17/15
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The bill would define the following phrases:

- “Qualified real property” means a principal residence of the qualified taxpayer within the meaning of Section 121 of the Internal Revenue Code, relating to exclusion of gain from sale of principal residence, in this state.
- “Qualified taxpayer” means the owner of any qualified real property.
- “Water-efficiency improvement” means expenditures voluntarily paid or incurred by the qualified taxpayer that are certified by the appropriate regional or local water agency as water-efficient improvements compatible with any of the following:
 - A local water-efficient landscape ordinance of a regional or local water agency adopted or in effect at the time the improvements are made.
 - The state water-efficient landscape statutes adopted or in effect at the time the improvements are made.
 - A water-efficient landscape program that is developed and implemented by a regional or local water agency for the specific purpose of reducing water use.

“Water-efficiency improvements” do not include improvements performed to bring landscaping into mandatory compliance with a local water-efficient landscape ordinance or state law.

A qualified taxpayer would be required to:

- Obtain certification of the water-efficiency improvements from the appropriate regional or local water agency after completion of those improvements;
- Retain a copy of the certification received and, upon request, provide a copy of that certification to the Franchise Tax Board.

This credit would be in lieu of any other credit or deduction that the qualified taxpayer may otherwise claim with respect to the amounts paid or incurred for water-efficiency improvements for outdoor landscapes on qualified real property in this state.

The credit may be carried over for up to four years, or until exhausted.

Section 41¹ would not apply to the credit allowed by this bill.

This credit would remain in effect until December 1, 2021, and as of that date would be repealed.

¹ The Revenue and Taxation Code section 41 requires any new tax credit legislation introduced on or after January 1, 2015, to include specific goals, purposes, objectives, and performance measures.

FISCAL IMPACT

The department's costs to implement this bill have yet to be determined. As the bill moves through the legislative process, costs will be identified and a budget change proposal will be requested, if necessary.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB 585 As Amended July 15, 2015 Assumed Enactment By September 30, 2015 (\$ in Millions)		
2015-16	2016-17	2017-18
- \$21	- \$44	- \$55

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

Revenue Discussion:

Based on data from the U.S. Census, California water districts, and the NASA Ames Research Center, it is estimated that 230,000 households that are single family owner occupied homes would make outdoor landscape water efficiency improvements in 2016. To qualify for the credit, a taxpayer must make voluntary improvements in accordance with local water efficiency landscape ordinances, regulations or established outdoor landscape efficiency programs. It is estimated that taxpayers will spend from \$400 to \$10,000 on drought related improvements; the resulting estimated weighted average of the credit would be \$300, for an estimated total credit generated of \$68 million in 2016. It is assumed that 90 percent of the credit would be used in the year generated, and the remainder would be used over the three year carryover period. This estimate assumes the full impact of this bill would be phased in over four years, with 60 percent of eligible taxpayers taking the credit in the first year, 75 percent in the second year, and 85 percent in the third year, resulting in credits used of \$37 million in 2016, \$49 million in 2017, and \$59 million in 2018.

The tax year estimates are converted to fiscal year estimates and rounded to arrive at the amounts reflected in the above table.

SUPPORT/OPPOSITION²

Support: Association of California Water Agencies, California Apartment Association, California Landscape Contractors Association, California Municipal Utilities Association, City of Santa Monica, East Valley Water District, Eastern Municipal Water District, Irvine Ranch Water District, Metropolitan Water District of Southern California, San Diego County Apartment Association, Santa Clara Valley Water District, Sierra Club California, Southwest California Legislative Council, Western Municipal Water District.

Opposition: None provided.

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² As provided on the Assembly Revenue and Taxation Committee Analysis dated July 10, 2015.