



Analysis of Original Bill

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Sponsor:

Bill Number: AB 2283

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Introduced: February 13, 2018

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Related Bills: See Legislative
History

Subject: Exclusion/Financial Incentives for Participation in Turf Removal/Extends Repeal Date to January 1, 2024

Summary

This bill would, under the Personal Income Tax Law and Corporation Tax Law, extend until December 1, 2024, the exclusion from gross income of amounts received for participation in a turf removal water conservation program.

Recommendation – No position.

Reason for the Bill

The reason for this bill is to allow financial incentives provided to taxpayers for participation in turf removal water conservation programs to remain excludable from gross income.

Effective/Operative Date

As a tax levy, this bill would be effective immediately upon enactment and specifically operative to extend the credit to taxable years beginning before January 1, 2024.

State Law

Existing state law allows, for taxable years beginning on or after January 1, 2014, and before January 1, 2019, an exclusion from gross income of 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

This bill would extend, for taxable years beginning on or after January 1, 2019, and before January 1, 2024, the exclusion from gross income for state income tax purposes of 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This bill would remain in effect only until December 1, 2024, and as of that date would be repealed.

Implementation Considerations

Implementing this bill would not significantly impact the department's programs and operations.

Legislative History

AB 2434 (Gomez, Chapter 738, Statutes of 2014), excludes from gross income amounts received for participation in a turf removal water conservation program for taxable years beginning on or after January 1, 2015, and before January 1, 2019.

AB 1968 (Nation, Chapter 843, 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, 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

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.

Economic Impact

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB 2283 as Introduced February 13, 2018
For Taxable Years Beginning On or After January 1, 2019, and Before January 1, 2024
Assumed Enactment after June 30, 2018

Fiscal Year	Revenue
2018-2019	- \$80,000
2019-2020	- \$150,000
2020-2021	- \$150,000

This analysis does not account for changes in employment, personal income, or gross state product that could result from this bill or for the net final payment method of accrual.

Revenue Discussion

Using data from NASA's Ames Research Center, water agencies, Census housing, and industry data, the department estimates that residential rebates for the two largest areas covered by turf in California would be \$85 million. Residential rebates were increased by 15 percent to account for turf removal rebates in the remainder of California.

Based on information from the Santa Clara Water District and the Los Angeles Department of Water and Power, IRS Form 1099s are not issued for rebates under \$600. Since the average residential rebate is less than \$600, it is assumed two percent of residential owners would include the rebates in taxable income. A marginal tax rate of six percent was then applied resulting in an estimated revenue loss of \$150,000 in the 2019 taxable year.

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 estimates are converted to the fiscal-year estimates and reflected in the above table.

Support/Opposition

Support: None Provided.

Opposition: None Provided.

Arguments

Proponents: Supporters may argue that extending the existing exclusion for turf replacement rebates is prudent given the state's limited and volatile water resources.

Opponents: Some may argue that there may be more effective methods of stabilizing the state's water resources than extending the existing exclusion for turf replacement rebates.

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