



## **Analysis of Amended Bill**

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Sponsor:

Bill Number: AB 533

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Amended March 19, 2019, and  
April 4, 2019

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Related Bills: See Prior Analysis

**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 (PITL) and Corporation Tax Law (CTL), extend until December 1, 2024, the exclusion from gross income of amounts received for participation in a turf removal water conservation program.

This analysis only addresses the provisions of the bill that impact the department's programs and operations.

### **Recommendation – No position.**

### **Summary of Amendments**

The March 19, 2019, amendments modified the entities that could issue eligible rebates, vouchers, or other financial incentive by adding a definition of "water service provider". The amendments also added sunset provisions and uncodified objectives and reporting requirements.

The April 4, 2019, amendments removed the provisions from the bill that would have excluded from gross income any amount received as a rebate, voucher, or other financial incentive for water conservation improvements. The amendments extended the repeal date of the current law provisions that allow an exclusion for amounts received for participation in a turf removal water conservation program. This analysis replaces the department's analysis of the bill as introduced February 13, 2019.

### **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 operative for taxable years beginning on or after January 1, 2019, and before January 1, 2024.

### **Federal/State Law**

Existing federal and state laws provide that gross income includes all income from whatever source derived, including compensation for services, business income, gains from property, interest, dividends, rents, and royalties, unless specifically excluded.

Existing federal and state laws allow 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.

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.

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.

As uncodified law, this bill would require the Department of Finance (DOF) to include an analysis of this income exclusion in its annual tax expenditure report pursuant to Section 13305 of the Government Code. The Franchise Tax Board provides data to the DOF to facilitate this reporting.

## **Implementation Considerations**

Implementing this bill would require some changes to existing tax forms and instructions and information systems, which could be accomplished during the normal annual update.

## **Technical Considerations**

The bill includes reporting requirements in uncodified law. For ease of administration it is recommended that the bill include these requirements in the relevant sections of the Revenue and Taxation Code.

## **Legislative History**

AB 2283 (Holden, 2017/2018), would have extended the exclusion from gross income allowed under AB 2434 from taxable years beginning before January 1, 2019, to taxable years beginning before January 1, 2024. AB 2283 was held in the Assembly Appropriations Committee.

AB 2434 (Gomez, Chapter 738, Statutes of 2014) allowed for taxable years beginning on or after January 1, 2014, and before January 1, 2019, an exclusion from gross income for amounts 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.

## **Other States' Information**

The states surveyed include *Arizona, 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.

*Florida, Illinois, Massachusetts, Michigan, Minnesota, and New York* laws do not provide a comparable exclusion from gross income that this bill would allow.

*Arizona* allows a credit against personal income tax for expenses incurred to purchase and install an agricultural water conservation system in Arizona. The credit amount is limited to 75 percent of the expenses, and is allowed in lieu of any deduction otherwise allowed.

## **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 533 as Amended April 4, 2019  
Assumed Enactment after June 30, 2019

<b>Fiscal Year</b>	<b>Revenue</b>
2019-2020	-\$500,000
2020-2021	-\$350,000
2021-2022	-\$350,000

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

Based on NASA data from the Ames Research Center, water agency data, and U.S. Census housing and industry data, it is estimated there are 5 million structures, with turf, owned by personal income taxpayers in California. It is further assumed that 80 percent, or 4.9 million, would have access to turf removal rebate programs. Of those, it is assumed that 3 percent, or 150,000 taxpayers, would choose to participate in a turf removal program and apply for a rebate.

Based on data from various public utilities located in California, the average residential rebate issued for participation in these programs is approximately \$450, resulting in approximately \$67 million of rebates paid. Because not all taxpayers understand that rebates, vouchers, or other financial incentives may be taxable, it is assumed that seven percent, or \$4.7 million, in rebates would be awarded to residential owners that would know to include the rebates in taxable income and thus benefit from the exclusion. A marginal tax rate of six percent is then applied, resulting in an estimated revenue loss of \$300,000 in the 2019 taxable year.

Corporations 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 converted to fiscal year estimates, and then rounded to arrive at the amounts shown in the above table.

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