

**WESTERN COALITION OF ARID STATES**  
**POSITION STATEMENT ON**  
**EXCLUDING WATER CONSERVATION REBATES FROM TAXABLE INCOME**  
**April 19, 2018**

**I. EXCLUDE WATER CONSERVATION REBATES FROM TAXABLE INCOME**

**II. BRIEF SUMMARY OF THE ISSUE**

As part of robust water conservation programs, many WESTCAS members offer water conservation rebates. The efficiency measures that occur through rebates effectively reduce customer water demand. Common examples include rebates for water conserving devices or for turf removal. In most cases, the costs of the devices or the re-landscaping are far greater than the rebate amount.

Currently, rebates for customers who invest in energy efficiency or energy conservation measures are exempted from taxable income under the Internal Revenue Code (IRC) Section 136. Conversely, rebates to customers who invest in water conservation measures are not exempt, and they pay income tax on any water conservation rebate over \$600. This disparity in tax treatment detrimentally affects efforts to achieve both water and energy conservation. Water conservation must be treated on par with, or as a form of, energy conservation or efficiency. Water conservation improvements are another means of achieving energy efficiency and energy conservation benefits.

Water and energy efficiency and conservation measures should receive comparable tax treatment. Given the energy-water nexus, the disparity in tax treatment can easily be eliminated through legislation, or administrative interpretation of IRC Section 136. With drought conditions and less available fresh water in arid regions, the time has come to recognize and act on the energy-water nexus and interpret IRC Section 136 to exclude rebates for water conservation and energy efficiency measures from gross income.

The federal government has already recognized this clear connection at the policy level. Many water saving measures are encouraged through the Energy Policy Act of 1992, including standards that encourage the use of low flow faucets, shower heads, and toilets, because reducing water use saves energy. It is reasonable to believe energy conservation cannot be separated from water conservation under current Administrative and Congressional direction.

Considering the energy-water nexus it is reasonable to construe Section 136 of the IRC as covering those rebates to customers who undertake water conservation measures. Under Section 136, rebates provided by a utility to a customer for the purchase or installation of any energy conservation or efficiency measure is excluded from the customer's gross income.

Interpreting or amending Section 136 of the IRC to treat water conservation and efficiency measures as energy efficiency and conservation measures would eliminate a serious disincentive to customer participation in water conservation and installation of water conservation management measures. The current tax disincentive in turn, has a negative impact on both water and energy conservation.

### **III. PRIORITIES AND ACTION PLAN**

Since 1992, WESTCAS has advocated for policies and legislation that promote conservation, and water use efficiency. Considering water conservation rebates as part of taxable income only serves to discourage customers from doing the right thing and accepting rebates to make water conservation improvements.

Over the next three to five years WESTCAS plans to:

1. Actively engage to support legislative, or administrative efforts to bring parity in the tax code so rebates received by customers for water conservation measures are exempted from taxable income.

### **IV. UPDATES**

This position statement will be reviewed and updated on an annual basis, and no later than March 31 of each calendar year. Questions or suggested edits should be forwarded to [westcas@westcas.org](mailto:westcas@westcas.org).