

Enact Water Conservation Rebate Tax Parity

Background. Conservation rebates are an important tool for increasing water efficiency and are used by water providers across Texas and the US. Water providers offer rebates to incentivize the reduction of water use and to ease the strain on public infrastructure. These programs can provide significant water savings, serve a public purpose and is cost-effective.

The Internal Revenue Service (IRS) considers rebates for homeowners who replace water-thirsty lawns, install “gray water” capture systems, or purchase new water-efficient appliances as income to the recipient and subject to federal taxes. Water utilities and other providers must issue 1099 forms to customers that receive \$600 or more per year in water conservation rebates. This tax liability serves as a disincentive to water efficiency and discourages some customers from participating in water efficiency retrofit programs.

However, energy efficiency rebates from energy utilities are tax-exempt. Section 136 of the Internal Revenue Code exempts energy conservation rebates provided by utilities from federal income taxes and should exempt rebates provided for water conservation and stormwater management.

During the 117th Congress, HR 4647, The Water Conservation Rebate Tax Parity Act, introduced on July 22, 2021; had it passed, would have removed the federal tax burden for homeowners and businesses conserving water or improving stormwater management. The bill would result in the federal government treating water conservation rebates the same as energy conservation rebates, which were exempted from federal taxes in 1992.

Water conservation is a critical component for meeting water supply needs today and for the future and is a major water management strategy in the Texas State Water Plan. Conservation strategies represent approximately 29 percent, or 2.2 million acre-feet per year, of all recommended water management strategy volumes in 2070 and were recommended for more than half of the water user groups in the plan. Federal tax policies that impede conservation and place a burden on utilities and water providers should be removed.

Request for Congress:

Support other legislation that would amend Section 136 of the Internal Revenue Code to **give water conservation and stormwater management rebates the same tax-exempt status as energy conservation rebates.**