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**AB-2142 Income taxes: exclusion: turf replacement water conservation program. (2021-2022)**

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**Assembly Bill No. 2142**

**CHAPTER 674**

An act to add and repeal Sections 17138.2 and 24308.9 of the Revenue and Taxation Code, relating to taxation, to take effect immediately, tax levy.

[ Approved by Governor September 28, 2022. Filed with Secretary of State September 28, 2022. ]

**LEGISLATIVE COUNSEL'S DIGEST**

AB 2142, Gabriel. Income taxes: exclusion: turf replacement water conservation program.

The Personal Income Tax Law and the Corporation Tax Law, in conformity with federal income tax law, generally defines "gross income" as income from whatever source derived, except as specifically excluded, and provides various exclusions from gross income. Existing law provides an exclusion from gross income for any amount received as a rebate or voucher from a local water or energy agency or supplier for the purchase or installation of a water conservation water closet, energy efficient clothes washers, and plumbing devices, as specified.

This bill would, for taxable years beginning on or after January 1, 2022, and before January 1, 2027, under both of these laws, provide an exclusion from gross income for any amount received as a rebate, voucher, or other financial incentive issued by a public water system, as defined, local government, or state agency for participation in a turf replacement water conservation program.

Existing law requires any bill authorizing a new tax expenditure to contain, among other things, specific goals, purposes, and objectives that the tax expenditure will achieve, detailed performance indicators, and data collection requirements.

This bill would include additional information required for any bill authorizing a new tax expenditure, and would require the Department of Finance to include an analysis of these expenditures in its annual tax expenditure report provided to the Legislature.

This bill would take effect immediately as a tax levy.

Vote: majority Appropriation: no Fiscal Committee: yes Local Program: no

**THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:**

**SECTION 1.** Section 17138.2 is added to the Revenue and Taxation Code, to read:

**17138.2.** (a) For taxable years beginning on or after January 1, 2022, and before January 1, 2027, gross income does not include any amount received as a rebate, voucher, or other financial incentive issued by a public water system, local government, or state agency for participation in a turf replacement water conservation program.

(b) For the purposes of this section, "public water system" shall have the same meaning as in Section 116275 of the Health and Safety Code.

(c) This section shall remain in effect only until December 1, 2027, and as of that date is repealed.

**SEC. 2.** Section 24308.9 is added to the Revenue and Taxation Code, to read:

**24308.9.** (a) For taxable years beginning on or after January 1, 2022, and before January 1, 2027, gross income does not include any amount received as a rebate, voucher, or other financial incentive issued by a public water system, local government, or state agency for participation in a turf replacement water conservation program.

(b) For the purposes of this section, "public water system" shall have the same meaning as in Section 116275 of the Health and Safety Code.

(c) This section shall remain in effect only until December 1, 2027, and as of that date is repealed.

**SEC. 3.** For the purpose of complying with Section 41 of the Revenue and Taxation Code, with respect to Sections 17138.2 and 24308.9 of the Revenue and Taxation Code, as added by this act, the Legislature finds and declares all of the following:

(a) The specific goals, purposes, and objectives that the exclusion will achieve are as follows:

(1) Public water system financial incentives, including consumer rebates, are among the most important and cost-effective tools available to local water providers to achieve water use efficiency objectives, particularly for turf replacement, irrigation controllers, leak detection devices, and other high-cost water saving options.

(2) Rebates, vouchers, or other financial incentives issued by public water systems have been an effective tool in advancing efficiency and water management objectives statewide, and individual consumers and businesses should not be taxed for providing this statewide benefit.

(3) Financial incentives issued by public water systems as part of a water conservation or efficiency program, the primary purpose of which is to reduce consumption of water or to improve the management of water demand, provide a significant public benefit.

(4) The income tax exclusions allowed by Sections 17138.2 and 24308.9 of the Revenue and Taxation Code, as added by this act, have the objective of eliminating disincentives to participation in water conservation or efficiency improvement programs aimed at increasing water conservation or efficiency in California.

(b) (1) To enable the Legislature to determine whether the tax expenditures allowed by this act are meeting, failing to meet, or exceeding the objective of the act, the Department of Finance shall include an analysis of these tax expenditures in the annual report required pursuant to Section 13305 of the Government Code.

(2) The disclosure provisions of this paragraph shall be treated as an exception to Section 19542 under Article 2 (commencing with Section 19542) of Chapter 7 of Part 10.2 of Division 2 of the Revenue and Taxation Code.

**SEC. 4.** This act provides for a tax levy within the meaning of Article IV of the California Constitution and shall go into immediate effect.