

- “Water-efficiency improvements” means expenditures voluntarily paid or incurred by the qualified taxpayer that are certified by the appropriate regional or local water agency as water-efficient improvements compatible with any of the following:
 - A local water-efficient landscape ordinance of a regional or local water agency adopted or in effect at the time the improvements are made.
 - The state water-efficient landscape statutes adopted or in effect at the time the improvements are made.
 - A water-efficient landscape program that is developed and implemented by a regional or local water agency for the specific purpose of reducing water use.

“Water-efficiency improvements” do not include improvements performed to bring landscaping into mandatory compliance with a local water-efficient landscape ordinance or state law.

A qualified taxpayer would be required to:

- Obtain certification of the water-efficiency improvements from the appropriate regional or local water agency after completion of those improvements;
- Retain a copy of the certification received and, upon request, provide a copy of that certification to the Franchise Tax Board.

This credit would be in lieu of any other credit or deduction that the qualified taxpayer may otherwise claim with respect to the amounts paid or incurred for water-efficiency improvements for outdoor landscapes on qualified real property in this state.

The credit may be carried over for up to four years, or until exhausted.

The Revenue and Taxation Code (R&TC) section 41¹ would not apply to the credit allowed by this bill.

This credit would remain in effect until December 1, 2021, and as of that date would be repealed.

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 and a budget change proposal will be requested, if necessary.

¹ The R&TC section 41 requires any new tax credit legislation introduced on or after January 1, 2015, to include specific goals, purposes, objectives, and performance measures.

ECONOMIC IMPACT

Revenue Estimate

This bill will result in the following revenue loss:

Estimated Revenue Impact of AB 2040 As Amended April 6, 2016 Assumed Enactment After June 30, 2016 (\$ in Millions)		
2016-17	2017-18	2018-19
-\$75	-\$65	-\$75

This analysis does not account for changes in employment, personal income, or gross state product that could result from this bill.

Revenue Discussion:

Based on data from the U.S. Census, California water districts, and the NASA Ames Research Center, it is estimated 245,000 households that are single family owner-occupied homes would make outdoor landscape water efficiency improvements in 2016. It is estimated that taxpayers will spend from \$400 to \$10,000 on drought-related improvements; the resulting estimated weighted average of the credit would be \$325 per qualifying property, for an estimated total credit that would be generated of \$80 million in 2016. This estimate assumes the full impact of this bill would be phased in over four years, with 60 percent of eligible taxpayers claiming the credit in the first year, 75 percent in the second year, and 85 percent in the third year. It is further assumed that 90 percent of the credit would be used in the year generated, and the remainder would be used over the next three years. As a result, the estimated revenue loss is \$43 million in tax year 2016.

The tax year estimates are converted to fiscal year estimates and then rounded to arrive at the amounts reflected in the above table.

SUPPORT/OPPOSITION

Support: None provided.

Opposition: None provided.

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