

103^D CONGRESS
2^D SESSION

H. R. 4548

To amend the Internal Revenue Code of 1986 to provide an exclusion from gross income for water conservation subsidies provided to customers by water utilities and to allow such utilities an expense deduction for such subsidies.

IN THE HOUSE OF REPRESENTATIVES

JUNE 8, 1994

Mr. McDERMOTT introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to provide an exclusion from gross income for water conservation subsidies provided to customers by water utilities and to allow such utilities an expense deduction for such subsidies.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. EXCLUSION OF WATER CONSERVATION SUB-**
4 **SIDIES PROVIDED BY WATER UTILITIES.**

5 (a) GENERAL RULE.—Part III of subchapter B of
6 chapter 1 of the Internal Revenue Code of 1986 (relating
7 to amounts specifically excluded from gross income) is

1 amended by redesignating section 137 as section 138 and
2 by inserting after section 136 the following new section:

3 **“SEC. 137. WATER CONSERVATION SUBSIDIES PROVIDED**
4 **BY WATER UTILITIES.**

5 “(a) EXCLUSION.—Gross income shall not include
6 the value of any subsidy provided (directly or indirectly)
7 by a water utility to a customer for the purchase or instal-
8 lation of any water conservation measure.

9 “(b) DENIAL OF DOUBLE BENEFIT.—Notwithstand-
10 ing any other provision of this subtitle, no deduction or
11 credit shall be allowed for, or by reason of, any expendi-
12 ture to the extent of the amount excluded under sub-
13 section (a) for any subsidy which was provided with re-
14 spect to such expenditure. The adjusted basis of any prop-
15 erty shall be reduced by the amount excluded under sub-
16 section (a) which was provided with respect to such prop-
17 erty.

18 “(c) WATER CONSERVATION MEASURE.—For pur-
19 poses of this section—

20 “(1) IN GENERAL.—The term ‘water conserva-
21 tion measure’ means any installation or modification
22 primarily designed to reduce consumption of water
23 or to improve the management of water demand
24 with respect to any property. The purchase and in-

1 stallation of specially defined water property shall be
2 treated as a water conservation measure.

3 “(2) SPECIALLY DEFINED WATER PROPERTY.—
4 For purposes of paragraph (1), the term ‘specially
5 defined water property’ means—

6 “(A) a toilet using 1.6 gallons or less per
7 flush for gravity designs and 2.5 gallons or less
8 per flush for flush valve style pressure-assisted
9 designs,

10 “(B) a urinal using 1.0 gallons or less per
11 flush,

12 “(C) a laundry machine using 11.0 gallons
13 or less per cubic foot of capacity per complete
14 washing cycle,

15 “(D) a dishwasher using 2.0 gallons or less
16 per cubic foot of capacity per complete washing
17 cycle,

18 “(E) a faucet equipped with an aerator or
19 flow control which restricts the flow to 2.5 gal-
20 lons or less per minute at 65 psi, and

21 “(F) a shower head which restricts the
22 flow to 2.5 gallons or less per minute at 65 psi.

23 “(3) CERTAIN OTHER PROPERTY TREATED AS
24 SPECIALLY DEFINED WATER PROPERTY.—For pur-

1 poses of paragraph (1), the term ‘specially defined
2 water property’ includes—

3 “(A) equipment which automatically re-
4 duces the pressure (or controls the flow) of
5 water,

6 “(B) water recycling, recirculation, and
7 reuse equipment,

8 “(C) cooling equipment,

9 “(D) equipment using treatment processes
10 which optimize water cycling,

11 “(E) equipment and facilities which use
12 treated municipal effluent (instead of drinking
13 quality water) for non-potable applications,
14 thereby reducing the demand for drinking qual-
15 ity water,

16 “(F) evapotranspiration stations, software,
17 and controllers,

18 “(G) tank and reservoir covers and liners,

19 “(H) sub-metering, overflow and other
20 monitoring control systems which improve oper-
21 ating efficiencies and identify water loss or
22 equipment maintenance needs directly associ-
23 ated with inefficient water use,

24 “(I) equipment to identify and repair
25 water leaks, and

1 “(J) any other property of a kind specified
2 by the Secretary by regulations,
3 the principal purpose of which is reducing water
4 consumption.

5 “(4) WATER EFFICIENCY OF PROPERTY MUST
6 EXCEED LOCAL CODE REQUIREMENTS.—The term
7 ‘specially defined water property’ does not include
8 any property if—

9 “(A) such property is required under local
10 building standards or codes to meet water effi-
11 ciency standards, and

12 “(B) the water efficiency rating of such
13 property does not exceed such standards.

14 “(5) LEAK IDENTIFICATION AND REPAIR SERV-
15 ICES INCLUDED.—The term ‘water conservation
16 measure’ includes services to identify and repair
17 water leaks.

18 “(6) CERTAIN LANDSCAPE MEASURES IN-
19 CLUDED.—The term ‘water conservation measure’
20 includes landscape measures that improve soil mois-
21 ture retention by reducing water lost to evaporation.

22 “(d) WATER UTILITY.—For purposes of this section,
23 the term ‘water utility’ means any person engaged in the
24 furnishing or sale of water if the rates for such furnishing
25 or sale have been established or approved by a State or

1 political subdivision thereof, by any agency or instrumen-
2 tality of the United States, or by a public utility or public
3 service commission or other similar body of any State or
4 political subdivision thereof or of the District of Columbia.
5 For purposes of the preceding sentence, the term ‘person’
6 includes the Federal Government, a State or local govern-
7 ment or any political subdivision thereof, and any instru-
8 mentality of any of the foregoing.”

9 (b) CLERICAL AMENDMENT.—The table of sections
10 for part III of subchapter B of chapter 1 of such Code
11 is amended by striking the item relating to section 137
12 and inserting:

“Sec. 137. Water conservation subsidies provided by water utili-
ties.

“Sec. 138. Cross reference to other Acts.”

13 (c) EFFECTIVE DATE.—The amendments made by
14 this section shall apply to amounts received after Decem-
15 ber 31, 1993.

16 **SEC. 2. WATER CONSERVATION EXPENDITURES BY WATER**
17 **UTILITIES.**

18 (a) IN GENERAL.—Part VI of subchapter B of chap-
19 ter 1 of the Internal Revenue Code of 1986 (relating to
20 itemized deductions for individuals and corporations) is
21 amended by inserting after section 197 the following new
22 section:

1 **“SEC. 198. WATER CONSERVATION EXPENDITURES BY**
2 **WATER UTILITIES.**

3 “(a) GENERAL RULE.—In the case of a water utility
4 (as defined in section 137(d)), there shall be allowed as
5 a deduction for the taxable year an amount equal to the
6 water conservation expenditures paid or incurred by the
7 taxpayer during such taxable year.

8 “(b) WATER CONSERVATION EXPENDITURES.—For
9 purposes of this section, the term ‘water conservation ex-
10 penditures’ means expenditures for subsidies provided di-
11 rectly or indirectly to customers for the purchase, installa-
12 tion, or modification of any device or service primarily de-
13 signed to reduce consumption of water or to improve the
14 management of water demand. Such term shall not in-
15 clude any expenditure taken into account in determining
16 the basis of any tangible property which is owned by the
17 taxpayer and which is of a character subject to the allow-
18 ance for depreciation.”

19 (b) CONFORMING AMENDMENTS.—

20 (1) Paragraph (1) of section 263(a) of such
21 Code is amended by striking “; or” at the end of
22 subparagraph (F) and inserting a comma, by strik-
23 ing the period at the end of subparagraph (G) and
24 inserting “, or”, and by adding at the end thereof
25 the following new subparagraph:

1 “(H) expenditures for which a deduction is
2 allowed under section 198.”

3 (2) The table of sections for part VI of sub-
4 chapter B of chapter 1 of such Code is amended by
5 adding at the end thereof the following new item:

 “Sec. 198. Water conservation expenditures by water utilities.”

6 (c) EFFECTIVE DATE.—The amendments made by
7 this section shall apply to expenditures paid or incurred
8 in taxable years beginning after December 31, 1993.

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