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After months of debate about whether rebates for water-saving measures are taxable, two members of Congress from California have introduced a bill that would clarify that they are not.

As part of a statewide push to manage the drought, Californians have received rebates from water districts for tearing out their lawns or installing water-saving devices. A spokesman for the Metropolitan Water District of Southern California says it processed 37,000 turf rebates of \$600 or more in 2015, and its member water agencies processed 26,000 other rebates.

The state provides a tax exemption for turf rebates, but the Internal Revenue Service has said federal tax law treats the rebates as taxable income.

"We think it's crazy and unprecedented to treat them that way, but some staff at the IRS have taken a different view," say Congressman Jared Huffman, a Democrat who represents a northern California district. He's joined with Republican Dana Rohrabacher of Orange County to introduce the Water Conservation Tax Parity Act.

"We decided to introduce it because the IRS has not yet stepped up and done the right thing," Huffman told KPCC. "We ought to be able to treat these water rebates exactly the way we treat energy rebates: which is they're not income. This is a way to leverage water conservation. This is not some windfall or giveaway of income."

The bill is unlikely to become law before the tax filing deadline of April 15, but if it does become law, Huffman says it will be retroactive and allow those who paid taxes on the rebates to get a refund. Huffman told KPCC that he'd prefer the IRS soften its stance without Congress passing new legislation and that his office has scheduled a meeting Thursday with officials from the IRS and the Department of Treasury.

In the meantime, tax attorney Dennis Brager of the Brager Tax Law Group in Los Angeles says anyone who received a rebate should not fail to mention it to the feds. He offers these tips:

- **Declare the rebate!** "If you don't declare it, you're buying yourself a dispute with the Internal Revenue Service," Brager says. Brager believes the IRS' position might be subject to dispute, but he says that's a dispute the average homeowner who received the rebate won't want to wage.
- **Reclaiming the tax refund should be easy and cheap.** If Huffman and Rohrabacher's bill becomes law after you've paid federal taxes on the rebate,

Brager says it will be easy to get a refund of the taxes you've paid. Simply file an amended tax return, taking out the amount of the rebate, and ask for the refund. This should be an easy process for those who prepare their own taxes using software like TurboTax and a service that an accountant shouldn't charge much for. "I know some people feel like, 'well, if I give the money to the IRS, they're never gonna give it back,' and that's not the way things work," Brager says.

- **There's time.** Taxpayers have three years from when the original tax return was due to file an amended return. So if the new law passes and you miss the news for a year or two, you still have time to file an amended tax return and ask for a refund.

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