



COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

February 2, 2016

The Honorable Ami Bera, M.D.
U.S. House of Representatives
Washington, DC 20515

Dear Representative Bera:

Thank you for your letter of January 26, 2016, requesting guidance on the tax treatment of payments made by California's Department of Water Resources to encourage homeowners and businesses to replace turf with drought tolerant landscaping.

Your letter indicates that California has instituted a program to reduce water consumption by providing rebates to taxpayers who replaced turf with drought tolerant landscapes. Section 61(a) of the Internal Revenue Code (Code) provides that, except as otherwise provided by law, gross income means all income from whatever source derived. Thus, gross income generally includes governmental grant payments. The Code and other legal principles do provide certain specific exceptions. For example, section 136 excludes from gross income certain subsidies that electric and natural gas public utilities provide for energy conservation measures. However, expansion of section 136 to water conservation subsidies provided by water districts would require a legislative change.

We will work with our colleagues at the Department of Treasury to analyze the issues you raise in your letter and determine whether published guidance is appropriate on this important issue.

I hope this information is helpful, and thank you for your water conservation efforts. If you have additional questions, please contact me, or a member of your staff may contact Leonard Oursler, Director, Legislative Affairs, at (202) 317-6985.

Sincerely,

A handwritten signature in blue ink, appearing to read "John A. Koskinen".

John A. Koskinen