



COMMISSIONER

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

January 5, 2016

The Honorable Jared Huffman  
U.S. House of Representatives  
Washington, DC 20515

Dear Representative Huffman:

I am responding on behalf of the IRS and the Treasury Department to your letter of December 11, 2015, requesting that we issue a revenue ruling concluding that certain payments water utilities make to private property owners to encourage water efficiency and stormwater management are not taxable income.

Your letter indicates communities across the nation are making efforts to reduce water consumption and promote stormwater management by paying financial incentives to homeowners to fund improvements. 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 subsidies from electric and natural gas public utilities for energy conservation measures. However, expansion of section 136 to water conservation subsidies provided by water utilities would require a legislative change.

We will work with our colleagues at the Department of Treasury to analyze the legal principles, including the cases and rulings you cited, and determine whether published guidance is appropriate on this important issue.

I hope this information is helpful, and thank you for your interest in water conservation and stormwater management. I am also sending a letter to your colleagues. 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