AB 3057 (Quirk- Silva)
Revenue and Taxation: Mutual Water Companies

SUMMARY

AB3057 would amend the California Revenue and Taxation Code to conform to federal income tax law by exempting not-for-profit mutual water, mutual ditch, or irrigation corporations from California income taxes and franchise fees on or after January 1, 2018.

BACKGROUND

Mutual water, ditch and irrigation corporations are essentially cooperatives through which property owners directly share the costs of building, operating, and maintaining a water system for their communities. To qualify for tax-exemption at the federal level under Section 501(c)(12), such corporations must derive 85% or more of their revenue from serving their communities, and must only charge for the cost of service. Mutual water, mutual ditch and irrigation companies in California are currently able to obtain tax-exemption at the federal level, but no similar statutory authority is now available under California law.

In order to be eligible for certain state grants and loans dedicated to small water systems, such as mutual water companies, a company must attest to its tax-exempt status. No California authority applies that enables mutual water companies to obtain that status at the state level.

The current alternative to this dilemma is applying for the tax-exempt status of a mutual water company under Revenue and Taxation Code section 23701t, which provides for an exemption for homeowners' associations and applies several revenue-oriented tests. Because some mutual water companies charge fees based on metered services, which FTB has ruled as taxable, they cannot take advantage of this exemption. This discourages mutual water companies to encourage water conservation by installing metered water services and is contrary to the state's policy specified in the Water Code provisions that require metered connections.

SOLUTION:

By amending current California Revenue and Taxation Code to conform to tax-exemption provided under Section 501(c)(12) in the U.S. Internal Revenue Code, AB 3057 will help the state expedite grants to help small water systems through improvements and/or consolidations, as well as remove current disincentives to water efficiency measures.

SUPPORT:

Eastern Municipal Water District
Northern California Water Association
Southern California Water Coalition
BizFed Central Valley
Atascadero Mutual Water Company, Atascadero
Averydale Mutual Water Company, Lancaster
Bellflower Somerset Mutual Water Co., Bellflower
Blue Lake Springs Mutual Water Company, Arnold
California Association of Mutual Water Companies
California Domestic Water Company, Whittier
Cherry Valley Mutual Water Company, Cherry Valley
Jubilee Mutual Water Company, Lucerne Valley
Las Cumbres Mutual Water Company, Los Gatos
Lone Tree Mutual Water Company, El Nido
Maywood Mutual Water Co. #1, Maywood
Midway City Mutual Water Company, Westminster
Milky Way Water Co., Santa Cruz
Montebello Land and Water Co., Montebello
Nuevo Water Company, Nuevo
Oak Trail Ranch Mutual Water Company, Santa Ynez
Oildale Mutual Water Company, Bakersfield
Page Avenue Mutual Water Company, Fullerton
Roseview Heights Mutual Water Co., San Jose
Rubio Cañon Land and Water Assoc., Altadena
South Mesa Water Company, Calimesa
South Midway City MWC, Huntington Beach
Sundale Mutual Water Company, Lancaster
Sunny Slope Water Company, Pasadena
The Farm Mutual Water Company, Wildomar
Tract 180 Water Company, Bell
Valencia Heights Water Co., West Covina

Valley Water Company, La Canada Flintridge
Vaughn Water Company, Bakersfield
Villa Glen Mutual Water Company, Los Gatos
Western Heights Water Co., Yucaipa

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