BILL # HB 2126 **TITLE:** tax credit; dual flush toilets

SPONSOR: McClure **STATUS:** As Introduced

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FISCAL ANALYSIS

Description

The bill provides an individual and corporate income tax credit for taxpayers who install 1 or more dual flush toilets in their own residences or residential units, effective December 31, 2008. The tax credit would amount to 25% of the cost of the toilet(s), without exceeding $100 for a single toilet or $200 for multiple toilets within 1 residence. The amount of the unused credit may be carried forward 5 consecutive years. The taxpayer may elect to transfer the credit to the dweller or purchaser of the residence.

Estimated Impact

The fiscal impact of the bill cannot be estimated with any certainty. The popularity of the tax credit program is difficult to quantify based on various unknowns.

1) Usage of the credit will depend partially on how if affects the net price of dual flush toilets. By itself, the credit will make the cost of the dual flush toilet more competitive at the high end of the price range. At the low end of the range, current low flush toilets would remain less expensive than dual flush toilets.

2) Use of the credit will also depend on the existence of local rebates on toilet purchases. Several local jurisdictions rebate a portion of the cost of a new toilet. With a combination of a local rebate and the tax credit, the net cost of a dual flush toilet could be $12. Thus, the credit might induce consumers to purchase a new toilet at a very low cost in order to reduce their water bill.

3) In addition, dual flush toilets are currently not widely available. As a result, low supply could affect the use of the credit.

In summary, several factors will influence the possible revenue impact of the bill. Starting in FY 2010, the credit could cost $100,000 annually on the low end or as much as several million dollars if use increases significantly.

The Department of Revenue does not have an estimate of the impact of this legislation.

Analysis

The Energy Policy Act of 1992 established the maximum flush volume for all gravity tank-type, flushometer tank, and electromechanical hydraulic toilets at 1.6 gallons per flush. This applies to residential and light commercial use toilets. Therefore, all new residential toilets are categorized as “low flush” toilets.

“Dual flush” toilets provide 2 flushing options: a full flush for solids and a reduced flush for liquids. To qualify for the credit, the toilet would need 1 flush of no more than 1.6 gallons and the second of no more than 1.1 gallons.

Based on calls to major home improvement retailers in the Arizona, no dual flush toilets are currently available for immediate purchase in-store. Prices for the 2 models that could be special ordered were quoted at $150 and $300. There are several specialty wholesalers that sell dual flush toilets. Some have stock on hand. The quoted low-end price was $400. Based on this information, the tax credit could range from $38-$100 for a single toilet and $76-$200 for multiple toilets within a residence.

Of the known toilet rebates in Arizona, programs with the City of Tempe, Cochise County, and the City of Sierra Vista apply to the general category of low-flow toilets. The City of Flagstaff offers rebates to a subcategory of these, called high efficiency toilets. Flagstaff gives rebates of $100, up to the cost of the high efficiency toilet. The City of Tempe grants rebates for 50% of the cost, up to $75 of a low flush toilet. Both the City of Sierra Vista and Cochise County provide a rebate for $100, up to the cost of a low flush toilet.

Flagstaff does not differentiate between types of high efficiency toilets in their rebate program. However, the Metropolitan Water District of Southern California runs a financial incentive program with essentially identical qualifications and states that dual flush toilets make up 22% of all its high efficiency toilet rebates. If the Flagstaff usage is extrapolated statewide, there would be rebates for 1,619 toilets. This leads to the estimated cost range of $80,000 to $210,000 based on the dual flush toilet cost range of $150 to $400.

The number of rebates from corporations in Flagstaff varied significantly year to year. It is difficult to gauge if and/or when a company will incorporate the tax credit into dwelling units and the quantity of rebates they would potentially use.

Low flush toilets currently cost $50 to $300, compared to the $150 to $400 price for dual flush toilets. With local rebates, the low flush toilet price could be as low as $0 to $200, whereas a dual flush with local rebates could be $50 to $300. Thus, the current local rebates make the dual flush toilet cost competitive with that of the non-rebated low flush toilet. In communities without local rebates, the bill would make the dual flush toilets more competitive at a cost of $112 to $300, but usually not cheaper than the low flush toilet price ranges of $50 to $300 without any incentives. The combination of the tax credit and the local rebate can lower the net cost of a dual flush toilet to $12.50 to $37.50, which may significantly increase demand for this product.

Costs of Low Flush and Dual Flush Toilets

	Without HB 2126	With HB 2126
Low flush toilet without local rebate	$50-$300	$50-$300
Dual flush toilet without local rebate	$150-$400	$112-$300
Low flush toilet with local rebate	$0-$200	$0-$200
Dual flush toilet with local rebate	$50-$300	$12.50-$37.50

The cost may also depend on the use of credit in new housing developments. With approximately 35,000 new housing permits plus new businesses, over 100,000 new toilets could be installed each year. If contractors take advantage of this credit in new construction, the cost to the state could be increased significantly.

Local Government Impact

Participation in cities and counties with existing rebate programs may increase more dramatically if taxpayers are able to be make their toilet purchases cost neutral by coupling the state tax credit with the city or county rebate.

Each year, incorporated cities and towns receive 15% of income tax collections from 2 years prior. This bill would reduce local government distributions by $(15,000) on the low end of the estimate beginning in FY 2012. The reduction would be higher if use increases significantly.

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