



Tax Incentives to Preserve High Quality Water and Wastewater Service  
And Promote Economic Development and Job Creation  
American Water and National Association of Water Companies

### Summary

- **Investment Tax Credits: a 10% investment tax credit on all investments in water and wastewater infrastructure for the next three years.**

In 1962 Congress enacted the Investment Tax Credit (ITC) into law as the “primary tool with which to spur modernization and expansion of the country’s productive facilities and increase competitiveness in international markets.”<sup>1</sup> The ITC went through some revisions in the 1970s and 1980s, and then was repealed in the Tax Reform Act of 1986. Its reintroduction today could be an important part of our nation’s economic recovery.

- **Public Utility Dividend Reinvestment: a five year deferral of tax on dividends, similar to the program in the 1981 Tax Act (ERTA), for all public utility dividends that are reinvested in infrastructure replacement.**

According to Congressional Joint Committee on Taxation, Congress in an effort to “stimulate capital formation through internal generation of funds,”<sup>2</sup> included in ERTA a provision to provide capital to public utilities for the purchase of new equipment through the reinvestment of dividends by shareholders. “The Congress believed that an appropriate way to realize this objective was to allow tax-free treatment of certain stock distributions made to shareholders of public utility corporations.”<sup>3</sup>

- **Tax Exempt Financing: lift the cap on Private Activity Bonds for all water and wastewater investments** (Legislation was introduced in Congress in 2008).

Bringing water and wastewater projects out from under the volume cap on private activity bonds could leverage as much as \$6 billion annually into water infrastructure, and do so at very little cost to the federal government (\$214 million over ten years).

- **Accelerated Depreciation: 50% increase, or more, in depreciation rates for infrastructure replaced over the next three years.**

Three times since 2002 during economic crises Congress has increased the rate of depreciation of business related assets as a way of spurring the economy. Today Congress should extend, and consider increasing, the 50% “Bonus Depreciation” for infrastructure replaced over the next three years.

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<sup>1</sup> Richard E. Matheny, *Taxation of Public Utilities*, Pub. 00761, Rel. 13 §4.04, 4-4 ( Matthew Bender & Company, Inc., August 2006)

<sup>2</sup> Joint Committee on Taxation, *General Explanation of the Economic Recovery Act of 1981*, December 29, 1981

<sup>3</sup> Supra