

**PUBLIC UTILITIES COMMISSION**

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



February 1, 2022

To: All Investor-Owned Water and Sewer Utilities

SUBJECT: Changes in Federal Tax Law – Contributions in Aid of Construction

The 117<sup>th</sup> United States Congress enacted the Infrastructure Investment and Jobs Act (H.R. 3684) that was signed into law by President Biden on November 15, 2021. Section 80601 of H.R. 3684 changes the federal tax law concerning the income tax implications associated with Contributions in Aid of Construction as well as government grant funds received. This change impacts investor-owned water and sewer utilities.

In the Tax Cut and Jobs Act implemented by Congress in 2018, a tax exemption was eliminated which enabled federal taxation of all water and sewer infrastructure contributed to a utility as Contributions in Aid of Construction. Under H.R. 3684 now, only contributions for water and sewer service connections are treated as taxable income. This effectively changes the applicability of the income tax component (“ITC”) in Utility Tariff Rule 15, retroactive back to January 1, 2021. H.R. 3684 also eliminated the taxability of grants received from government agencies, except for grants related to water and sewer service connections.

In response to the change in the federal tax law, Water Division requests utilities, at their earliest convenience, submit Tier 1 advice letters to bring their Tariff Rule 15 into compliance with Section 80601 of H.R. 3684. The changes should be made effective retroactively back to January 1, 2021, consistent with the effective date for Section 80601. Further, any federal income taxes associated with Contributions in Aid of Construction that were received after December 31, 2020, should be refunded, with interest, to the contributor. Any ITC on Contributions in Aid of Construction collected by the utility other than for water and sewer service connections should cease immediately.

Sincerely,

/s/TERENCE SHIA

Terence Shia, Director  
Water Division

Cc: Jennifer Capitolo, Executive Director, California Water Association  
Director, Public Advocates