

Long Islanders Seek IRS Clarification Over Income Tax Liability for Septic System Replacement Grants

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Suffolk County, New York, has been a model for tackling nitrogen pollution from onsite wastewater systems. Now, local grants to upgrade treatment systems are producing another consequence for homeowners: larger tax bills.

The county occupies the eastern tip of Long Island and is home to the wealthy communities known commonly as the Hamptons. Wastewater treatment at many county homes depend on cesspools. During the last couple of years, the county has been offering grants to replace cesspools with nitrogen-reducing systems. At the same time, the county and several municipalities passed laws requiring low-nitrogen systems for new construction and building expansions.

As tax season approached, homeowners received 1099 forms telling them they have additional tax liability this year because they received thousands of dollars in grant payments.

“I said that’s ridiculous,” Dorothy Minnick, 69, tells the *Newsday* newspaper. “I didn’t make that income. I’m being penalized for doing something good for the environment.”

Tim Sheehan, who lives on Shelter Island, on the north side of Long Island, says he could face a tax bill \$3,000 larger. “We were told from the outset the county grant would not be taxable income for us as homeowners.”

The tax anxiety can be traced to County Comptroller John Kennedy, whose office mailed the required IRS forms to taxpayers.

By early spring, 69 advanced systems have been installed in the county at an average cost of \$20,523. The county capped its initial grants at \$10,000, and some municipalities offer thousands more in grant money to help cover more of the cost. More than 1,500 people have applied for grants.

A legal opinion from the county's tax counsel says homeowners should not be liable for additional tax if they received a grant. That opinion cited two IRS cases about business grants. An opinion from the county attorney's office says homeowners would not face tax consequences if grant money was paid directly to installers. Anthony Basile, associate professor of accounting and taxation at Hofstra University and a practicing CPA, was quoted in news reports as saying the tax form should go to the contractor and not the homeowner.

Arguments about the tax bills are ongoing.

Also on New York's Long Island, the Sag Harbor Village Board has passed a law requiring low-nitrogen onsite systems for all new homes and for existing buildings, including commercial buildings, if their area is expanded by at least 25%. There was no opposition to the proposed law at a public hearing. The law took effect April 1. Also this spring, members of the Westhampton Village Board held initial discussion about a similar law.

The Catskill Watershed Corp. has an \$86 million, 10-year contract with New York City to repair or replace failing septic systems. The contract continues a program that began in 1997. People whose septic systems have failed or are likely to fail are eligible for reimbursements. There is no cap on payments. Under the new contract, wastewater systems for nonprofit organizations and local governments will be included. Small businesses and homes are already covered.