

Feds: Suffolk septic grants should be tax-exempt

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Schumer to IRS: 'Flush this septic grant tax problem out of Long Island'

Sen. Chuck Schumer said the USDA has agreed that the purpose of improving one's septic system is to conserve soil and water resources and not personal income and that the IRS should no longer tax residents who receive this grant. Credit: Jeff Bachner

By Robert Brodsky robert.brodsky@newsday.com Updated November 22, 2022

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The U.S. Department of Agriculture has ruled that Suffolk County grants to help homeowners upgrade to new high-tech septic systems should be considered tax-exempt, according to a notice filed last week in the Federal Register.

But before the change can go into effect, the Internal Revenue Service must reverse its 2020 ruling which labeled Septic Improvement Program grants as taxable income, even though homeowners never receive the money directly.

Senate Majority Leader Chuck Schumer (D-NY) said Tuesday he expected the IRS to make the change in the coming months.

"You get a grant ...to clean up the environment to prevent nitrogen from flowing into our waterways and into our aquifer, and then they tax you for it," Schumer said at a news conference in Brentwood.

WHAT TO KNOW

- **The U.S. Department of Agriculture** has ruled that grants from Suffolk County to help homeowners install new high-tech septic systems should be considered tax-exempt.
- **Before the change can be implemented**, the Internal Revenue Service must reverse its 2020 ruling that labeled Septic Improvement Program grants as taxable income.
- **The more than 1,000 county homeowners** who already have paid taxes on the septic systems would need to file amended tax returns to get reimbursed.

"Who's going to get the grant? Not too many people because they'll be taxed on it," Schumer said.

The USDA posted a [notice](#) on Nov. 16 saying Suffolk's grants "are primarily for the purpose of conserving soil and water resources or protecting and restoring the environment" — a key criteria for making the funding tax exempt.

An IRS spokesman said federal law prohibits the agency from commenting on "private taxpayer matters."

The Suffolk program, launched in 2017, is part of an effort to encourage homeowners to upgrade their septic systems to reduce nitrogen pollution in groundwater and local waterways.

Suffolk has 360,000 aging cesspools and septics, according to program advocates.

The county pays the grant money directly to contractors to install the low-nitrogen septic systems to replace aging systems and cesspools.

The companies are responsible to pay income taxes on the funding, officials said. County officials said the program pays contractors directly so homeowners would not face additional tax burdens.

Yet, the IRS also considers the grant funding as taxable income for homeowners, boosting their tax bills.

In its 2020 ruling, the IRS said the money counts as income because homeowners exercise, "management or oversight functions of the payment," including by choosing the contractor used, and the grants are not given solely based on need.

Homeowners joined the program voluntarily before they knew the grants would be treated as income, county lawmakers said.

Cindy Krezel had a high-tech septic system installed at her Brentwood home in 2019 at a cost of \$24,000.

Krezel, a member of the Long Island Sound Funders Collaborative, a nonprofit that seeks to protect the Sound, said the county awarded her a \$20,000 grant, but in 2020 the IRS hit her with a \$6,000 tax bill for the installation.

"If you have \$24,000 to pay out of pocket, you're golden," Krezel said. "But if you're a normal person like me, and you're trying to switch over, it's impossible."

The tax bill wasn't her only aftershock.

Krezel also said the additional \$20,000 in "income" bumped her into the next tax bracket, reducing her COVID stimulus relief payment from \$1,500 to less than \$250, she said.

The more than 1,000 homeowners who already have paid taxes on the grant money will have to file amended tax returns to retroactively seek refunds if the IRS makes the change.

To date, 3,583 Suffolk homeowners have applied for the septic grants, which range from \$10,000 to \$20,000, county officials said.

A total of 1,277 homeowners have installed the wastewater treatment systems so far, with the county paying out \$24 million in grants, officials said.

Suffolk County Executive Steve Bellone said the USDA ruling could be key to curbing nitrogen pollution in the region.

"Water is everything to us on this island. It is critical to our economy to our quality of life," Bellone said at the news conference.

"Our drinking water is right beneath our feet. So if we're not protecting water quality, we're undermining our present and our future," Bellone said.

The USDA's ruling came after [years of complaints](#) from lawmakers and homeowners who said the IRS ruling amounted to "[double taxation](#)" and hindered a key environmental program.

Bellone's office asked the USDA to make the determination in March 2021, records show.

"This was established for working income homeowners," said Adrienne Esposito, executive director of Farmingdale-based Citizens Campaign for the Environment. "And once the grants were taxed, it undermined that objective."

Rep. Tom Suozzi (D-Glen Cove) and Sen. Kirsten Gillibrand (D-NY) last year pushed for legislation to undo the IRS ruling.

The measure, part of President Joe Biden's Build Back Better bill, passed the House of Representatives but failed to receive a vote in the Senate.

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