

LONG ISLANDSUFFOLK

IRS: Grants to help homeowners upgrade septic systems will be tax exempt



An advanced septic system that removes nitrogen from water is installed at a home in Flanders in 2018. Credit: Randee Daddona

By **Grant Parpan**grant.parpan@newsday.com [@GrantParpan](https://twitter.com/GrantParpan) Updated December 3, 2022

The Internal Revenue Service will no longer count as taxable income Suffolk County grants to help homeowners upgrade to new high-tech septic systems, in a decision that will help environmentally conscious residents save thousands, federal lawmakers announced Friday.

The ruling, a reversal of a 2020 IRS policy, comes on the heels of a November U.S. Department of Agriculture decision that the grants should be considered tax exempt.

“This ruling supports homeowners who are doing their part to help reduce nitrogen pollution and prevents them from being ‘double taxed,’” Senate Majority Leader Chuck Schumer (D-N.Y.) said in a statement Friday.

The USDA posted a notice 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. In its ruling, the IRS credited the USDA decision with paving the way for the reversal, noting that the secretary of agriculture must determine that the primary use of the funding is to conserve soil and water resources and to protect or to restore the environment in order for it to be tax exempt.

“This decision from the IRS is the correct and just policy, and is a huge victory for Suffolk County taxpayers,” Rep. Lee Zeldin (R-Shirley) said in a statement.

The IRS ruling for Suffolk creates precedent that also would make the septic grants tax exempt in Nassau County, Schumer spokesperson Angelo Roefaro told Newsday.

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 for paying income taxes on the funding, officials said. County officials said the program pays contractors directly so homeowners would not face additional tax burdens.

But at a news conference in November, one Brentwood resident said she was hit with a \$6,000 tax bill after she received a \$20,000 grant to help cover the \$24,000 cost of upgrading her septic system.

"The tax nightmare is over for homeowners who do the right thing by installing nitrogen reducing IA systems to improve water quality," Suffolk County Executive Steve Bellone said in a statement. He said the IRS change would encourage more people to use the Suffolk program.

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

Bill Ulfelder, New York executive director for The Nature Conservancy, called the ruling a "critical step toward a clean water future for Long Island."

"Nitrogen pollution from antiquated septic systems hurts bays, harbors, and wildlife, closes beaches, and endangers our economy, health, and way of life," Ulfelder said in a statement.

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.



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