

Santa Ynez Community Services District
MEMORANDUM

To: Board of Directors
From: Loch Dreizler, General Manager
Date: January 16, 2026
Subject: Tax Deductibility of Interest on Sewer Connection Installment Payment Plans – Update Following Review of Prior Meeting Minutes

Recommendation: The District provides the installment payment plan as a convenient service to help residents manage the cost of connecting to the sewer system; it is not a mandatory financing feature of providing services. The District recognizes that ratepayers can and should pursue other funding options.

No changes to the current installment payment plan process are recommended at this time. Staff will continue to provide amortization tables to participants using our payment plan for any potential tax deductions.

Purpose: This memo summarizes the tax treatment of our sewer rates and the interest charged on installment payment plans for new sewer connections. It responds to discussions from the previous meeting minutes and provides clear guidance for staff and residents on what may be deductible under federal tax rules.

Background: Our District's sewer service rates are collected through the property tax system as a user fee. We also offer an optional installment payment plan for residents connecting to the sewer system. Under this plan, the connection fee is paid over time with interest at prime plus 1%, and payments (including interest) are added to the property tax bill.

Key Tax Rules: Regular sewer rates are service charges for utility use and are **not** deductible as real estate taxes. However, the **interest** portion of payments under our installment plan for sewer connections qualifies as deductible in most cases.

"According to IRS rules (Publication 530 and related guidance), the interest portion of payments on a special assessment for local benefits—such as a sewer connection fee financed through installments—is deductible as part of state and local real estate taxes on Schedule A. The key requirement is that you must be able to show or allocate the amount attributable to interest."

The principal amount of the connection fee is not deductible. Residents should add it to their property's basis (cost) for future capital gains calculations.

Substantiation: Residents participating in the payment plan can use the amortization table provided when the installment plan is set up. This table breaks down each payment into principal and interest, allowing accurate calculation of the deductible interest for each tax year.

Important Disclaimer: The District is not qualified to provide tax advice. The information in this memo and in any related communications is for general informational purposes only and is based on publicly available IRS guidance. Tax laws are complex and subject to individual circumstances, changes in federal or state law, and IRS interpretation. Residents should always consult their own financial advisor, tax consultant, or other qualified professional before making any decisions regarding tax deductions, filings, or related matters. The District does not assume any responsibility for the accuracy or applicability of this information to any individual situation.