

# WATER SERVICE EXCISE TAX (WET)



Iowa Department of  
**REVENUE**

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# Contact Information

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# DISCLAIMER:

Please be advised that the information in this presentation contains informal opinions and are only applicable to the factual situations referenced and to the statutes in existence as of June 6, 2018. The Iowa Department of Revenue may take a contrary position in the future to what is stated today. Any oral or written opinion by Department personnel not pursuant to a Petition for Declaratory Order under Iowa Administrative Code rule 701-7.24 is not binding on the Department.

For more guidance on WET, visit <https://tax.iowa.gov/WET> and refer to the Administrative Rules (forthcoming) .

# What is an excise tax?

An excise tax has the same function as a traditional sales tax; it's simply a special kind of tax that applies to the sale of a very specific type of product or service.



# Senate File 512

## 1) Section 10: Eliminates sales tax on sales of water service

- Prior to July 1, 2018, the sale of water service is subject to sales tax at a rate of 6%.
- The bill exempts the sale of “water service” (by piped distribution) from sales tax.
- NOTE: Sale of water service *not* via piped distribution is still subject to sales tax.

## 2) Section 13: Creates an excise tax on the sale of water service

- Beginning July 1, 2018, the sale of water service will be subject to a distinct excise tax at the same rate of 6%.



# Senate File 512

## In sum:

- **NOT an *additional* tax**; takes the place of sales tax for water service only.
- **NOT a tax increase**; same 6% rate as sales tax.
- Simply requires water utilities to **separately itemize water service** on their bills/receipts and **separately remit that tax** to the Department of Revenue.

**Effective date:** July 1, 2018

# Senate File 512

## Why?

- Portion of WET revenues will be distributed into the **water quality infrastructure fund** and the **water quality assistance fund**.
- Provides money to the Department of Agriculture and Land Stewardship and the Iowa Finance Authority to improve water quality in Iowa.
- The remaining portion of WET that is not distributed into either of these funds will be deposited into the General Fund.



# Exemptions from WET

Senate File 512 section 14 states:

**“Exemptions.** The sales price from transactions exempt from state sales tax under section 423.3 . . . Is also exempt from the tax imposed by this chapter.”

This means that all of the sales tax exemptions in Iowa Code section 423.3 (except for the new exemption created by Senate File 512 section 10) *also apply to WET*. If you were exempt from paying/collecting sales tax on the sale of water service under section 423.3, it is likely you are also exempt from paying/collecting WET on sales of water service.

- Example: Sale for resale.



# Who is Subject to the WET?

The WET applies to the sale of **water service** by **water utilities**.

**Water Service:** the delivery of water by a piped distribution system. “By piped distribution” means all deliveries of water where the water passes through a piped distribution system to its point of delivery.

**Water Utility:** any person, partnership, business association, or corporation, including municipally owned corporations, domestic or foreign, who owns or operates any facilities for making sales of water service to the public for compensation.

# Water Service

**Charges considered the sale of water service:** If the service or sale by a water utility is related to the furnishing of water by piped distribution to its customer, it is subject to WET.

Stormwater and sewage services are not subject to WET because they are not, and are not related to, the delivery of water by piped distribution.



# Water Service

Recall that the exemptions in Iowa Code section 423.3 apply to WET. Some exemptions that may apply to sales of water service related charges include:

- 423.3(31) – Sales to government entities for public purposes
- 423.3(37) – Sales/services for new construction
- 423.3(47) – General exemption for machines, equipment, etc. used in manufacturing
- 423.3(102) – Environmental testing services

# Water Utilities

**1) One of the following:** person, partnership, business association, or corporation, including municipally owned corporations.

- In-state or out-of-state (if making sales in Iowa)
- Includes cities & counties

## **2) Who:**

- 1) Owns or operates;
- 2) any facilities;
- 3) for making sales of water service (as defined in slides 9-10);
- 4) for compensation.

# Water Utilities: Facilities

Examples of “facilities”:

- Storage tanks
- Wells
- Plants
- Reservoirs
- Aqueducts
- Hydrants
- Pumps
- or any other similar device, mechanism, equipment, or amenity designed to hold, treat, sanitize, or deliver water.

**“Facilities” does not include interior plumbing.**



# Water Utilities: Compensation

What constitutes a “sale for compensation?”

- When water service is provided in exchange for money or other consideration.
- ***Includes*** the sale of water service included in a transaction involving other products or services. ***WET must be itemized on bill/receipt.***



**Example:** Campground A charges \$10 per night for its campsites, which includes access to water service. **Campground A only grants access to that water for paying customers.** Campground A is therefore making sales of water service for compensation, and must separately collect and remit WET on that ***portion*** of the \$10 per-night campsite fee that is charged for water service.

# Water Utilities: Compensation

When is water service not sold for compensation?

- when water service is accessible to the public at no charge, **and** the users are not required to be customers of the seller.



**Example:** Campground B charges \$10 per night for its campsites, and on the premises provides access to water service for the public at no charge; any member of the public, whether or not they are a paying customer, may use the water service as desired and no admittance fee is charged. No portion of Campground B's \$10 per-night campsite fee would be subject to WET.

# Water Utilities: Examples

## Likely are water utilities:

- Traditional water utility companies (e.g., Des Moines Waterworks)
- Municipalities that sell water service

## Likely are not water utilities:

- Hotels (interior plumbing is excluded from the definition of “facilities”)
- Apartments (unless the apartment business itself collects the fees for water service that it pipes to its residents)
- ***Note: seller of water will collect WET from these entities directly***

## May be water utilities under certain circumstances:

- Campgrounds
- Mobile home parks



# Permits & Registration

# Registration

All water utilities required to collect and remit WET **must register a for a WET permit.**

- All WET reports and remittances must be made under this new permit number.
- You may not use a sales tax permit to report and remit WET.



**Taxpayers who make sales of both water service and other products/services:**

- You will retain your current sales tax permit, but must still register for a WET permit, and file your reports/remittances of WET and sales tax under the appropriate permit.

# Registration: How do I register?

Registration forms are available at the following URL:

<https://tax.iowa.gov/sites/files/idr/forms1/Water%20Service%20Excise%20tax%20permit%20application%20%2878010%29.pdf>

Registration forms must be completed and mailed to:

Registration Services  
Iowa Department of Revenue  
PO Box 10470  
Des Moines, IA 50306-0470

**\*There is no electronic registration\***

# Filing of Returns & Deposits

# Returns & Filing Frequency

Generally, all water utilities will file quarterly returns.

However, if you expect that your annual tax liability for your combined WET *and* sales tax will not exceed \$120, you may apply to the Director to file annual returns.



# Deposit Filing Status

Same criteria as for sales tax filing status:

Deposit Filing Status	Threshold	Test Criteria
Semimonthly	Greater than \$60,000 in combined annual WET and sales tax (more than \$2,500 in a semimonthly period).	Tax (WET + sales) remitted in 3 of most recent 4 quarters examined exceeds \$15,000 per quarter
Monthly	Between \$6,000 and \$60,000 in combined annual WET and sales tax (more than \$500 in a monthly period).	Tax (WET + sales) remitted in 3 of most recent 4 quarters examined exceeds \$1,500 per quarter.
Quarterly	Between \$120 and \$6,000 in combined annual WET and sales tax.	Tax (WET + sales) remitted in 3 of most recent 4 quarters examined exceeds \$30 per quarter.
Annual	Less than \$120 in combined WET and sales tax for the prior year.	Tax (WET + sales) remitted in prior year is less than \$120.

# Deposit Filing Status

**Reminder:** Filing status is based on your combined WET and sales tax (if any).

## What does this mean?

This means that if you make sales of water service as well as other, non-water-service sales, your filing status likely will not change solely due to this tax.

Yay!



# Common Questions & Answers



## Common Q&A: Basics/Review

**Q:** *I am a water utility. I do not currently collect sales tax for the sale of water service. Must I now collect WET?*

**A:** It depends. Only sales of **water service** by a **water utility** are taxable. Water service that is included with other items in a comprehensive total price in a larger sale is taxable. Water service that is freely available to the public at no cost or compensation, and no requirement that users be customers, is not subject to WET.

Importantly, if an exemption from Iowa Code section 423.3 applies, then no (exemption certificates may be found here:

[https://tax.iowa.gov/sites/files/idr/forms1/IowaSalesTaxExemptionCertificate%2831014%29\\_1.pdf](https://tax.iowa.gov/sites/files/idr/forms1/IowaSalesTaxExemptionCertificate%2831014%29_1.pdf)).

# Common Q&A: Compliance

**Q:** *It appears that I should have been collecting sales tax on the sale of water previously, but I have not. What do I need to do to get into compliance?*

**A:** You should apply for a Sales Tax Permit and file past returns with your sales information and the amount of tax due. You should also pay any tax, penalty, and interest that is due. You may be a candidate to utilize our voluntary disclosure program.

More information about this program can be located here:

<https://tax.iowa.gov/voluntary-disclosure-program>

# Common Q&A: Returns

**Q:** *How do I file my WET returns?*

**A:** Log into the eFile & Pay system, found here: <https://tax.iowa.gov/efile-pay>. You will receive login information after you register for a WET permit. Once logged in, choose the appropriate permit number and file your returns.

## **NOTE:**

- The Department will only accept WET returns that are filed electronically; there is NO paper filing for WET.
- *Remember, permit registration is by paper only.*

## Common Q&A: Remittances

**Q:** *How do I remit my deposits of WET?*

**A:** While returns may only be filed electronically, deposits may be paid either through eFile & Pay or by mail with a printed voucher. *We encourage all water utilities to pay via the eFile & Pay system.*

### Remember:

**WET permit registration:** Paper/by mail only

**WET return filing:** Electronic only

**WET deposits:** Either electronic *or* by mail with a voucher

# Common Q&A: LOST & Minimum Charges

**Q:** *Is WET subject to the Local Option Sales Tax (LOST)?*

**A:** No. There is no LOST on WET.

**Q:** *I charge a minimum cost for water service, regardless of whether the consumer uses that service in a given billing period. Is that cost subject to WET?*

**A:** Yes, the minimum charge for water service is subject to WET. WET is an excise tax on the sale of metered water *in addition to* the provision of water service. If the minimum charge is for the water service itself, then it is subject to WET. (See slide number 10).

# Common Q&A: Billing & Itemization

**Q:** *I bill my customers on a cycle that does not begin on the first of the month. Therefore, the billing period spans across the WET effective date of July 1, 2018. How should I handle this billing?*

**A:** The billing rules for changes in the rate of sales tax on water found in Iowa Administrative Code rule 701—14.3(9) apply with respect to the switch from sales tax to the water service excise tax. Refer to this rule and the accompanying examples to determine how to handle billing periods that span across July 1, 2018.

Rule 701—14.3(9) can be found here:

<https://www.legis.iowa.gov/docs/iac/rule/701.14.3.pdf>

# Common Q&A: Billing & Itemization

**Q:** *I currently sell water to my customers, but I do not list it as a separate item. Does this mean I am not required to collect and remit WET?*

**A:** No, you are still subject to WET. All water utilities who make sales of water service for compensation are required to separately report the sales of water service on any bills or receipts and must collect and remit the 6% excise tax on those sales under a separate permit.

# Common Q&A: Billing & Itemization

## NOTE:

The following slides and examples apply ONLY where a water utility does not separately itemize and bill WET for the sale of water service.

Assume all sales of water service discussed in the next slides are subject to WET and that the entities discussed qualify as water utilities.



# Common Q&A: Billing & Itemization

The Department is tasked with applying WET only to qualifying sales. If a seller fails to separate out the sale of water service from the sale of other tangible personal property or enumerated services, ***the Department will assume that the cost for the sale of water service subject to WET is a pro rata portion of the total bundled sales price.***

What does this mean?:

(Water Service) + (Non-Water Service) + (Non-Water Service) = \$30  
*Sold for one price & not itemized*

WET = applied to 1/3<sup>rd</sup> of total cost (\$10)

# Common Q&A: Billing & Itemization

**Example 1:** A water utility sells combined water and sewage services for \$50 per month. The water utility does not bill its customers separately for the sale of water service, and only remits to the Department sales tax on the \$50. The Department will assume that the cost of water service is \$25 and the cost of sewage service is \$25, and the water utility will be billed accordingly.

# Common Q&A: Billing & Itemization

**Example 2:** A water utility is a campground that provides the following services for \$20 per night: campground access, electricity, sewage, water, and trash removal. The water utility does not bill its customers separately for any of these services, and only remits to the Department sales tax on the \$20.

The Department will assume that the cost of each of the five services is \$4 (total cost of \$20 divided by five separate services = \$4 per service). Therefore, the Department will assume the cost of water service is \$4, and the water utility will be billed accordingly.

# Common Q&A: Billing & Itemization

## Bundled Sale at Additional Cost

Where a water utility provides an optional water service that is bundled with a non-water service in a single transaction to its customers, and which is purchasable at an additional cost above a base-cost for other sales, the pro rata calculation will only apply to the additional cost for the bundled water service sale.

# Common Q&A: Billing & Itemization

**Example 3:** Campground C charges \$10 per night for its campsites, and on the premises provides access to water service for the public; any member of the public, whether they are a paying customer or not, may use the water service as desired. For an additional charge of \$5 per night, Campground C offers access to additional **water and sewage services** that are only available to those customers who pay for those additional services.

- Campground C's \$10 per-night campsite fee would not be subject to WET (not a sale for compensation). It may be subject to sales tax.
- However, Campground C must separately collect and remit WET on *that portion of the \$5 additional per-night campsite fee that is charged for the additional water service (\$2.50).*

# Common Q&A: Billing & Itemization

**Example 4:** A water utility sells varying service packages for different prices per day as follows:

	Campsite Access	Electricity	Water & Sewage	Total Cost
<b>Package A</b>	\$10	--	--	\$10
<b>Package B</b>	\$10	\$10	--	\$20
<b>Package C</b>	\$10	\$10	\$10	\$30

If the water utility makes sales of Package C, the water utility must only collect and remit WET on \$5—the pro rata cost of water service included in the bundled water service sale.

# Common Q&A: Billing & Itemization

To make sure the cost of water service is accurately reflected on all filings with the Department, all water utilities should properly identify the cost of water service on all bills and receipts.

Importantly, if a water utility does not itemize the sale of water service as described above, and receives a billing from the Department, the water utility may submit supporting documentation showing the correct cost of water service charged to its customers, and the Department may adjust the billing as appropriate.

# Purpose of this Presentation

This presentation is intended for general educational purposes only.

Anyone involved in an audit or protest must contact the Department representative they are working with on that issue.



# Questions?

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