



# Special Notice

WASHINGTON STATE DEPARTMENT OF REVENUE

AUGUST 15, 2011

## City-imposed Municipal Utility Taxes are Part of Taxable Gross Income

### Background

In some cases, cities provide utility services directly to their citizens. Many cities also impose a municipal utility tax on the **providers** of certain utility services. The municipal utility tax also applies to a department of the city that provides utility services.

If a city itself operates a department that provides utility services directly to its citizens, the municipal utility tax also applies to those services. The municipal utility tax is then passed on to and collected from customers by the utility provider. In some cases the municipal utility tax may be separately identified on the billing invoice to show the “effect” of the tax.

### How do I report?

The entire amount charged to and collected from customers is gross revenue to the utility provider. This amount cannot be reduced by the amount of recovered taxes when the utility provider computes its state public utility tax or business and occupation tax liability, even if the city itself provides the utility service.

### Example

City Z imposes a public utility tax on providers of water distribution services within its city limits. City Z’s Water Department provides water services to residents of City Z. City Z’s Water Department is subject to City Z’s utility tax. City Z’s Water Department passes on the local utility tax to its customers.

The entire amount that City Z’s Water Department bills to its customers for water services, including the municipal utility tax liability (even if separately stated on the billing invoice), is subject to the state public utility tax under the water distribution classification.

### For more information

Visit our website at [dor.wa.gov](http://dor.wa.gov), send an email to [dorcommunications@dor.wa.gov](mailto:dorcommunications@dor.wa.gov), or call the Department’s Telephone Information Center at 360-705-6705.