

Sales of Water by a Utility

Sales of Water Delivered to Tennessee Purchasers Are Subject to Sales Tax

The Department of Revenue has received numerous questions regarding the taxation of water a utility sells. Sales of water to Tennessee customers are subject to state and local tax, unless an exemption applies. Water is subject to the general state tax rate of 7% and the applicable local option sales tax rate.

Sellers of Water Must Charge the Local Sales Tax Rate of the Customer's Location

A seller of water must collect the local option tax at the local rate for the location where the water is delivered to the customer. This means that the seller of the water should charge the customer the local sales tax rate of the county or city in which the customer is located.

Sellers of Water to Customers in Multiple Jurisdictions Must Have a Separate Sales and Use Tax Account with the Department of Revenue for Each Jurisdiction Where Sales Are Made

A seller of water to customers in multiple jurisdictions must register with the Department to report the state and local taxes collected from its customers in each separate jurisdiction. Applications for registration can be submitted electronically through the [Department's website](#).

Example 1:

A city utility sells water to a customer located in the county of the utility but outside the city limits. The utility will need to have a separate sales and use tax account for the county in order to report the sales made to its county customer who is located outside the city limits.

Example 2:

County A Utility has customers in City Z, which is located in County B. County A Utility will need to have a separate sales and use tax account for City Z in order to report the sales made to its City Z customers.

For More Information

Visit www.tn.gov/revenue. Click on Revenue Help to search for answers or to submit an information request to one of our agents.

References

Tenn. Code Ann. § 67-6-702(a)(4)