WASHINGTON STATE DEPARTMENT OF REVENUE

SPECIAL NOTICE

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Tax Reporting for Nonprofit Water Associations

Some nonprofit water associations are not paying taxes correctly.

The Department of Revenue has discovered that some nonprofit water associations are not correctly reporting their Washington State excise tax liability, and that others are not registered with the Department as required by law.

How are nonprofit water associations taxed?

Nonprofit water associations are taxed in two ways:

1) Amounts derived from the distribution of water are subject to the Water Distribution Business classification of the public utility tax.
2) Amounts received from extending water service to new customers and similar charges made prior to the delivery of water, often referred to as "hook-up" fees, are subject to the Service and Other Activities classification of the business and occupation tax.

How are taxes computed?

In computing the public utility tax, a deduction is allowed for amounts derived from the distribution of water by a nonprofit water association and used for capital improvements by the nonprofit water association.

Some nonprofit water associations have assumed incorrectly that a deduction is available for amounts which either are derived from the distribution of water or are used capital improvements. This would result in a blanket public utility tax deduction since all of their water distribution revenue would meet the first condition.

However, to qualify for deduction, the amounts in question must both be derived from the distribution of water and be used for capital improvements. Amounts which meet only one of these conditions are not deductible. Therefore, amounts derived from distribution of water and used for operating expenses are subject to the public utility tax.

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There is no corresponding exemption from the business and occupation tax. Thus, "hook-up" fees and similar charges for services rendered prior to delivery of water to the customer are subject to business and occupation tax regardless of whether these amounts are used for capital improvements.

What should an association do if it has not paid taxes correctly?

Nonprofit water associations that have claimed the deduction in error should file amended tax returns for the last four years plus the current year.

Any nonprofit water association that has not registered with the Department of Revenue should complete a Master Business Application. These forms are available at any office of the Department of Revenue, the Department of Labor and Industries, or the Employment Security Department.

NOTE: No public utility tax is due if the taxable amount subject to public utility tax is less than $2,000 per month or $6,000 per quarter for taxpayers filing quarterly returns. If this taxable amount equals or exceeds $2,000 per month or $6,000 per quarter, public utility tax is due on the entire amount. Similarly, no business and occupation tax is due if the taxable amount subject to business and occupation tax is less than $1,000 per month or $3,000 per quarter for taxpayers filing quarterly returns. If this taxable amount equals or exceeds $1,000 per month or $3,000 per quarter, business and occupation tax is due on the entire amount. However, associations that earn less than these minimum taxable amounts are still required to be registered with the Department even though no tax may be due.

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