

Payments in Lieu of Taxes: Electric Utilities

Dear Reader:

The following document was created from the MTAS website ([mtas.tennessee.edu](https://www.mtas.tennessee.edu)). This website is maintained daily by MTAS staff and seeks to represent the most current information regarding issues relative to Tennessee municipal government.

We hope this information will be useful to you; reference to it will assist you with many of the questions that will arise in your tenure with municipal government. However, the *Tennessee Code Annotated* and other relevant laws or regulations should always be consulted before any action is taken based upon the contents of this document.

Please feel free to contact us if you have questions or comments regarding this information or any other MTAS website material.

Sincerely,

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Reference Number:
MTAS-1848

Revenue Class: Local Taxes

Fund: General

Account No.: 31511

Description: Revenue received as payment in lieu of tax on electric system property and operations that represents the public utility's fair share of the cost of local government. Payments are based upon the plant value of the electrical system and electric system operations. It applies only to municipalities that own an electrical distribution system and who buy power from TVA.

Authorization: T.C.A. § 7-52-301 *et seq.* (Municipal Electric System Tax Equivalent Law of 1987).

Requirements or Restrictions: Payments cannot be made to the municipality unless the following expenses are paid or provided for: operating expenses, debt payments, reasonable reserves or contingencies, and cash working capital adequate to cover operating expenses for a reasonable number of weeks. Cities that have private act or home rule charters that differ from these requirements should continue with their formulas for calculations until the tax equivalent payments exceed the tax equivalent amount paid in the fiscal year ending June 30, 1987. At that point the charter provisions are repealed and become subject to the T.C.A. requirements.

Current Rate: In lieu of tax payments are computed under T.C.A. § 7-52-304.

Frequency of Payment: Varies (in accordance with the resolution passed by the governing body – T.C.A. § 7-52-304(4)).

Late Pay Interest: None.

Exemptions: All underground equipment and all substation transmission lines are exempt.

Collection: Payments are transferred from the electric fund in accordance with a resolution passed by the governing body. T.C.A. § 7-52-307.

Use Restrictions: Twenty-two and one-half percent of the total tax equivalent payment is distributed to the county or counties that the system serves. Likewise, other cities that the system serves receive an amount equal to the equalized property tax rate of the other cities' taxing jurisdictions, multiplied by the net plant value of the electric plant plus the book value of materials and supplies located within the other cities' boundaries, multiplied by the assessment ratio, minus reductions required by T.C.A. § 7-52-304(3) and (4).

DISCLAIMER: The letters and publications written by the MTAS consultants were written based upon the law at the time and/or a specific sets of facts. The laws referenced in the letters and publications may have changed and/or the technical advice provided may not be applicable to your city or circumstances. Always consult with your city attorney or an MTAS consultant before taking any action based on information contained in this website.

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