

Title:

Sales Tax On Electricity: Does Your Business Really Owe It...Or Not?

Word Count:

547

Summary:

One of the most common overcharges we encounter is in the area of sales tax. We find that many non-taxable uses of electricity are taxed, anyway. Evidently electric companies -- at least some of them -- elect to play it safe: when in doubt they collect the tax and turn it over to the taxing authority, whether it's owed or not.

Keywords:

electricity,electricity savings,electricity costs,cost control,save money,business savings,save on energy,energy savings,energy savings management,electricity bills, sales tax, tax on electricity

Article Body:

As utilities auditors and consultants, one of the most common overcharges we encounter is in the area of sales tax. Our consultancy is in New York State, where some commercial uses of electricity are taxable and some are not. Yet we find that many non-taxable uses of electricity are taxed, anyway. Evidently electric companies -- at least some of them -- elect to play it safe: when in doubt they collect the tax and turn it over to the taxing authority, whether it's owed or not.

Many business managers and financial people, who watch most costs like hawks, routinely approve electricity bills without knowing for certain whether the charges are correct. They don't understand electricity bills, so they assume electric companies do the correct thing, and that their bills are error-free.

Not so. We encounter all kinds of errors and overcharges -- real whoppers, some of them -- even going back decades, with improper sales tax charges high on the list. (See "Electricity For Less: How Your Business Can Cut Costs And Stop Overcharges" at <http://www.saveelectricitycosts.com>)

Most electric bills reflect charges for sales tax, or possibly a number of different sales taxes and surcharges. The patterns of taxes can vary considerably from one taxing authority to another.

In many areas, specific classes of users -- such as certain manufacturers,

restaurants, nonprofit organizations and others -- are exempt from some or all sales taxes on electricity. In general, electricity used in the production of physical items is exempt from sales tax -- in those taxing authorities that allow exemptions. At this writing, over half of our states have enacted exemption legislation.

Some exemptions are based on what is called predominant use. Using this approach, if more than half the usage a meter measures is for an exempt activity, then all the billing for that meter is exempt.

Under the percentage of use approach, sales tax is applied only to that portion of the organization's total electricity consumption being used for non-exempt activities. The remaining portion, used to support exempt activities, is not taxed. In some states, certain kinds of organizations are exempted entirely.

Because sales tax statutes across the nation change often, check the latest information in your state. Ask a qualified representative of your electric company, or better still, get a copy of the current sales and use tax statute from the sales tax division of your state's department of revenue and taxation.

To determine the amounts of electricity being used on exempt and non-exempt activities, you may be required to have a study done by a licensed engineer. The engineer will measure the watts being used by each device that consumes electricity, and produce a usage study projecting exempt and non-exempt usage. (Some states, including New York, allow you to make this study yourself, without an engineer.) The electric company will collect sales tax from you based upon the result.

If you have been overtaxed in the past, apply to the taxing authority -- not the electric company -- for a refund. They will advise you what paperwork to submit, and how far back your refund may go.

The point here is: if your organization is being charged sales tax, don't just assume you owe the tax. Check the law and make certain the charge is legitimate.