

# Notice

**Notice Number:** 01-02  
**Tax Type:** Clean Drinking Water Fee; Kansas Retailers' Sales Tax  
**Brief Description:** Senate Bill 332 (2001 Legislative Session) implementation.  
**Keywords:**  
**Approval Date:** 08/08/2001

---

**Body:**

**KANSAS DEPARTMENT OF REVENUE  
CUSTOMER RELATIONS**

**NOTICE 01-02  
TO KANSAS PUBLIC WATER SUPPLY SYSTEMS  
ABOUT THE CLEAN DRINKING WATER FEE**

The Kansas Retailers' Sales Tax Act was first enacted in 1937. Since then, Kansas has imposed the same sales and use tax duties on public utilities as on private utilities. This means that, over the years, public and private utilities have collected the same tax from consumers on sales of water, electricity, and gas. Similarly, public and private utilities have been required to pay, or have been exempted from paying, the same tax to vendors on purchases of generating equipment, poles, power lines, water purification equipment, pumping equipment, pipe, office equipment, motor vehicles, and other items used in their business operations. These requirements put public and private utilities on the same competitive footing.

Since 1937, most states, including Kansas, have broadened their sales tax exemptions for production inputs. These exemptions, while reducing costs for utilities, have increased the time spent accounting for taxable and exempt purchases to the point that this recordkeeping has become burdensome for some public water supply systems. To help alleviate this burden, the 2001 Kansas legislature enacted Senate Bill 332. This bill gives public water supply systems the choice of either paying the Clean Drinking Water Fee (the "Fee"), or opting out of the Fee and continuing to pay sales and use tax on taxable purchases. **A water system that does not opt out will become subject to the Fee automatically and entitled to claim sales tax exemption on all purchases beginning next year.** The Fee is imposed at the rate of \$.03 per 1,000 gallons of water sold at retail. The Fee is the liability of the water system, owed to the department. SB 332 directs that the price to retail consumers shall not include the amount of the Fee. Public water supply systems include municipal and county water districts, wholesale water supply districts, rural water districts, and all other public water utilities that supply water to consumers through mains, pipes, or lines. Public water supply systems do not include private water utilities.

To opt out of the Fee and thereby continue paying sales and use tax on purchases, a public water supply system must notify the Kansas Department of Revenue in writing on or before October 1, 2001. This election is irrevocable. A Fee Opt Out Form, for use in opting out of the Fee, will be included with the initial mailing of this notice and is available on our web site. Systems that do not opt out and thereby become subject to the Fee automatically will receive a water fee reporting packet from the department sometime after October 1, 2001. The packet will include instructions on how to report the Fee and claim exemption, along with returns and exemption certificates. As noted, utilities that are subject to the Clean Drinking Water Fee will start accruing and remitting the Fee on January 1, 2002.

In addition to the Fee, SB 332 provides that certain charges and fees that utilities bill to consumers are no longer subject to state or local sales tax effective January 1, 2002. These are: (1) charges for rural water benefit units; (2) fees collected to establish service, including water system impact fees and system enhancement fees; and, (3) connection fees collected by the water supplier. No change was made to the duty of a public water supply system to collect and remit the sales tax or water protection fee on the sale of water to its retail customers.

This notice and the "Clean Drinking Water Fee Opt Out Form" are available at the Department of Revenue's web site, [www.ink.org/public/kdor](http://www.ink.org/public/kdor). If you need to discuss this notice or the Water Fee, please call either our toll free (1-877-526-7738) or Topeka area number (368-8222), press "1" to speak to a representative (listen briefly), press "5" for

Business Taxes (listen briefly), and then press “8” for Miscellaneous Taxes.

**Date Composed: 08/08/2001 Date Modified: 07/22/2003**

[\*Return to KSA Listing\*](#)