



## Iowa Department of Management

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## Utility Tax Replacement

The stated purposes of the Gas & Electric Utility Property Tax Replacement program are to:

- Replace property taxes imposed on electricity and natural gas providers with a taxation system which removes tax costs as a factor in a competitive environment by imposing like generation, transmission, and delivery taxes on similarly situated competitors.
- Preserve revenue neutrality and debt capacity for local governments and taxpayers.
- Preserve neutrality in the allocation and cost impact of any replacement tax among and upon consumers of electricity and natural gas in this state.
- Provide a system of taxation which reduces existing administrative burdens on state government.

The Legislature found that with the advent of restructuring of the electric and natural gas utility industry, a competitive environment would most likely replace the regulated monopoly environment.

Previously, utility companies were subject to property taxes levied on their production and transmission facilities. If those property tax levies would have continued in a restructured environment, the property tax costs would have put Iowa-based utility companies at a competitive disadvantage because out-of-state suppliers of energy would not have paid the Iowa property tax.

Simply removing local property taxation on gas & electric utilities would have put energy deliverers on a level playing field, but that would not have been fair to local governments. So it was decided to put in place a property tax replacement system, in advance of the impending restructuring, to ensure that the new system of taxation performed as intended.

Excise taxes, unique to geographic service areas, were calculated using methodologies that equated the new excise tax to amounts previously paid as property tax. These excise taxes are imposed on the generation and transmission of electricity and on the deliveries of electricity and natural gas to consumers.

