



March 30, 2025

In Lieu of Tax Payments

Dear Reader:

The following document was created from the CTAS website (ctas.tennessee.edu). This website is maintained by CTAS staff and seeks to represent the most current information regarding issues relative to Tennessee county 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 county 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 CTAS website material.

Sincerely,

The University of Tennessee
County Technical Assistance Service
226 Anne Dallas Dudley Boulevard, Suite 400
Nashville, Tennessee 37219
615.532.3555 phone
615.532.3699 fax
www.ctas.tennessee.edu

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In Lieu of Tax Payments

Reference Number: CTAS-224

TVA In Lieu of Tax Payments

Reference Number: CTAS-220

Authority. 16 U.S.C. § 831 *et seq.*, T.C.A. §§ 67-9-101 through 67-9-103.

Description. TVA in lieu of tax payments are payments made by the Tennessee Valley Authority to the state for the purpose of replacing tax revenue that TVA would otherwise pay if it were not a tax-exempt federal agency. The amount of the payments is determined by federal law. 16 U.S.C. § 831(L), the TVA Act.

Distribution. First \$55.2 million to the state general fund. Any amounts above \$55.2 million are distributed as follows:

1. 48.5 % - State
2. 48.5 % - Counties and municipalities to be allocated as follows:
 - a. 30 percent of the 48.5 percent to counties on the basis of their percentage of the state's total population.
 - b. 30 percent of the 48.5 percent to counties on the basis of the percentage that the total acreage of each county bears to the total acreage of the state.
 - c. 10 percent of the 48.5 percent to counties on the basis of the percentage of their land owned by TVA compared to all land owned by TVA in Tennessee.
 - d. 30 percent of the 48.5 percent to municipalities on the basis of the population that the municipality bears to the population of all municipalities in the state.
3. Three percent (3%) to local governments impacted by TVA construction activity on facilities to produce electric power. The impacted areas are designated by TVA and payments are made during the period of construction activity and for one full fiscal year after completion of such activity. The comptroller of the treasury allocates the impact funds among the counties and municipalities according to a weighted population formula. If, in any fiscal year, there are remaining impact funds after allocation, or if there are no impacted areas, CTAS may receive an amount not greater than 30 percent of the funds, with up to 20 percent of any remaining funds allocated to the Tennessee Advisory Commission on Intergovernmental Relations (TACIR) for an annual inventory of statewide public infrastructure needs, and additional 20 percent, if available, to TACIR for study purposes. The remainder shall be allocated to any regional development authorities that have acquired a former nuclear site from the Tennessee Valley Authority. The funds shall be used to construct roads, install water and wastewater facilities and provide other public infrastructure needs to assist in the development of the sites and other land as regional industrial, business and job incubator facilities consistent with regional development plans. T.C.A. § 67-9-102.

Municipal Electric and Gas System Tax Equivalent Payments

Reference Number: CTAS-1611

Authority. T.C.A. §§ 7-52-301 through 7-52-310, 7-39-401 through 7-39-406.

Description. Every municipality may pay from its electric system and gas system revenues, each fiscal year, an amount for payments in lieu of taxes ("tax equivalents") on its electric and gas system property and operations. The amount of the payment should represent the fair share of the cost of government as determined by the municipality's governing body, subject to the provisions of T.C.A. §§ 7-39-404 and 7-52-304 relative to the amounts of such payments.

Distribution. Contracts for distribution of municipal electric tax equivalent payments are authorized by T.C.A. § 7-52-306. In the absence of an agreement, a formula for apportionment of municipal electric system tax equivalent payments, wherein the county (or counties) receives 22.5 percent of the total tax

equivalent payment, is provided in T.C.A. § 7-52-307.

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