Business Tax Basics

Tax Webinar: January 2024

Information is current as of the date presented and may not reflect legislative and other subsequent changes. For the most up-to-date information, please refer to our published tax manuals and Revenue Help articles. Additionally, you can find legislative summaries by year/tax type here.

Thanks for joining us!

We will begin at 9:00 am (CST)

- **Please check your audio settings. See below for resources in case you experience audio or other technical difficulties:**
  - Contact WebEx Support https://help.webex.com/contact/
  - Link to Technical Service Resource Guide https://www.cisco.com/c/en/us/support/web/tac/technical-services-resource-guide.html
  - Try leaving and then re-entering the event

View a recording of today's presentation!

tn.gov/revenue > Taxpayer Education > Tax Webinars

https://www.tn.gov/revenue/taxpayer-education/tax-webinars.html

The webinar recording will be posted in the "Webinar Video Library" the day after the event.

- **Please submit specific account-related questions or any questions that do not get addressed in this webinar to us directly!**
  - www.tn.gov/Revenue
  - Revenue.support@tn.gov
  - 615.253.0600 (M-F 8-4:30 CST)

TN Department of Revenue

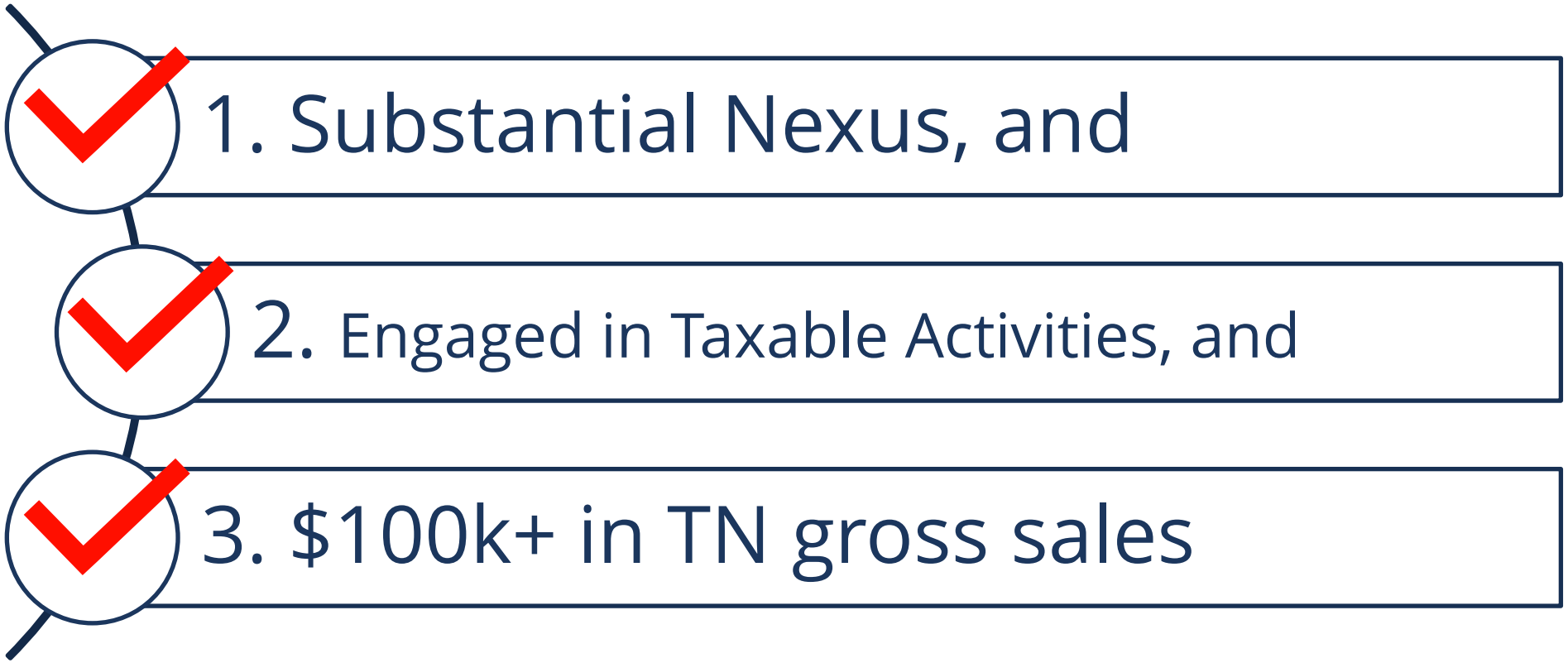
Overview

The business tax is a privilege tax on the privilege of doing business by making sales of tangible personal property and services within Tennessee and its local jurisdictions.

Tenn. Code Ann. §67-4-701 through 730 &
TENN. COMP. R. & REGS. 1320-4-5-.01 through TENN. COMP. R. & REGS. 1320-4-5-.61

- **WHO IS LIABLE**
- **REGISTRATION & LICENSING**
- **EXEMPTIONS, CREDITS & DEDUCTIONS**
- **FILING**
- **RESOURCES**

Who is Liable for Business Tax



Substantial Nexus

Substantial Nexus for TN Business Tax includes the following:

- ***organized or commercially*** domiciled in TN, *or*
- ***owns or uses its capital*** in TN, *or*
- ***systematic and continuous business activity*** in TN that has produced gross receipts *attributable to customers in TN*, *or*
- "***bright-line presence***" in TN

Meeting Bright-line Presence

- total TN **business receipts exceed** the lesser of $500k or 25% of the business's total receipts everywhere during the tax period, ***or***

- average **value of real and tangible personal property owned/rented and used** in TN exceeds the lesser of $50k or 25% of the average value of all the business's total real and tangible personal property ***or***

- total amount of **compensation paid** by the business in TN exceeds $50k or 25% of the business's total compensation

Activities

In addition to having substantial nexus, a business must also be engaged in one of the activities in TCA § 67-4-717(a) before being subject to the business tax, including….

- sale of **TPP in TN or delivered to TN** location, or
- sale of a **service that is delivered to TN** location, or
- **leasing/renting of TPP located in TN**



Gross Sales Threshold

If a business has ….

- ✓ met substantial nexus **+**
- ✓ is engaged in an activity listed per TCA **+**
- ✓ has over **$100k in gross sales** attributed to any county in TN

= register and file for TN Business Tax

Business Tax & Licensing



NEW THRESHOLD based on total gross per jurisdiction

New Threshold

- If you have a Business Tax account and have gross sales less than $100,000 for FYE 12/31/2023, contact TDOR at 615-253-0600 or revenue.support@tn.gov to switch your filing status to “not required”.

- If you switch your account to filing not required, your current business license is still good until the date printed on the license. Upon expiration, visit the city/county clerk to obtain a minimal activity license each year.

IMPORTANT NOTICE #23-08

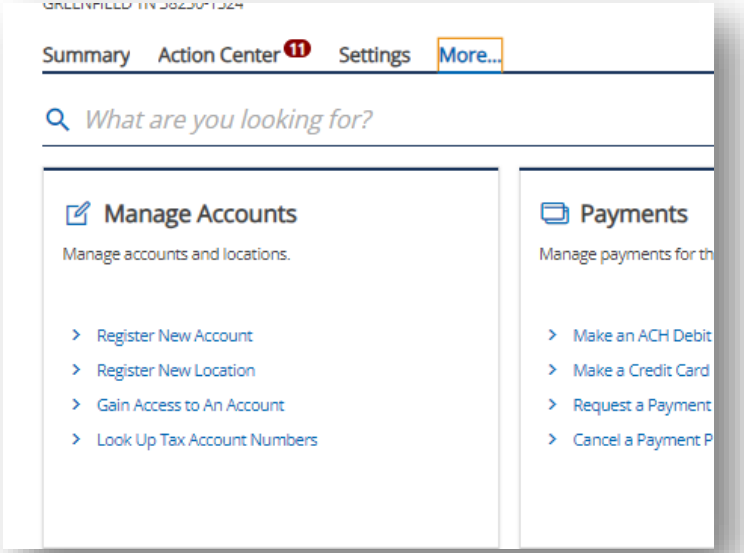


Business Tax Registration

1. Obtaining a standard business license from the county/city clerk automatically registers you for Business Tax
   - After you receive the license, you will be sent a letter from TDOR. You can use the information on this letter to add access to the Business Tax account in TNTAP

Which cities require business license:
[Business Tax Dashboard]

2. Register a location on TNTAP
   - If you register a location on TNTAP, you will need to then purchase the business license from the city/county clerk



Business Tax: Overview

All sales derived from products or services.

GROSS SALES

Determining gross sales: BT Manual pp 34-44

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CLASS | **RETAILER** OR **WHOLE-SALER**

RATE

Based on dominant business activity: BT Manual pp 45-50

Retailer v. Wholesaler: BT Manual pp 59-63

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Deductions reduce tax liability; credits offset liability.

DEDUCTIONS & CREDITS

Deductions: BT Manual pp 124-135

Credits: BT Manual pp 136-139

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Due on the 15th day of the fourth month following FY end

TAX DUE

Filing Business Tax: BT Manual pp 66-82

Webinar: Filing the Business Tax Return

Help Video: Filing the Business Tax Return

Business Tax Rates

Classification	Retailer Rates	Wholesaler Rates	General Rate
Class 1A	0.001	0.00025	
Class 1B &1C	0.001	0.000375	
Class 1D	0.0005	Not applicable	
Class 1E	Not applicable	0.0003125	
Class 2	0.0015	0.000375	
Class 3	0.001875	0.000375	
Class 4	Not applicable	Not applicable	0.001
Class 5A	Not applicable	Not applicable	0.003
Class 5B	Not applicable	Not applicable	0.0002

Choosing Classification

Class	Dominant Business Activity
1 (A)	Food and beer for home preparation/consumption and food brokerage services
1 (B)	Lumber, building materials, tools, builders' hardware, farm equipment, plumbing, heating and air conditioning equipment, and other hardware
1 (C)	Hay, grain, feed, fertilizer, seeds, bulbs, nursery stock, and other farm, lawn, and garden supplies/tools
1 (D)	Gasoline, diesel fuel, and motor oils at retail
1 (E)	Gasoline and diesel fuel at wholesale

Class	Dominant Business Activity
5 (A)	Industrial loan, thrift
5 (B)	Natural gas marketers

Class	Dominant Business Activity
2	**Specific TPP:** -Motor vehicles -Clothing (excluding custom) -Home furnishings (excluding antiques) -Prescription drugs -Prepared food -Coal, wood, ice, fuel oil, and liquefied petroleum gas -Cut flowers -Advertising specialties
2	"**catch all**" for all **TPP not specifically listed** in any other classification

Class	Dominant Business Activity
4	-Constructing or improving real property -Installing tangible personal property -Providing exterminating services -Selling livestock, poultry, farm products -Receiving commissions from the sale of farm product

Class	Dominant Business Activity
3	**Specific TPP:** -Delicatessens and candy -Made-to-order clothing -Antique furniture, furnishings, and art objects -Artwork -Books, magazines, stationery (including office supplies and writing supplies), accounting and legal forms, office forms and supplies, pens and pencils, school supplies, and writing supplies -Sporting goods and equipment, bicycles, bicycle parts, and accessories -Jewelry -Tobacco products -Toys, games, and hobby kits -Cameras, film, and other photographic supplies -Fireworks -Hearing aids -Luggage -Artist paints and supplies -Non-prescription eye-ware -Pet food -Above-ground swimming pools (in-ground swimming pools are considered improvements to real property) -Pawn shops
3	All **services** *EXCEPT* exempt services

Exempt Services

The sales of all services are subject to business tax unless specifically exempt.

If exempt, no business license is needed, and no business tax is due, *unless* the business is also making sales of tangible personal property and/or other taxable services.

- Accounting, auditing, and bookkeeping (**SIC MAJOR GROUP 82, Industry Group 872**)
- Architecture (**SIC MAJOR GROUP 82, Industry Group 871**)
- Banks, building and loan associations, mortgage bankers, securities, brokers, investment companies, and other similar organizations
- Services performed by charitable and religious organizations **(SIC MAJOR GROUP 86)**
- Domestic services performed in private households **(SIC MAJOR GROUP 88)**
- Educational services offered by elementary and secondary schools, colleges, universities (**SIC MAJOR GROUP 82**)
- Engineering (**SIC MAJOR GROUP 82, Industry Group 871**)
- Legal services (**SIC MAJOR GROUP 81**)
- Medical, dental, and allied health services (**SIC MAJOR GROUP 80**)
- Veterinary services **(SIC MAJOR GROUP 07, Industry Group 074)**

SIC Manual: https://www.osha.gov/data/sic-manual
NAICS/SIC Search: https://www.naics.com/search/

Excluded Entities

Business Tax does not apply to the following persons/entities:

- **Manufacturers** – must have industrial machinery exemption for sales tax.

NEW Effective May 11, 2023, to qualify for the manufacturing exemption the sales of manufactured products may be made from the manufacturing **location or a storage or warehouse facility that is located within a ten-mile radius of the manufacturing location**.

Excluded Entities, Cont'd

- **Trucking company** offering services to the public (common carrier).
- Any person operating **vending machines who exercises the option of paying the gross receipts tax** provided for in Tenn. Code Ann. § 67-4-506.
- **Newspaper route carriers and newspaper peddlers**
- Any institution operated **for religious or charitable purposes**, with respect to any profits that are earned from the sale of contributed items.

Excluded Entities, Cont'd

- Any **501(c)(3) or (4) entity** whose only taxable business activity during the tax period is *conducted at the Tennessee state fair or at only one county fair* and their affiliates
- Persons making **sales or rental of real property** that belongs to them
- **Radio/TV stations**
- **Publishers/printers of newspapers and other periodicals**

Business Tax Deductions

Deductions differ from exemptions in that they must be reflected on the business tax return as amounts deducted from total gross sales.

- Most deductions are provided in Tenn. Code Ann. § 67-4-711
- Taxpayers must maintain invoices and other documents to substantiate claims to deductions; otherwise, the deductions will be disallowed
- All deductions must be entered by location by the taxpayer and are totaled by the system to include on Schedule A



Business Tax Deductions, Cont'd

- **SALES OF SERVICES RECEIVED BY PERSONS LOCATED IN OTHER STATES**



- **RETURNED MERCHANDISE WHEN THE SALES PRICE IS REFUNDED TO THE CUSTOMER**

Business Tax Deductions, , Cont'd

- **SALES OF TANGIBLE PERSONAL PROPERTY IN INTERSTATE COMMERCE**
  - Deliveries of tangible personal property to customers outside this state by the taxpayer or a common carrier, before a customer obtains possession, are sales exempt from business tax.



Business Tax Deductions, , Cont'd

- **CASH DISCOUNTS ALLOWED AND TAKEN ON SALES**
  - On a $5,000 credit sale for which the customer takes a 2% cash discount, the discount is calculated as follows:
    Gross credit sale $5,000
    Less cash discount $(100) (gross credit sale x 2%)
    Net credit sale $4,900 (subject to business tax)
- **REPOSSESSIONS – THE PORTION OF THE UNPAID PRINCIPAL BALANCE IN EXCESS OF $500 DUE ON TANGIBLE PERSONAL PROPERTY REPOSSESSED FROM CUSTOMERS**

Business Tax Deductions, , Cont'd

- **AMOUNT ALLOWED AS TRADE-IN VALUE FOR ANY ARTICLES SOLD**
  - A credit will not be allowed for trade-ins unless the item traded is of a like kind and character

- **BAD DEBTS WRITTEN OFF DURING THE REPORTING PERIOD**

Business Tax Deductions, Cont'd

- **AMOUNTS PAID BY A CONTRACTOR TO A SUBCONTRACTOR HOLDING EITHER A BUSINESS LICENSE OR CONTRACTOR'S LICENSE.**



  - MUST COMPLETE SCHEDULE C AND FILE WITH THE RETURN (CLASS 4 ONLY).

- **MISCELLANEOUS FEDERAL AND STATE EXCISE TAXES**

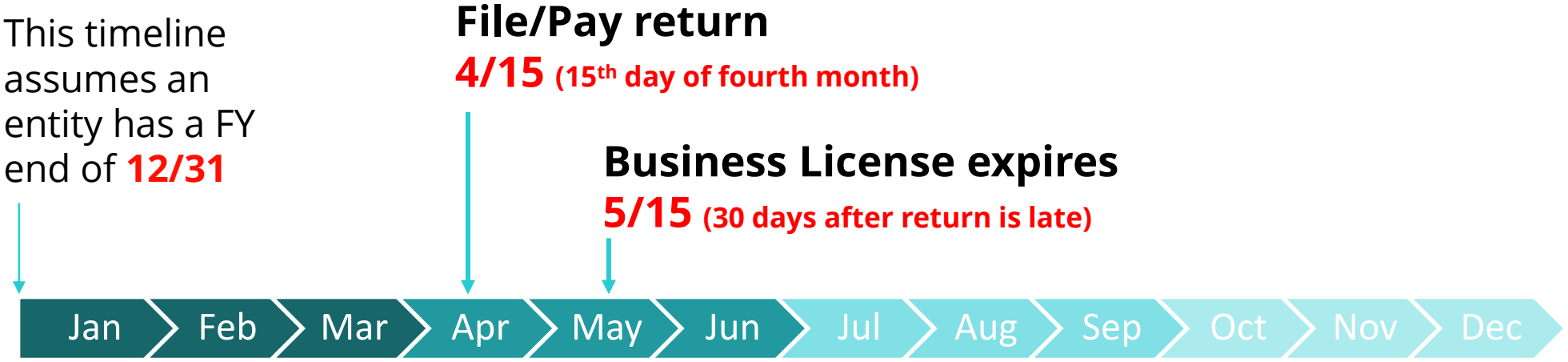
Business Tax Deductions, Cont'd

- **OTHER DEDUCTIONS NOT TAKEN ELSEWHERE ON THE RETURN**
  - These deductions may be taken only if included in gross sales on Schedule A, Line 1

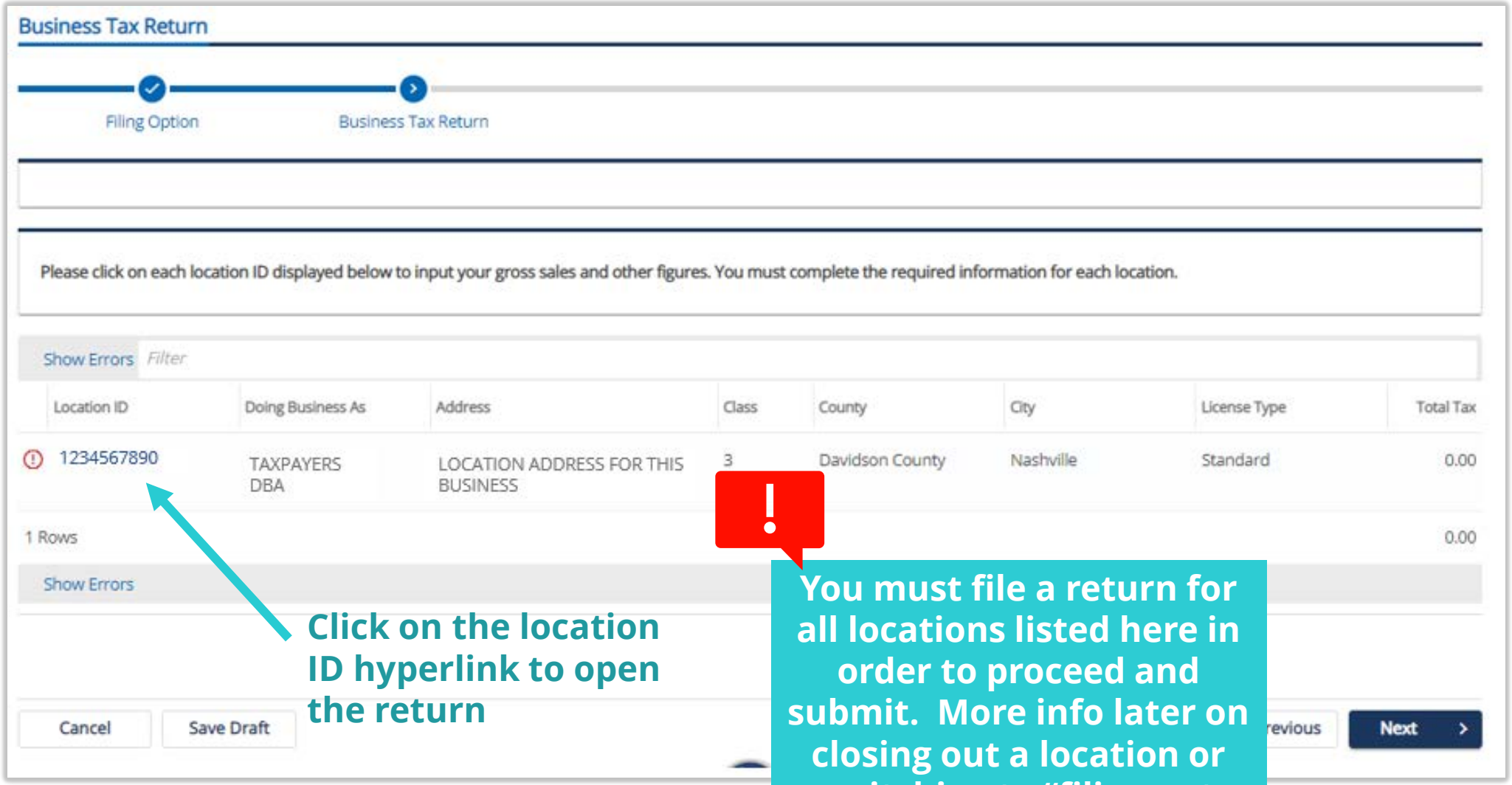
It is important to maintain records for all deductions taken!

Business Tax : When to File

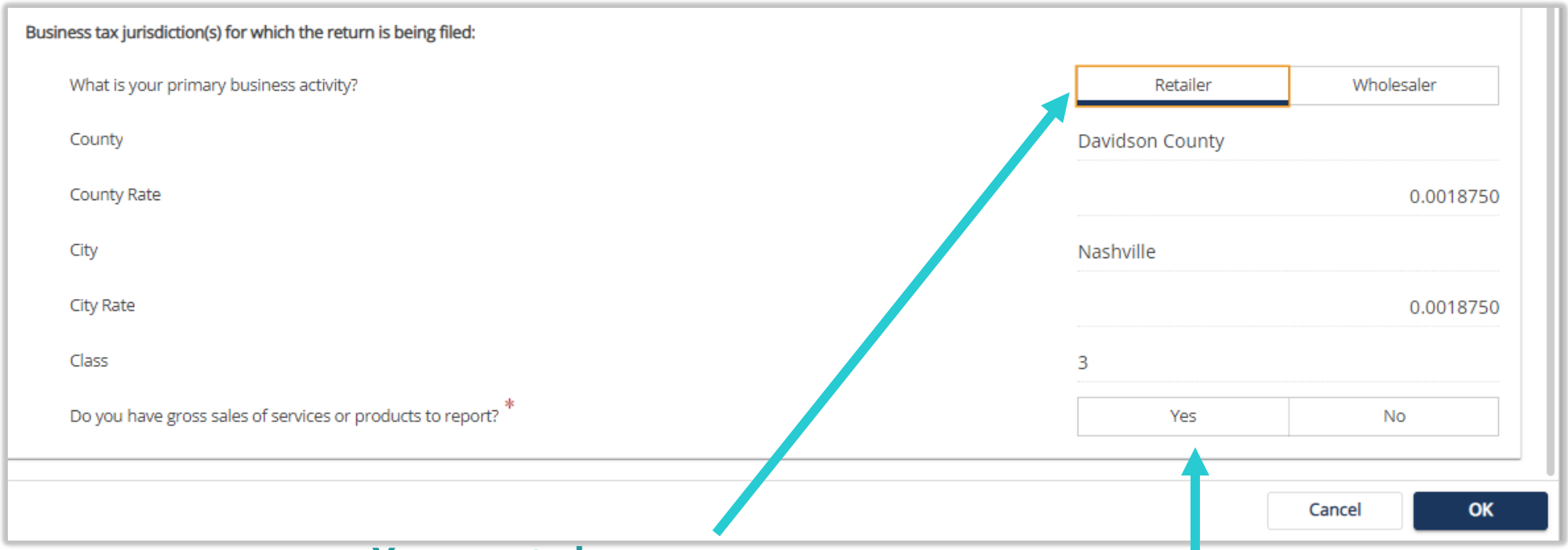
- Due on the 15th day of the fourth month following the fiscal year end (i.e. for a calendar year fiscal year, return is due on April 15)
- The business license expiration date is the 15th of the month after the tax due date
- There is no option for filing extension



HOW TO FILE - Starting the Return



HOW TO FILE - Starting the Return



You must choose either Retailer or Wholesaler

Choose Yes to populate the rest of the return. Choose No and OK to submit a zero return.

HOW TO FILE - Starting the Return



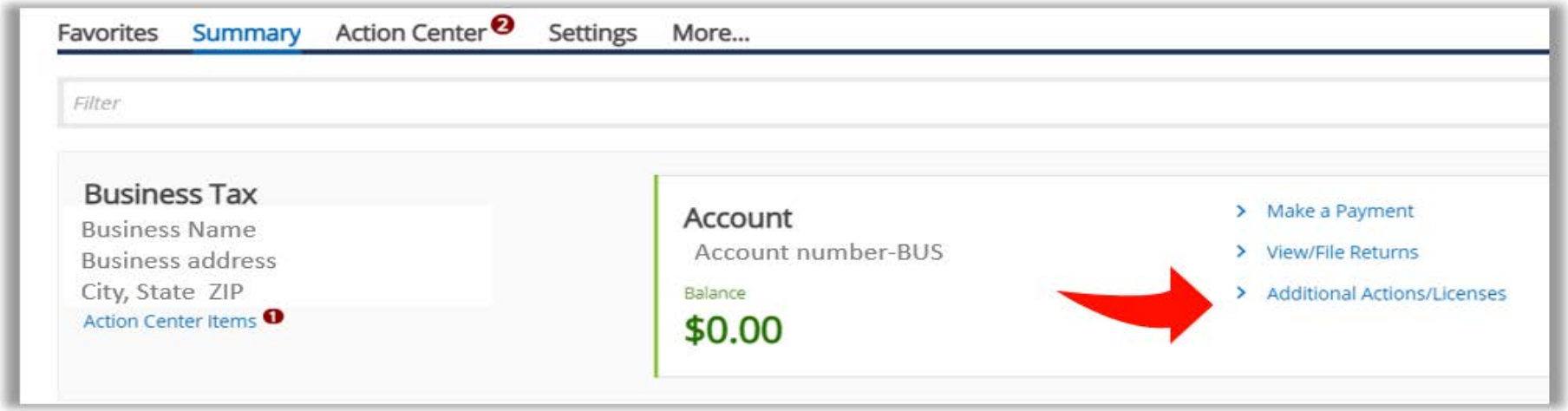
If you choose Yes for the gross sales questions, these questions populate. You must answer each of these questions. Answering Yes populates appropriate schedules to enter information into.

Personal Property Tax: May be imposed cities/counties on all property owned/held by a business to operate (i.e. furniture, fixtures, vehicles, tools, machinery, equipment, supplies, etc.)

On the business tax return, the amount entered for PPT cannot be more than 50% of the total tax due.

Business Tax : How to Close

- **Closing all locations**
  - Closure request along with the last return and payment should be received within 15 days
- **Closing one or some locations**
  - Closure request should be received within 15 days and the taxpayer should wait until normal due date to file and pay the return



NOTE: If you are not closing your business but just need to switch your filing status due to the new Business Tax threshold ($100k), call or email us at 615-253-0600 or revenue.support@tn.gov

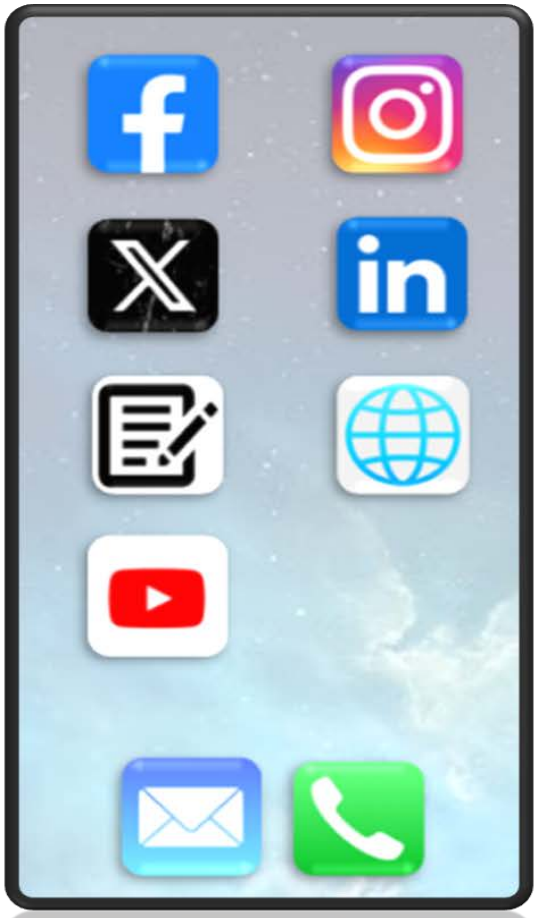
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On the Web:
www.tn.gov/revenue

Email Us:

Revenue.Support@tn.gov

Call the Tax Help Line:

615.253.0600

SUPPORT STAFF AVAILABLE TO ASSIST YOU M-F 8am – 4:30pm

All Dept. of Revenue Contact Numbers and Office Locations

UPCOMING!

- **Upcoming Webinars**
  - 2/27 – Taxation of Hemp-Based Cannabinoids
  - 3/26 – Recent F&E Law Changes
- **New Business Workshop: 4/3/24**



Taxpayer Education & Outreach



PLEASE TAKE A MOMENT TO COMPLETE A BRIEF SURVEY UPON EXITING!

IMPORTANT: In order to receive CPE credit for attending, you must answer yes to question 4 of the post-event survey.