

Tennessee Works Tax Act of 2023

Partner Engagement
February 2023



Tennessee Works Tax Act

- A. Improve Tennessee's economic competitiveness
- B. Direct relief to Tennessee business filers
- C. Relief for Tennessee working families

Tennessee Works Tax Act

A. Improve Tennessee's Economic Competitiveness

1. Recouple with federal bonus depreciation rules established by TCJA

- Speeds up the timeline for businesses to recover costs of investment in productive capital assets. Begins with 80% bonus depreciation in 2023.

2. Transition to Single Sales Factor Across the Board

- Aligns Tennessee with 32 peer states who have adopted SSF, which will simplify the filing process and reward those who invest in Tennessee.
- This will be phased in over 3 years with the transition period providing increases to the multiple of the sales factor within the three-factor formula.
- Includes a provision to allow businesses to elect the three-factor formula if higher liability necessary to liquidate accumulated tax credits.

3. Improve the Business Tax Experience for Manufacturers

- Establish a new exemption to address unusual impact of business tax on manufacturers' storage of unsold inventory (\$1M)

Current Law: Three Factor Apportionment

Current Formula: $\frac{(\% \text{ of Property in TN}) + (\% \text{ of Payroll in TN}) + 3x(\% \text{ of Sales in TN})}{5}$

Business A is located in TN, but a portion of its sales are apportioned elsewhere. Its net income is \$2.5M.

100% Property in TN
100% Payroll in TN
25% Sales in TN



1. $\frac{100\% + 100\% + (3 \times 25\%)}{5} = 55\%$

2. Business A will pay tax on 55% of its net income.

3. $55\% (2,500,000) = \$1,375,000$

4. $\$1,375,000 \times 6.5\% \text{ tax rate} =$
\$89,375 TN excise tax

Proposed Law: Single Sales Factor

**New
Formula:**

$$\frac{\text{(Total Sales in TN)}}{\text{(Total Sales Everywhere)}}$$

Business A is located in TN, but a portion of its sales are apportioned elsewhere. Its net income is \$2.5M.

100% Property in TN
100% Payroll in TN
25% Sales in TN

1. Under the proposed law, businesses will pay tax based only on their sales in TN.

2. TN Sales = 25%

3. $25\%(2,500,000) = \$625,000$

4. **$\$625,000 \times 6.5\% \text{ tax rate} =$**
 $\$40,625 \text{ TN excise tax}$

**THIS TN TAXPAYER
SAVES \$48,750!**

Current Law: Three Factor Apportionment

TN Business

Business A is located in TN, but a portion of its sales are apportioned elsewhere. Its net income is \$2.5M.

100% Property in TN
100% Payroll in TN
25% Sales in TN

1.
$$\frac{100\% + 100\% + (3 \times 25\%)}{5} = 55\%$$

2. $55\% (2,500,000) = \$1,375,000$

3. $\$1,375,000 \times 6.5\% \text{ tax rate} =$
\$89,375 TN excise tax

Out-of-State Business

Business B is located outside of TN, but a portion of its sales are apportioned to TN. Its net income is \$2.5M.

0% Property in TN
0% Payroll in TN
25% Sales in TN

1.
$$\frac{0\% + 0\% + (3 \times 25\%)}{5} = 15\%$$

2. $15\% (2,500,000) = \$375,000$

3. $\$375,000 \times 6.5\% \text{ tax rate} =$
\$24,375 TN excise tax

- Under the current law, this TN Taxpayer is paying **\$65,000** more in taxes compared to the out-of-state business even though both apportion 25% of their sales to TN.
- Under the proposed law, both taxpayers will pay **\$40,625**.

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B. Direct Relief for Tennessee Businesses

1. Excise Tax

- Establishes a new standard exemption to protect up to the first \$50,000 in positive net income from excise tax.
- Applies pre-apportionment, providing an effective rate cut for businesses, with most of the benefit concentrated among Tennessee small to medium sized businesses.

2. Franchise Tax

- Establishes a new exemption of up to \$500,000 in property from the minimum measure of the Franchise Tax.
- Provides an effective rate cut for 68,000 businesses that pay on the property measure of the tax, while setting up Tennessee for additional franchise tax reform in future years.

3. Business Gross Receipts Tax

- Increase exemption threshold for filing from \$10,000 to \$100,000 per jurisdiction, relieving 140,000 taxpayers from having to file annually. Includes provisions for holding locals harmless.
- Reduces Tennessee's top business tax rate from 0.3% to 0.1875%.

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C. Relief for Tennessee Families

1. Sales Tax Holiday

- Creates a three-month sales tax holiday on food and food ingredients beginning in August 2023. Will result in over \$100 in average tax savings per Tennessee family.

2. Paid Family Leave Tax Credit

- Establishes a two-year state tax credit aligned with the federal paid family leave tax credit, with a maximum 50% F&E credit for paid family leave.

THANK YOU!