

TENNESSEE TAX-BASED INCENTIVES

Franchise Tax

- Tax on the greater of net worth or book value of property owned or used in Tennessee.
- Tax rate is .25 per \$100.
- Finished goods inventory in excess of \$30 million may be excluded.
- Pollution control equipment is exempt.
- Property under construction and not being utilized is not included.
- Property rented from local industrial development boards may be valued by capitalizing it on company books.

Excise Tax

- Tax is based on the net earnings of the company derived from the business in Tennessee.
- Tax rate is 6.5%
- 1% credit on the purchase price of qualified industrial machinery and unused credit carried forward for 15 years.
- All capital losses are claimed in the year incurred.
- Net operating losses can be carried forward for 15 years.
- Three-factor apportionment formula: property, payroll and sales.
- Additional credits or exclusions may be available.
- Tennessee does not have a throwback provision for sales outside the state.

Sales and Use Tax

- No sales tax on purchases, installation, and repairs of qualified industrial machinery.
- No sales tax on raw materials for processing.
- No sales tax on pollution equipment for manufacturers.
- Reduced sales tax rates for manufacturers' use of energy fuel and water (1.5% vs. 7%).
- Tax-exempt if used directly in the manufacturing process and separately metered.

Income Tax

- No state income tax based on wages.

Property Tax

- No state property tax.

Jobs Tax Credit

- \$4,500 per job
- Applied to both Franchise and Excise Tax.
- Must increase capital investment by \$500,000 in a qualified business enterprise.
- May be carried forward for 15 years.
- The percentage of liability offset ranges from 33.33% to 100% for employment ranging from 1,000 to 5,000 or more.

Headquarters Tax Credit

- Reduction of sales tax from 7% to 0.5% on building materials, machinery and equipment used in the construction or remodeling of a qualified headquarters facility.

Day Care Credit

- Applies to both Franchise and Excise Tax.
- Credit up to 25% of the cost of a day care facility not to exceed \$25,000 per facility with a maximum of \$100,000 per year.

How Tennessee Compares

- The Tax Foundation's latest study. "The State Business Tax Climate Index (2003)," ranked all 50 states in terms of how business-friendly their tax systems are. Tennessee ranked in the Top 10 nationwide, and higher than any of the eight states that border it, largely due to the fact that the state has neither a property nor a wage-based income tax.

Unemployment Compensation Tax

- State tax rate 2.7% for most new employers
- After 3 full calendar years, the employer is evaluated and a tax is assigned.
 - Employer's history of taxes and employees laid off determines the tax.
 - Minimum rate: 0%
 - Maximum rate: 10%
- Unemployment compensation taxes are paid on a calendar year basis regardless of the employer's fiscal year.
- The first \$7,000 in wages paid to each employee is subject to this tax.

Source: Tennessee Department of ECD

General Property Taxes

Local Government:

Counties and Cities levy property taxes on real and personal property. In Johnson City, the rate is \$1.93 per \$100 of assessed value. In Washington County the rate is \$2.35 per \$100 of assessed value. Industrial and commercial real property is assessed at 40 percent of its appraised value, residential and farms at 25 percent. Personal property for commercial and industrial is assessed at 30 percent of its appraised value.

Motor Vehicle Registration
Fees and Taxes

Passenger Cars: Tag - \$24.00 Title - \$8.00
Motorcycles: Private - \$17.00

Trucks: Private, farm use & logging
Weight classes - \$24.00 to \$497.25

Private Carriers – Weight classes \$44.25 to \$1,371.25
Public Carriers – Weight classes \$54.75 to \$1,371.25

Mobile Homes: Weight & length classes - \$24.25 to \$36.25

Buses: \$39.00 to \$294.00 based on number of seats
(Up to 7 seats \$39.00; 8-15 seats \$84.00; 16 – 25 seats
\$144.00; 26 – 35 seats \$219.00; 36+ seats \$294.00)

County Court Clerk's Fee: \$2.50

Source: County Court Clerk's Office

State and Local Sales Tax Rate

State	7.0%
Local	2.5%
Total	9.5%

**For more in-depth information regarding taxes
in Tennessee, please visit the web site:**
www.state.tn.us/ecc/tax_info.htm