



Recent Franchise & Excise Tax Law Changes

Tax Webinar: March 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/>
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- 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)



Overview

The TN Works Tax Act resulted in appx. \$400 million in tax cuts. Public Chapter 377

- **LAWS AFFECTING FYE 12/31/23**

- CARRYFORWARD EXTENSION
- BONUS DEPRECIATION DEDUCTIONS
- PAID FAMILY LEAVE CREDIT
- SINGLE SALES FACTOR APPORTIONMENT

- **CHANGES GOING TO EFFECT FOR FYE 12/31/24**

- **RESOURCES**

Carryforward Extension



Applies to...

- Industrial machinery credits
- Brownfield property credits
- Standard job tax credits
- Job tax credits for hiring persons with disabilities
- Community resurgence job tax credits
- Community investment tax credits
- Qualified production credits

Carryforward Extension, cont'd

- **Applies to tax credits earned in tax years ending on or after December 31, 2008**
- **Applies automatically**

To verify the total carryforward credits and estimated payments available...

- Log into TNTAP
- Select "Additional Actions" next to your F&E account
- Review the Tax Credits tab

[Tax Credits](#) [Additional Actions](#)

Carryover Credits

[Show History](#)

Credit Type	Credit Begin	Credit Expiration	Amount Approved	Amount Claimed	Amount Remaining
Net Operating Loss Carryover	01-Dec-2019	31-Dec-2034	601,840.00	310,354.00	291,486.00
Net Operating Loss Carryover	01-Dec-2022	31-Dec-2037	409,301.00	0.00	409,301.00



Carryforward Extension - Resources

- [Important Notice #23-06](#)
- [F&E Tax Manual](#)
 - Ch. 16, Job Tax Credits
 - Ch. 18, Community Investment Tax Credits
 - Ch. 15, All Other Credits
- [Public Chapter 377](#)

TN Department of Revenue **Franchise and Excise Tax Notice**

Notice 23-06 May 2023

Tennessee Works Tax Act Extends Tax Credit Carryforward Periods

Certain Franchise and Excise Tax Credits May Be Carried Forward for 25 Years

The Tennessee Works Tax Act, Public Chapter 377 (2023), extends the credit carryforward periods for several franchise and excise tax credits to 25 years, which is an increase from previous carryforward periods of 15 years. The extended credit carryforward periods apply to tax credits earned in tax years ending on or after December 31, 2008. Tax credits earned before this date do not qualify for the 25-year credit carryforward period. Applicable credits include:

- Industrial machinery credits
- Brownfield property credits
- Job tax credits
- Community investment credits
- Qualified production credits
- Paid Family and Medical Leave Credit

New Credit Carryforward Periods Will Be Applied Automatically

The Department will implement the new credit carryforward periods automatically. Taxpayers do not need to contact the Department to apply the new credit carryforward periods. Taxpayers should update their records to reflect the new 25-year carryforward periods, where applicable. This change does not affect tax credits that have already been used to offset a franchise and excise tax liability.

For More Information

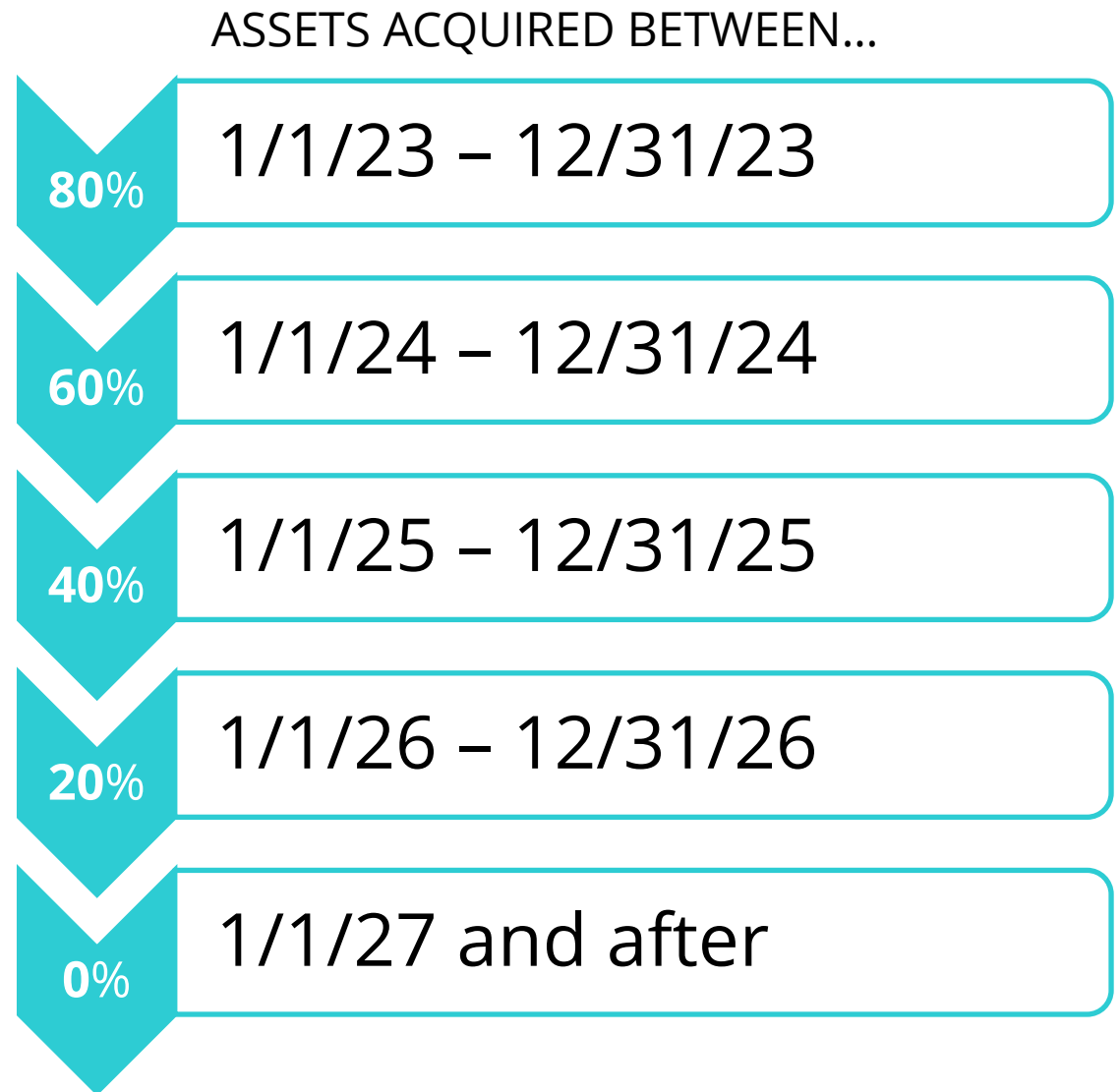
Visit www.tn.gov/revenue. Click on Revenue Help to search for answers or to submit an information request to one of our agents. Additional information is also available in the Department's [Franchise and Excise Tax Manual](#).

References

Pub. Ch. 377 (2023).

Bonus Depreciation Deductions

For assets purchased on or after 1/1/2023, Tennessee will now conform to the federal bonus depreciation provisions in the Tax Cuts and Jobs Act of 2017.



Example

Equipment Purchase:

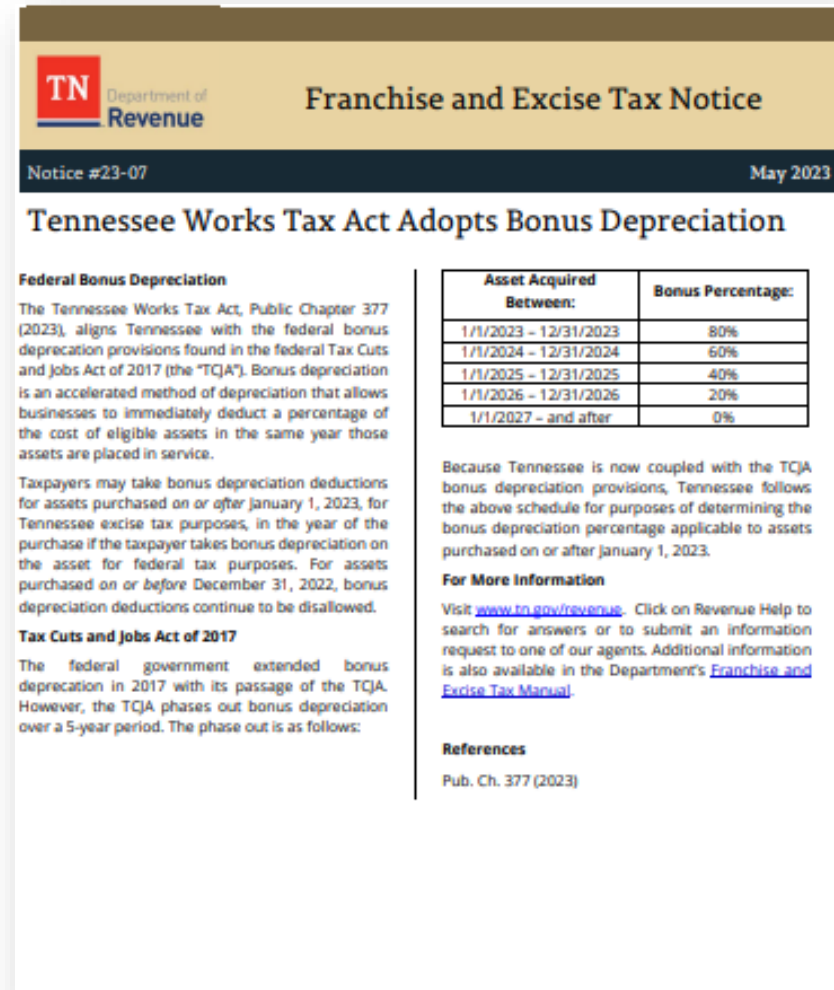
- 5/1/23 - \$100,000
- MACRS recovery period 7 yrs

- $\$100,000 * 80\% = \$80,000$
- depreciate the remaining \$20,000 over 7 yrs
- first year MACRS depreciation deduction is \$2,858 ($\$20,000 \times 14.29\%$)
- $\$80,000 + \$2,858 = \$82,858$ for FYE23

See F&E MANUAL for more information on examples of Timing Difference Between State/Federal, Reporting the Depreciation Adjustment on Schedule J, Common Depreciation Adjustment Reporting Methods, Depreciation Schedules Generated by Computer Software and Audit Procedures

Bonus Depreciation Deductions - Resources

- [Important Notice #23-07](#)
- [F&E Tax Manual](#)
 - Ch. 11, Excise Tax
- [Public Chapter 377](#)



TN Department of Revenue

Franchise and Excise Tax Notice

Notice #23-07 May 2023

Tennessee Works Tax Act Adopts Bonus Depreciation

Federal Bonus Depreciation

The Tennessee Works Tax Act, Public Chapter 377 (2023), aligns Tennessee with the federal bonus depreciation provisions found in the federal Tax Cuts and Jobs Act of 2017 (the "TCJA"). Bonus depreciation is an accelerated method of depreciation that allows businesses to immediately deduct a percentage of the cost of eligible assets in the same year those assets are placed in service.

Taxpayers may take bonus depreciation deductions for assets purchased on or after January 1, 2023, for Tennessee excise tax purposes, in the year of the purchase if the taxpayer takes bonus depreciation on the asset for federal tax purposes. For assets purchased on or before December 31, 2022, bonus depreciation deductions continue to be disallowed.

Tax Cuts and Jobs Act of 2017

The federal government extended bonus depreciation in 2017 with its passage of the TCJA. However, the TCJA phases out bonus depreciation over a 5-year period. The phase out is as follows:

Asset Acquired Between:	Bonus Percentage:
1/1/2023 – 12/31/2023	80%
1/1/2024 – 12/31/2024	60%
1/1/2025 – 12/31/2025	40%
1/1/2026 – 12/31/2026	20%
1/1/2027 – and after	0%

Because Tennessee is now coupled with the TCJA bonus depreciation provisions, Tennessee follows the above schedule for purposes of determining the bonus depreciation percentage applicable to assets purchased on or after January 1, 2023.

For More Information

Visit www.tn.gov/revenue. Click on Revenue Help to search for answers or to submit an information request to one of our agents. Additional information is also available in the Department's [Franchise and Excise Tax Manual](#).

References

Pub. Ch. 377 (2023)

Paid Family Leave Credit

A temporary tax credit is allowed against a taxpayer's combined franchise and excise tax liability based on the federal paid family and medical leave credit under Internal Revenue Code §45S.

- Effective for tax years ending on or after December 31, 2023, but before December 31, 2025
- May be used to offset up to 50% of the combined F&E liability before the credit is taken
- Any unused credit may be carried forward up to 25 years

Federal Paid Family & Medical Leave Credit

- **Credit = percentage of wages paid to qualifying employees while on FM leave**
- **Base credit is 12.5% of wages paid**
- **To qualify for the 12.5% credit, employer must pay the employee at least 50% of the employee's regular wages**
- **The credit amount increases in 0.25% increments until reaching a maximum credit of 25% of the wages paid when the employer pays 100% of the employee's regular wages for family and medical leave**
- **The maximum amount of paid leave, per employee per year, for which a credit is allowed is 12 weeks**

Example

- **Company “ABC” has an employee who takes 3 weeks of FMLA time, paid 75% of their salary of \$1,000/week (or \$25/hr x 40 hr)**
- **ABC’s credit percentage is 18.75% ($12.5\% + ((75\% - 50\%) \times 0.25)$)**
- **The employees paid family and medical leave for the year equals \$2,250 ($\$25 \times 0.75 \times 40 \times 3$)**
- **Applying ABC’s credit percentage of 18.75%, ABC’s F&E tax credit equals \$422.**

Paid Family Leave Credit - Resources

- [Important Notice #23-10](#)
- [F&E Tax Manual](#)
 - Ch. 15, Credits & Overpayments
- [IRS Employer Credit for Paid Family and Medical Leave FAQs Webpage](#)
- [Public Chapter 377](#)

TN Department of Revenue
Franchise and Excise Tax Notice

Notice #23-10 May 2023

Tennessee Works Tax Act Creates Paid Family and Medical Leave Credit

Tennessee Paid Family and Medical Leave Credit
Effective for tax years ending on or after December 31, 2023, but before December 31, 2025, the Tennessee Works Tax Act, Public Chapter 377 (2023), creates a new temporary tax credit that is allowed against a taxpayer's combined franchise and excise tax liability. The Tennessee credit is based on the federal paid family and medical leave credit under Internal Revenue Code §455.

Specifically, the Tennessee credit is equal to the federal credit taken under IRC §455, but only with respect to compensation paid to qualifying employees in Tennessee during the tax period. For purposes of this credit, compensation is paid in Tennessee if it is paid to a qualifying employee whose payroll would be sourced to this state pursuant to the apportionment sourcing provisions under Tenn. Code Ann. § 67-4-2012.

The credit may be used to offset up to 50% of the combined franchise and excise tax liability shown on the return before the credit is taken, and any unused credit may be carried forward up to 25 years.

Federal Paid Family and Medical Leave Credit (IRC §455)
Eligible employers that qualify for the federal paid family and medical leave credit receive a credit in an amount equal to the applicable percentage of wages paid to qualifying employees during any period in which such employees are on family and medical leave. The base credit is 12.5% of the wages paid to the qualifying employee for family and medical leave. To qualify for the 12.5% credit, the employer must pay the employee at least 50% of the employee's regular wages. The credit amount increases in 0.25% increments until reaching a maximum credit of 25% of the wages paid when the employer pays 100% of the employee's regular wages for family and medical leave. The maximum amount of paid leave, per employee per year, for which a credit is allowed is 12 weeks.

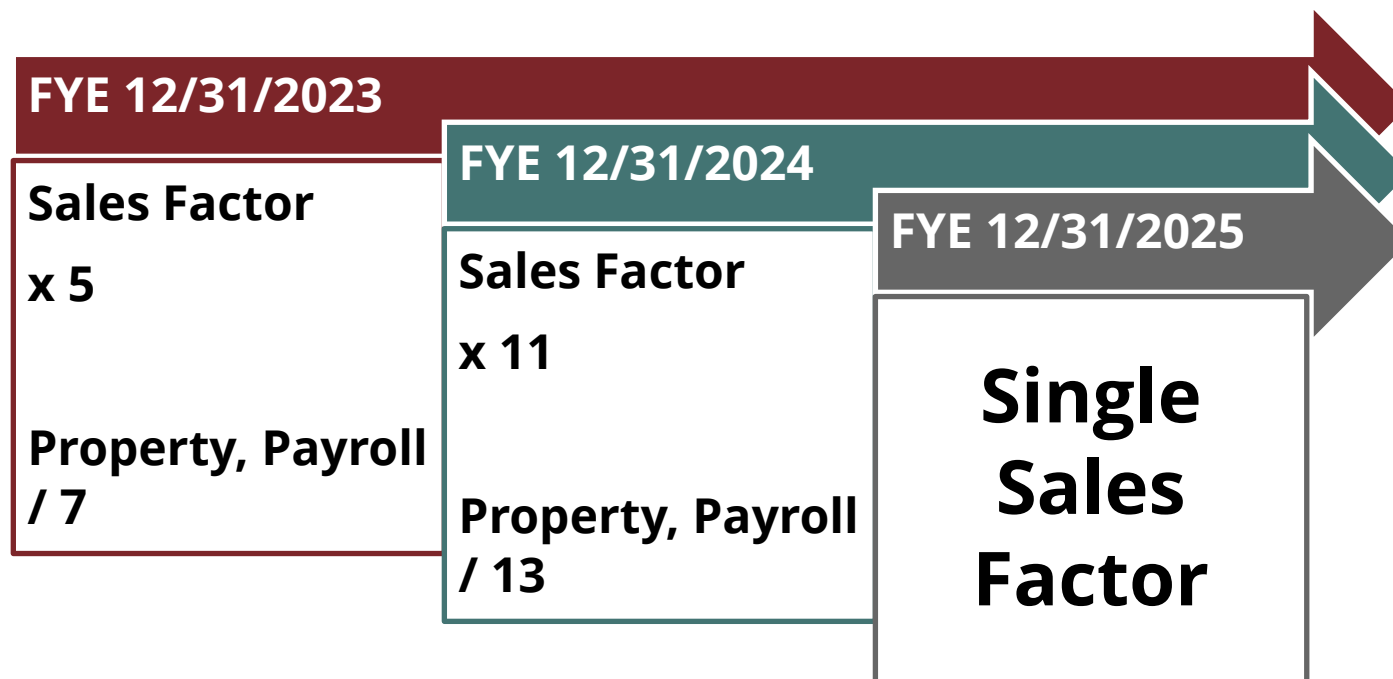
The Department of Revenue does not administer the federal paid family and medical leave tax credit. Please contact your tax preparer or visit the Internal Revenue Service's [website](#) for more information on the federal credit.

For More Information
Visit www.tn.gov/revenue. Click on Revenue Help to search for answers or to submit an information request to one of our agents. Additional information is also available in the Department's [Franchise and Excise Tax Manual](#).

References
Pub. Ch. 377 (2023)

Single Sales Factor Apportionment

The TN Works Tax Act transitions TN from a three-factor apportionment formula to a single sales factor (SFF) apportionment formula over a three-year period.



Single Sales Factor Apportionment, Exceptions/Options

- **MANUFACTURERS**
- **COMMON CARRIERS & AIR CARRIERS**
- **FINANCIAL INSTITUTIONS/FI UNITARY GROUPS**
- **TELECOMMUNICATIONS COMPANIES**
- **CAPTIVE REITS AND CAPTIVE REIT AFFILIATED GROUPS**

- **OPTION TO ELECT THREE-FACTOR FORMULA**
 - Taxpayers have the option to use the previous 3-factor formula with triple weighted sales if that formula results in a higher apportionment ratio and the taxpayer has net earnings rather than a net loss.

Single Sales Factor Apportionment- Resources

- [Important Notice #23-11](#)
- [F&E Tax Manual](#)
 - Ch. 14, Apportionment
- [Public Chapter 377](#)

The screenshot shows a document titled "Franchise and Excise Tax Notice" from the Tennessee Department of Revenue. The notice is dated May 2023 and is titled "Tennessee Works Tax Act Adopts Single Sales Factor Apportionment". It discusses the transition from a three-factor apportionment formula to a single sales factor formula over a three-year period. The notice is divided into sections: "Single Sales Factor Apportionment", "Three-Year Phase-In", and "Manufacturers Already Electing Single Sales Factor Apportionment".

TN Department of Revenue
Franchise and Excise Tax Notice

Notice #23-11 May 2023

Tennessee Works Tax Act Adopts Single Sales Factor Apportionment

Single Sales Factor Apportionment
The Tennessee Works Tax Act, Public Chapter 377 (2023), transitions Tennessee from a three-factor apportionment formula to a single sales factor apportionment formula over a three-year period. Single sales factor apportionment will be mandatory for taxpayers who use the standard apportionment formula.

Three-Year Phase-In
Single sales factor apportionment will be phased in over a three-year period by gradually increasing the weighting of the sales factor in the three-factor apportionment formula as follows:

- For tax years ending on or after December 31, 2023, but before December 31, 2024, the sales factor of the standard, three-factor apportionment formula will be weighted five (5) times, and the total of the property, payroll, and sales factors will be divided by seven (7).
- For tax years ending on or after December 31, 2024, but before December 31, 2025, the sales factor of the standard, three-factor apportionment formula will be weighted eleven (11) times, and the total of the property, payroll, and sales factors will be divided by thirteen (13).

- For tax years ending on or after December 31, 2025, the standard apportionment formula will consist of the sales factor only.

Manufacturers Already Electing Single Sales Factor Apportionment
Manufacturers that are already electing to apportion using a single sales factor will continue to use that formula during the entire three-year phase-in period. These manufacturers will not be subject to the variable weighting of the sales factor during the three-year phase-in.

Option to Elect Three-Factor Formula
Taxpayers have the option to use the previous three-factor formula with triple weighted sales if that formula results in a higher apportionment ratio and the taxpayer has net earnings rather than a net loss. A taxpayer might choose this option in order to fully utilize tax credits.

For More Information
Visit www.tn.gov/revenue. Click on Revenue Help to search for answers or to submit an information request to one of our agents. Additional information is also available in the Department's [Franchise and Excise Tax Manual](#).

References
Pub. Ch. 377 (2023)

Upcoming Changes

- **Standard Excise Tax Deduction.** For tax years *ending on or after December 31, 2024*, taxpayers can deduct the first \$50,000 in net earnings from the excise tax. See [Important Notice #23-04](#)
- **Franchise Tax Base Property Measure.** For tax years *ending on or after December 31, 2024*, there is an exemption of \$500,000 of business property from the franchise tax minimum measure. See [Important Notice #23-05](#)
- **Current Legislation:** Potential Schedule G Franchise Tax Refunds. See [HB1893](#)

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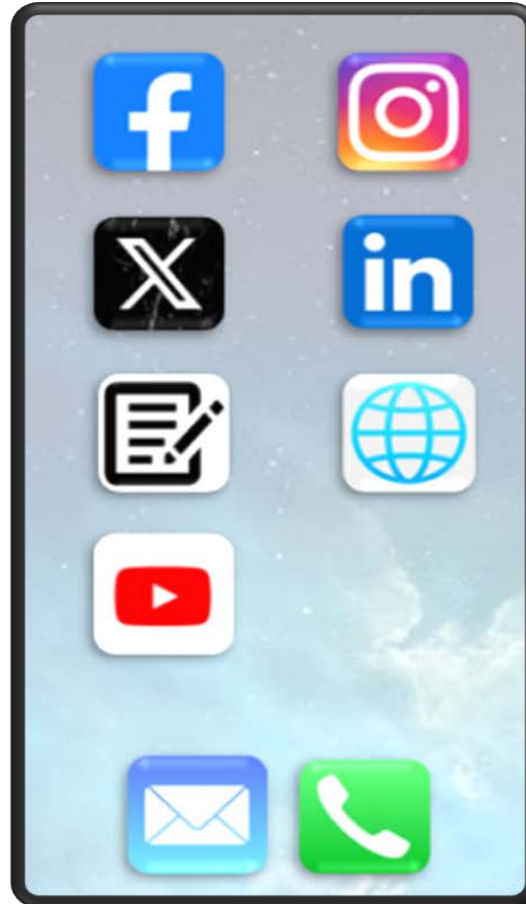
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615.253.0700

SUPPORT STAFF AVAILABLE TO ASSIST YOU M-F 8am - 4:30pm
Help # for all other taxes: 615-253-0600

[All Dept. of Revenue Contact Numbers and Office Locations](#)



UPCOMING!

- **Next Webinar: 4/30 – Potential Schedule G Franchise Tax Refunds**
- **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.