

**TENNESSEE DEPARTMENT OF REVENUE  
LETTER RULING # 11-49**

**WARNING**

**Letter rulings are binding on the Department only with respect to the individual taxpayer being addressed in the ruling. This presentation of the ruling in a redacted form is informational only. Rulings are made in response to particular facts presented and are not intended necessarily as statements of Department policy.**

**SUBJECT**

The retention of imaged invoices in lieu of hard copy invoices for Tennessee sales and use tax purposes.

**SCOPE**

This letter ruling is an interpretation and application of the tax law as it relates to a specific set of existing facts furnished to the Department by the taxpayer. The rulings herein are binding upon the Department, and are applicable only to the individual taxpayer being addressed.

This letter ruling may be revoked or modified by the Commissioner at any time. Such revocation or modification shall be effective retroactively unless the following conditions are met, in which case the revocation shall be prospective only:

- (A) The taxpayer must not have misstated or omitted material facts involved in the transaction;
- (B) Facts that develop later must not be materially different from the facts upon which the ruling was based;
- (C) The applicable law must not have been changed or amended;
- (D) The ruling must have been issued originally with respect to a prospective or proposed transaction; and
- (E) The taxpayer directly involved must have acted in good faith in relying upon the ruling; and a retroactive revocation of the ruling must inure to the taxpayer's detriment.

**FACTS**

[ENTITY NAMES] (collectively, the "Taxpayer") are primarily engaged in [DESCRIPTION OF BUSINESS]. The Taxpayer utilizes a paperless invoice storage system for invoices received from vendors. A third party accounts payable processing provider scans all paper invoices and imports the imaged documents into a digital storage system. The imaged invoices, and not the hard copy originals, are used during the review and approval process for all invoiced purchases.

Established document retention requirements are in place, such that the imaged invoices are retained for the amount of time required by the Tennessee statute of limitations (or for an extended period of time when necessary). Internal company policy mandates that imaged invoices be retained for a minimum of seven years. No documents are destroyed without explicit approval from the Taxpayer's tax and legal departments.

The Taxpayer prescribes specific procedures for the paper-to-digital document conversion process, and prescribes explicit means of identifying and preserving the documents in digital format. The imaged invoice storage system is indexed and searchable. Imaged invoices maintained in the Taxpayer's storage system have been, and will continue to be, available for auditors to review upon request. The Taxpayer believes that its document retention practices are consistent with the requirements set forth in the "Model Recordkeeping Retention Regulation" promulgated by the Federation of Tax Administrators.

### **QUESTION**

For Tennessee sales and use tax purposes, will the Tennessee Department of Revenue accept imaged invoices in lieu of hard copy invoices?

### **RULING**

For Tennessee sales and use tax purposes, the Department will accept imaged invoices that are maintained in a storage system that preserves document legibility and integrity, in lieu of hard copy invoices.

### **ANALYSIS**

The Tennessee Retailers' Sales Tax Act, TENN. CODE ANN. § 67-6-101 *et seq.*, imposes the Tennessee sales and use tax on the retail sale of tangible personal property and enumerated services in Tennessee.

TENN. CODE ANN. § 67-1-113(a) (2006), which pertains to the general administration of taxes in Tennessee, requires all persons and entities subject to any tax administered by the Commissioner of Revenue to "keep and preserve suitable records from which the taxpayer and the commissioner can determine the Tennessee tax liability, if any." TENN. CODE ANN. § 67-1-113(a) further provides that "[i]f the taxpayer maintains any such records in an electronic format, the taxpayer shall comply with reasonable requests by the commissioner or the commissioner's authorized agents to provide those electronic records in a standard record format."

With respect to the Tennessee sales and use tax, TENN. CODE ANN. § 67-6-523 (2006) imposes various recordkeeping requirements on dealers in Tennessee.<sup>1</sup> In particular, TENN. CODE ANN. § 67-6-523(a) requires every dealer "to keep and preserve suitable records of the sales or purchases" that are subject to the sales and use tax and "to keep and preserve, for a period of

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<sup>1</sup> The term "dealer" is defined broadly under TENN. CODE ANN. § 67-6-102(25) (Supp. 2010), and includes persons who manufacture or produce tangible personal property for sale at retail, for use, consumption, distribution, or for storage to be used or consumed in Tennessee; and persons who maintain or have within Tennessee, directly or by a subsidiary, an office, distributing house, sales room or house, warehouse, or other place of business.

three (3) years from December 31 of the year in which the associated return required ... was filed, all invoices and other records of goods, wares and merchandise, or other subjects of taxation” under the Retailers’ Sales Tax Act. TENN. CODE ANN. § 67-6-523(b) further provides that every dealer “shall secure, maintain, and keep for a period of three (3) years from December 31 of the year in which the associated return required by this chapter was filed a complete record of tangible personal property received, used, sold at retail, distributed or stored, leased, or rented within this state by the dealer, together with invoices, bills of lading, and other pertinent records and papers as may be required by the commissioner for the reasonable administration of” the sales and use tax laws. TENN. CODE ANN. § 67-6-523(c) requires wholesale dealers and jobbers “to keep a record of all sales of tangible personal property made in this state,” including the name and address of the purchaser, the date of the purchase, the article purchased, and the price at which the article is sold to the purchaser.

TENN. COMP. R. & REGS. 1320-5-1-.80 (1974) (“Rule 80”) advises dealers to keep and preserve records for a period of six years, including a “record of the amount of all merchandise purchased, including all bills of lading, invoices, and copies of purchase orders.” However, Rule 80 provides that if an assessment has been made and an appeal to the Commissioner or to a court is pending, books and records relating to the period covered by such proposed assessment must be preserved until the final disposition of the appeal.

Neither TENN. CODE ANN. § 67-6-523 nor Rule 80 expressly address whether records may be maintained in electronic format; the absence of a requirement that records be maintained in tangible format suggests that electronic recordkeeping is permissible. This conclusion is supported by the language of TENN. CODE ANN. § 67-1-113(a), which clearly presumes that the retention of tax-related records in electronic format is permitted.

Accordingly, the Department will accept imaged invoices that are maintained in a storage system that preserves document legibility and integrity, in lieu of hard copy invoices for Tennessee sales and use tax purposes.

Kristin Husat  
Senior Tax Counsel

APPROVED: Richard H. Roberts  
Commissioner of Revenue

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