

## BUSINESS TAX RETURN - INSTRUCTIONS

### Out-of-State Sellers With No Business Location in Tennessee

**NOTE:** A taxpayer with no business location in Tennessee city must file one business tax return with the Department of Revenue for business conducted in all counties where annual gross receipts are \$10,000 or more. Classification 4 entities that have as much as \$50,000 in annual gross receipts in any Tennessee county or in any Tennessee municipality that has enacted the business tax must obtain a business license for that jurisdiction and file a county or municipal business tax return for that jurisdiction. A separate county or municipal return and license is required for each jurisdiction in which an out-of-state Classification 4 entity has \$50,000 or more in gross receipts.

**TAXPAYER IDENTIFICATION:** Ensure that the return contains the correct name and address, business tax account number, Federal Employer Identification Number/Social Security Number/Taxpayer Identification Number issued by the IRS, and business class for the reporting entity.

**BUSINESS TAX CLASS AND CHARACTER OF SELLER DESIGNATION:** Taxpayers in Classifications 1A, 1B, 1C, 2, and 3 must indicate whether the taxpayer is filing as a retailer or a wholesaler. The taxpayer is a retailer if at least 50% of the taxable gross sales during the tax period are from sales that qualify as retail sales. The taxpayer is a wholesaler if at least 51% of the taxable gross sales during the tax period are from sales that qualify as wholesale sales.

For taxpayers in Classification 1D there is no wholesale designation. Classification 1D remits tax based on the retail tax rate. For Classification 1E, there is no retail rate. Classification 1E remits tax based on the wholesale tax rate.

**Wholesale sales** are any sales made to a retailer for resale. Wholesale sales also include:

(1) Sales of industrial materials for future processing, manufacture, or conversion into articles of tangible personal property for resale, where such industrial materials become a component part of the finished product. This does not apply to raw or unprocessed agricultural products.

(2) Sales of tangible personal property by a wholesaler to the State of Tennessee, any Tennessee county or municipality, or any subdivision of the State of Tennessee or any Tennessee county or municipality, or to any religious, educational, or charitable institution named in Tenn. Code Ann. Section 67-6-322.

(3) Sales by a franchised motor vehicle dealer to a manufacturer or distributor of motor vehicles or an obligor under an extended service contract or parts and/or repair services necessary for repairs performed by the dealer under the manufacturer's, distributor's, or obligor's warranty. Also included are predelivery inspection charges paid to a franchise motor vehicle dealer by a manufacturer or distributor of the motor vehicle.

**Retail sales** are any sales other than those defined as wholesale sales.

**Line 1:** Enter the gross Tennessee sales total for the reporting period. Do not report amounts of sales tax collected.

**Line 2:** Enter the total amount for all Tennessee deductions allowed from Schedule A, Line 18 on back of the return form.

**Line 3:** Calculate the taxable gross sales for the tax period by subtracting Line 2 from Line 1.

**Line 4:** Compute the amount of business tax due. Multiply the amount reported on Line 3 by the appropriate class rate entered on the return. Please refer to the tax rate chart on the second page of the return. If you are a retailer, use the retail tax rate for the appropriate business tax classification. If you are a wholesaler, use the wholesale rate for the appropriate classification.

**Line 5:** Line 5 is for use by Tennessee domiciled entities that pay business personal property tax. Out-of-state entities will most likely pay no personal property taxes to Tennessee counties or cities and will have no occasion to use this line on the state business tax return.

**Line 6:** Calculate the total business tax due by subtracting Line 5 from Line 4. Enter that amount or \$22, whichever is greater, here. **The amount reported cannot be less than 50% of the amount of business tax reported on Line 4 or \$22, whichever is greater.**

**Line 7:** If your account has a credit balance from an overpayment on a prior return, enter the amount on this line.

**Line 8:** If the return is filed and or payment is made after the due date reflected on the return, compute the amount of penalty due for the number of days delinquent. Subtract Line 7 from Line 6 and compute penalty as follows: 1 - 30 days = 5%; 31 - 60 days = 10%; 61 - 90 days = 15%; 91 - 120 days = 20%; 121 days and over = 25%. The maximum penalty amount is 25%. The minimum penalty amount is \$15.

**Line 9:** Calculate the interest due. Multiply the amount of tax due and reported on Line 6 less Line 7 by the number of days delinquent. Multiply that result by the current interest rate. Divide that result by 365.25. Enter here.

**Line 10:** Add Lines 6, 8, and 9. Subtract Line 7. Enter here. **This is the amount due with the return. Make payment to the Tennessee Department of Revenue.**

## **Schedule A: Deductions for Business Tax Purposes**

- Line 1:** This line is not applicable to out-of-state sellers with no Tennessee business location. Out-of-state sellers with no Tennessee business location will report only sales of goods or services made within Tennessee or to Tennessee customers.
- Line 2:** Enter the proceeds from sales of goods, wares, or merchandise returned by the customer when the sales price was refunded either in cash or by credit. This amount should equal the amounts reported on Schedule A, Line E on all Tennessee Sales and Use Tax Returns due from the taxpayer during the business tax reporting period.
- Line 3:** This line is not applicable to out-of-state sellers with no Tennessee business location. Out-of-state sellers with no Tennessee business location will report only sales of goods or services made within Tennessee or to Tennessee customers.
- Line 4:** Enter the total amounts of cash discounts allowed and taken on sales made during the taxpayer's business tax reporting period. These amounts are included on Schedule A, Line I on all Tennessee Sales and Use Tax Returns due during the business tax reporting period.
- Line 5:** Enter that portion of the unpaid principal balance in excess of \$500 due on all items of tangible personal property repossessed from customers during the taxpayer's business tax reporting period. This amount should equal the amounts reported on Schedule A, Line H of all Tennessee Sales and Use Tax Returns due during the business tax reporting period.
- Line 6:** Enter the total amount allowed as trade-in value for any articles sold during the taxpayer's business tax reporting period. These amounts are included on Schedule A, Line I on all Tennessee Sales and Use Tax Returns due during the business tax reporting period.
- Line 7:** Enter the total amount of bad debts written off during the business tax reporting period and eligible to be deducted for federal income tax purposes.
- Line 8:** Enter the total amount paid by a contractor to a subcontractor holding either a business license or contractor's license for performing activities described in Tenn. Code Ann. Section 67-4-708(4)(A). **To receive the deduction, contractors must attach Schedule B, listing the names and license numbers of the subcontractors, the amount paid to each subcontractor, and the date paid.** A copy of Schedule B is available at [www.tn.gov/revenue](http://www.tn.gov/revenue).

**Note:** For federal and state privilege and excise taxes deducted on Lines 9 through 16, the deductions may be taken by the taxpayer who made direct payment of the taxes to the applicable government agency and by all subsequent resellers of the product on which the tax was paid, provided the taxpayer is licensed to do business in Tennessee. Enter the amounts of deduction taken in each line. **All deductions must have adequate records maintained to substantiate the amount claimed or they will be disallowed.**

- Line 9:** Deduct the Federal and Tennessee privilege and excise taxes paid for gasoline tax.
- Line 10:** Deduct the Federal and Tennessee privilege and excise taxes paid for motor fuel use tax.
- Line 11:** Deduct the Federal and Tennessee privilege and excise taxes paid for cigarettes.
- Line 12:** Deduct the Federal and Tennessee privilege and excise taxes paid for other tobacco products.
- Line 13:** Deduct the Federal and Tennessee privilege and excise taxes paid for beer.
- Line 14:** Deduct the Tennessee special tax on petroleum products.
- Line 15:** Deduct the Tennessee liquified gas tax for motor vehicles.
- Line 16:** Deduct the 17% Tennessee beer wholesale tax.
- Line 17:** Enter any other deductions from business tax for the business tax reporting period. Examples of items that may be listed in the "Other" line are accommodation sales and proceeds of sales of school supplies and meals to students and school employees on campus by secondary or elementary schools (but not such sales made by independent contractors).
- Accommodation sales are occasional and isolated sales of tangible personal property for resale by one person regularly engaged in the business of making sales of that type of property to another person regularly in the business of making sales of that type of property. The amount paid by the buyer to the seller cannot exceed the amount paid by the seller to the vendor, plus freight, storage, and transportation costs from the seller to the buyer. Accommodation sales can be deducted here if included in the gross sales reported on Line 1 of the return.
- Line 18:** Calculate the total deductions by adding Schedule A, Lines 1 through 17. Enter the total here and on Page 1, Line 2.

### **CERTIFICATION:**

Complete the certification block by signing and dating the return. If the return is completed by someone other than the taxpayer, the preparer must sign the return and enter the preparer's title and date the return is completed.