

Stock-Held Deduction Repealed & Replaced with Consolidated Net Worth Election

[Public Chapter 932 \(2004\)](#)

Franchise and
Excise taxes
notice
#05-02

The deduction from a taxpayer's net worth base for the value of stock held in companies doing business in Tennessee was repealed and replaced with an election to calculate the net worth base for franchise tax purposes on a consolidated basis.

Effective for tax years beginning on or after January 1, 2004, a taxpayer that is a member of an affiliated group or a financial institution affiliated group may elect to compute its franchise tax net worth base on a consolidated basis. Once made, the election is binding for a minimum of 5 years and applies to each member of the affiliated group or financial institution affiliated group, including those that subsequently join the group.

Each taxable entity doing business in Tennessee will continue to file a separate franchise and excise tax return. However, those making the election will compute their franchise tax net worth base on a consolidated basis as described below.

For a taxpayer electing to compute its net worth base on a consolidated basis, net worth is defined as the difference between the total assets less the total liabilities of the affiliated group or the financial institution affiliated group at the close of business on the last day of the tax year as shown by a pro forma consolidated balance sheet including all members of the group. The pro forma consolidated balance sheet should be prepared in accordance with generally accepted accounting principles wherein transactions and holdings between members of the group and holdings in non-domestic persons have been eliminated. Each member's apportioned net worth is then computed by multiplying the group's net worth by a fraction the numerators of which the member's Tennessee values and the denominator of which is the group's everywhere values. The result constitutes the member's net worth base.

Taxpayers will continue to pay on the greater of apportioned net worth or the value of real and tangible personal property in Tennessee regardless of the method that is used to arrive at their apportioned net worth.

An affiliated group is comprised of the following: 1) a taxpayer that, standing alone, is subject to Tennessee

franchise tax; 2) all other domestic persons in which the taxpayer, directly or indirectly, has more than 50% ownership interest; 3) all other domestic persons that, directly or indirectly have more than 50% ownership interest in a taxpayer; and 4) all other domestic persons in which a person described in (3) above, directly or indirectly, have more than 50% ownership interest, regardless of whether such persons do business in Tennessee.

A financial institution affiliated group is any affiliated group in which more than 50% of the group's aggregate gross income (excluding dividends and receipts resulting from transactions between members) is derived from conducting the business of a financial institution as defined in Tenn. Code Ann. Section 67-4-2004(2)(A).

Those taxpayers making the election will be required to file a group registration form with the department and provide all information necessary to establish the affiliated group or financial institution affiliated group on or before the due date of the tax return for the period for which the election is to take effect.

A taxpayer electing to compute its net worth base on a consolidated basis should compute its quarterly estimated payment and extension payment taking into consideration that its net worth base will be computed on a consolidated basis.

New franchise and excise tax returns have been developed to accommodate this method of computing the net worth base. The new returns are available on the department's Web site.

If you have any questions about this notice, you may contact the department. Tennessee residents outside the Nashville calling area may call our statewide toll-free number at (800) 342-1003. Callers from Nashville or out-of-state may dial (615) 253-0600. You can access additional information on our Web site at www.Tennessee.gov/revenue.

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