



## 2017 Guidance for Tennessee's Hall Income Tax Return

### Who Must File a Return

The following persons or entities **must file a Hall Income Tax Return** if they meet one of the following criteria:

1. A person whose legal domicile\* is in Tennessee and whose taxable interest and dividend income exceeded \$1,250 (\$2,500 if married filing jointly) during the tax year.
2. A person who moved into or out of Tennessee during the year and whose taxable interest and dividend income during the period of Tennessee residency exceeded \$1,250 (\$2,500 if married filing jointly). Only the taxable income received during the period of legal domicile in Tennessee is required to be reported on Schedule A on the back and on Page 1, Line 1 of the return. Income received during the period of legal domicile in another state may be reported on Schedule B on the back of the return.
3. A person whose legal domicile\* is in another state but who maintained a residence in Tennessee for more than six months of the year and whose taxable interest and dividend income exceeded \$1,250 (\$2,500 if married filing jointly). Only the taxable income received during the period of Tennessee residence is required to be reported on Schedule A on the back and on Page 1, Line 1 of the return. Income received during residence in another state may be reported on Schedule B on the back of the return. Military personnel and full-time college students having legal domicile in another state are not required to file.
4. A Tennessee administrator, guardian, trustee, or other acting in a fiduciary capacity who received more than \$1,250 in taxable interest and dividend income for the benefit of Tennessee residents. However, if a grantor trust does not obtain an FEIN, the trustee shall not file a return, but shall report the total amount of income received by the trustee to the grantor, who shall be liable for the tax. Also, the trustee of a charitable remainder trust is not responsible for payment of tax. The trustee shall report to each resident beneficiary the amount of taxable income distributed to him, and the beneficiary shall be liable for the tax. Trustees who are receiving taxable income on behalf of NONRESIDENT BENEFICIARIES are NOT required to file a return. However, when taxable income is received on behalf of both RESIDENT and NONRESIDENT BENEFICIARIES, ONLY THE TAXABLE INCOME OF ANY RESIDENT BENEFICIARY is required to be reported in Schedule A on the back and on Line 1, Page 1 of the return. Nonresident income may be reported in Schedule B on the back of the return. A trust is entitled to only one exemption of \$1,250, regardless of the number of beneficiaries.

5. An executor or administrator of a Tennessee estate (i.e., the estate of an individual whose domicile was Tennessee) must pay tax on income received by the estate until stocks and bonds have been transferred to beneficiaries, regardless of the domicile of the beneficiaries. An estate is entitled to one exemption of \$1,250.
6. A Tennessee partnership (i.e., a partnership whose commercial domicile is in Tennessee) whose taxable interest and dividend income exceeded \$1,250. The partnership is liable for the tax, if any, and is entitled to one exemption of \$1,250.

**\*Legal domicile** - Some items considered in determining "legal domicile" are: where you are registered to vote, where you maintain your driver's license, where you maintain your permanent or principal residence (as opposed to a special-purpose or temporary residence, such as a vacation home, etc.).

## Exemptions

1. An exemption of \$1,250 (\$2,500 for married filing jointly) is allowed against total taxable interest and dividend income reported annually.
2. A person who is legally blind is exempt from the tax. Legal blindness means that vision does not exceed 20/200 in the better eye with correcting lenses or that the widest diameter of the visual field subtends an angle no greater than 20 degrees.
  - (a) To obtain the exemption, **single filers** need only to send a written statement from their physician, certifying their blindness, to the Department of Revenue. **A tax return is not required to be filed by single filers who are blind.**
  - (b) For **joint filers**, when taxable income is received by a blind person and a sighted spouse, only the taxable income of the sighted person is required to be reported on Schedule A on the back and on Page 1, Line 1 of the return. The income of the blind person is exempted and may be reported in Schedule B on the back of the return. If the taxable dividend/interest income is received jointly by a blind person and a sighted spouse, only one-half of the jointly received income will be exempt from tax. The sighted person is entitled to only a \$1,250 exemption on a jointly filed return. A physician's statement for the blind spouse is required with the return.
3. If a person is certified by a medical doctor to be quadriplegic, the taxable income that is derived from circumstances resulting in the individual becoming a quadriplegic is exempt. However, when taxable interest and dividend income is received jointly by a quadriplegic and a spouse who is not a quadriplegic, or who is quadriplegic but the taxable income was not derived from circumstances resulting in such spouse becoming quadriplegic, only one-half of the jointly received income will be exempt from the tax. In such a case, the spouse who is not quadriplegic or whose quadriplegic condition did not result in the income is entitled to only a \$1,250 exemption.
4. For tax years beginning January 1, 2012 – December 31, 2012, any person 65 years of age or older having a total annual income derived from any and all sources of \$26,000 or less (\$37,000 or less for joint filers) is completely exempt from the tax. For tax years beginning January 1, 2013 – December 31, 2014, any person 65 years of age or older having a total annual income derived from any and all sources of \$33,000 or less (\$59,000 or less for joint filers) is completely exempt from the tax. For tax years beginning on or after January 1, 2015, any person 65 years of age or older having a total annual income derived from any and all sources of \$37,000 or less (\$68,000 or less for joint filers) is completely exempt from the tax. Total annual income from "any and all sources" means all income, including social security income, regardless of whether the income is taxable for federal purposes and without deduction for loss. If the total annual income derived from any and all sources exceeds these limits, file the Tennessee

income tax return **only if taxable interest and dividend income exceeds \$1,250 (\$2,500 if married, filing jointly).**

5. For tax years beginning on or after January 1, 2018, any person 100 years of age or older, or any persons who file a joint return and either spouse is 100 years of age or older, is exempt.

## **Taxable Income**

The following types of income are considered **taxable** for the purposes of Tennessee's Hall income tax:

1. Dividends from stock in:
  - (a) All corporations
  - (b) Insurance companies not licensed to do business in Tennessee
  - (c) All holding companies, including those formed by banks, savings and loan associations, and insurance companies.
  - (d) State-chartered banks outside Tennessee not doing business in Tennessee.
2. Income from investment trusts and mutual funds, including capital gain distributions and distributions designated as "nontaxable" under federal income tax law, whether in cash or additional stock, is taxable. Portion of income derived from bonds of U.S. government and its agencies or bonds of the state of Tennessee and its counties and municipalities are exempt. Portion of income derived from other sources, such as certificates of deposit and commercial paper, is not exempt.
3. Market value of stock in a corporation given by another corporation as a dividend in the regular course of business.
4. Distributions based on stock ownership to shareholders of an S corporation.
5. Interest from the following, if the instrument matures in more than six months from the date of issuance (except certificates of deposit):
  - (a) Bonds of states, counties, and municipalities outside Tennessee.
  - (b) Bonds of foreign governments.
  - (c) Church bonds.
  - (d) Bonds, mortgages, deeds of trust, personal notes, promissory notes, installment notes, commercial paper, or other written instruments, issued by any person, firm, corporation, joint-stock company, business, trust or partnership.
6. Interest and dividends you received as a beneficiary of a trust or estate located outside Tennessee, unless derived from a nontaxable source.
7. Dividends or interest from shares or units in money market funds which are not bank money market accounts. Interest from money on deposit in a money market account in any bank, savings and loan association, or credit union is exempt.
8. Dividends or interest from Federal National Mortgage Association, Government National Mortgage Association, and Federal Home Loan Mortgage Corporation.
9. Income credited to a limited partner's capital account if the partner has a certificate evidencing transferable interest in the partnership (usually a publicly-traded partnership).

### **Income Is Considered Taxable When It Is...**

1. Received in cash
2. Paid by check or other negotiable instrument or equivalent that is mailed to taxpayer, regardless of date received
3. Credited on books of a bank, banking institution, broker or any agent of taxpayer, **or**
4. Received in merchandise or other commodities of intrinsic value.

## **Nontaxable Income**

The following types of income are considered **nontaxable** for the purposes of Tennessee's Hall income tax:

1. Dividends from stock in:
  - (a) National banks (except holding companies).
  - (b) Tennessee-chartered state banks (except holding companies).
  - (c) Federal savings and loan associations and/or savings and loans in Tennessee (except holding companies).
  - (d) Insurance companies licensed to do business in Tennessee (except holding companies).
  - (e) Mutual funds and investment trusts to the extent the income of the fund or trust is derived from bonds of the U.S. government and its agencies (including territories such as Puerto Rico) or bonds of the state of Tennessee and its counties and municipalities. Portion of income derived from other sources, such as certificates of deposit and commercial paper, is not exempt.
2. Dividends on insurance policies.
3. Interest from bonds, mortgages, deeds of trust, personal notes, promissory notes, commercial paper, or other written instrument, issued by any person, firm, corporation, joint-stock company, business, trust or partnership if the instrument matures in six months or less from the date of issuance, including demand notes.
4. Interest from the following regardless of the date of maturity:
  - (a) Bonds of the state of Tennessee and its counties and municipalities.
  - (b) Bonds of the U.S. government and its agencies (including territories). (FNMA, GNMA, or FHLMC are not agencies of the U.S. government and interest they pay to their investors is taxable.)
  - (c) Certificates of deposit issued by any bank, savings and loan association or credit union.
  - (d) Repurchase agreements or similar evidences of indebtedness. A repurchase agreement is an investment instrument whereby a person buys a security and the seller (usually a broker) agrees to repurchase the security on a certain date for a certain price.
5. Interest from insurance policies if interest is payable on demand.
6. Interest from savings accounts, checking accounts, or money market accounts in any bank, savings and loan association, or credit union. Dividends or interest from shares or units in money market funds are not exempt.
7. Interest or dividends from credit unions.
8. Income described by a partnership or S corporation as portfolio or pass-through interest or dividends, unless actually paid to a partner with a certificate of transferable interest, or to a shareholder.
9. Earnings or distributions from education and Roth IRA's that are not subject to federal income tax.
10. Distributions of income or earnings from federally recognized retirement accounts, including IRAs.
11. Capital gains from the sale of real estate, stock, etc. (Capital gain distributions from mutual funds are taxable.)
12. Distributions paid on or after July 1, 2006, to shareholders of publicly-traded real estate investment trusts (REITS). Distributions paid prior to this date are taxable.
13. Earnings or distributions received on or after July 1, 2006, from health savings accounts (HSAs). Earnings received prior to this date are taxable to the extent they are derived from sources taxable for Tennessee income tax purposes.

## **Tax Rate**

For tax years ending on or before December 31, 2015, the Hall income tax rate was 6% of taxable interest and dividend income less the \$1,250/\$2,500 exempt amount. For any tax year beginning on or after January 1, 2016 but prior to January 1, 2017, the Hall income tax rate was 5%.

Effective January 1, 2017, the Hall income tax rate is set as follows:

- (a) For any tax year that begins on or after January 1, 2017 and prior to January 1, 2018, the tax rate is 4%.
- (b) For any tax year that begins on or after January 1, 2018 and prior to January 1, 2019, the tax rate is 3%.
- (c) For any tax year that begins on or after January 1, 2019 and prior to January 1, 2020, the tax rate is 2%.
- (d) For any tax year that begins on or after January 1, 2020 and prior to January 1, 2021, the tax rate is 1%.

The Hall income tax is fully repealed for any tax year that begins on or after January 1, 2021.

## **“Angel Investor” Tax Credit**

Effective with tax years beginning on or after January 1, 2017, a Hall income tax credit is available in an amount equal to 33% of the value of an investment by an “angel investor” against the Hall income tax liability of such investor in the tax year in which the investment was made. The angel investor must be an accredited investor under 17 CFR § 230.501(a)(5) or (a)(6), and investment must be in an innovative small business (e.g., a tech-startup) that is not a professional service firm, has been in business for five or fewer years, has less than \$3 million in revenue for the prior fiscal year, and has 50 or fewer full-time employees, at least 60% of which perform the majority of their job duties in Tennessee. The investment must be at least \$15,000, and may not represent more than 40% of the capitalization of the company.

Angel investors making investment in companies located in a Tier 4 county will be allowed a credit of 50%. The investment must be at least \$15,000 and represent no more than 40% of the capitalization of the company at the time of the investment.

The credit is limited to \$50,000 per angel investor tax year. The total amount of the Angel Investor Tax Credit available to all taxpayers is capped at \$3 million for tax years beginning January 1, 2017; \$4 million for tax years beginning January 1, 2018; and \$5 million for tax years beginning on or after January 1, 2019.

To receive the credit, the taxpayer must apply to the Tennessee technology development corporation (“Launch Tennessee”) for a certificate of qualification, and certificates will be issued on a first-come, first-served basis.

Unused credit can be carried forward for five years.

## **Penalty on Delinquent Tax**

Penalty on delinquent tax will accrue at the rate of 5% for each 30 days or fraction thereof, up to a maximum penalty of 25% of the delinquent tax or a minimum penalty of \$15.00.

## **Interest on Deficient or Delinquent Tax**

Interest on deficient or delinquent tax will accrue at the annual interest rate, determined by the Commissioner of Revenue, which is in effect when the deficient or delinquent tax is paid, without regard to the taxable period involved. The interest rate is determined on July 1 of each year.

## **Distribution of Income Taxes Collected**

Three-eighths of the income taxes collected are distributed among the cities and counties of the state. In order for the taxes to be properly distributed, please provide the name of the county and city (if the taxpayer resides within an incorporated municipality) of the taxpayer's legal residence in the appropriate space on the front of the return.

## **When to File**

A taxpayer filing on a calendar year basis must file a return by April 15 of the following year. A taxpayer's tax year means the calendar year unless a fiscal year is elected by the taxpayer when the first fiscal year tax return is due. For a taxpayer on a fiscal year filing, the return is due by the 15th day of the 4th month following the end of the fiscal year.

## **Extensions**

An extension of up to six months in which to file the return and to pay the tax shall be granted whenever the taxpayer has requested an extension to their federal tax return. Taxpayers who have received a valid federal extension should check the box provided on the form indicating that they have a valid federal extension. Alternately, the taxpayer may attach a copy of their federal extension to their state tax return or may request and receive an extension by completing an Application for Extension of Time to File Hall Income Tax Return (INC251) and attaching this application to the tax return when the return is filed. Interest will accrue on unpaid tax from the original due date of the return until the date paid. No penalty will accrue with a valid extension. If the return is not filed with payment of the tax due by the extended due date, penalty will accrue as though no extension had been granted.

## **Prepayments**

***The State of Tennessee does not require estimated or quarterly payments for Hall income tax.*** However, if you want to make a prepayment before filing a complete return, file the Application for Extension of Time to File Hall Income Tax Return (INC251) form and indicate on Line 4 the amount you are electing to prepay.

## **Signature Information**

The taxpayer (and spouse, if married filing jointly) must sign and date the form in the block provided at the bottom of the form. If the taxpayer or spouse is deceased, the representative of the estate must sign the form. Tax preparers must also sign and provide the information requested on the form. If the taxpayer is

unavailable to sign, the form will be accepted if the tax preparer signs and dates the form, and provides the preparer's address and telephone number.

### **Tax Payment and Contact Information**

Electronic filing and payment of Hall income tax is available at our web site, [www.TN.gov/Revenue](http://www.TN.gov/Revenue). This convenient method allows for accurate and efficient processing of your return and payment information. For those choosing to use paper tax returns, make checks or postal money orders payable to Tennessee Department of Revenue. If desired, the tax may also be paid in cash at the Nashville office or one of the Department's regional offices. Mail tax returns and payments to:

Tennessee Department of Revenue  
Andrew Jackson State Office Building  
500 Deaderick Street  
Nashville, TN 37242

For additional information, call Revenue's statewide toll free number at (800)342-1003. Out-of-state callers and callers in the Nashville local calling area may dial (615)253-0600. Additional information is also available through our help desk at <https://revenue.support.tn.gov/hc/en-us> or on Revenue's web site at [www.TN.gov/revenue](http://www.TN.gov/revenue).