BILL HASLAM
Governor

STATE OF TENNESSEE
DEPARTMENT OF REVENUE
ANDREW JACKSON STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37242

RICHARD H. ROBERTS
Commissioner

February 5, 2015

Senator Randy McNally, Chair
Senate Finance, Ways and Means Committee
301 6th Avenue North
Suite 307 War Memorial Building
Nashville, Tennessee 37243

Representative Charles M. Sargent, Chair
House Finance, Ways and Means Committee
301 6th Avenue North
Suite 206 War Memorial Building
Nashville, Tennessee 37243

Re: Tennessee Department of Revenue
Letter and Revenue Rulings: 2014 Report and Statistics

Gentlemen:

On behalf of Commissioner Richard Roberts, I am pleased to provide the attached annual Report and Statistics on the issuance of letter and revenue rulings by the Tennessee Department of Revenue.

As you will recall, at the start of the Haslam administration and the 2011 legislative session, the Department faced several requests for improvement in its rulings review and publication process. Your committees listened patiently to citizen and practitioner concerns surrounding the Department's policies and procedures with respect to tax rulings. Many of the issues brought to your attention focused on the timeliness of responses by the Department.

The Department has worked diligently to achieve several goals related to this important public service function. We have entirely eliminated the multi-year backlog of pending requests that was in existence at the beginning of the current administration. Additionally, all ruling requests received during 2014 have been completed. This year, a record percentage of issued rulings was published on the Department's website in redacted form. Finally, we have exceeded our goal of responding to ruling requests received over the past year within an average time frame of 90 days.

Between 2003 and 2010, the backlog of unanswered requests increased nearly every year: over 100 requests were awaiting completion on each January 1 of 2008, 2009, 2010, and

2011. As you will recall, this backlog was an issue raised in various committee meetings. With your support, the Department undertook a program to improve our performance. In 2012, the Department reduced the number of pending requests by 30%, followed by an additional 54% reduction in 2013. As of January 1, 2015, no requests were pending; this represents a 100% reduction in the number of outstanding requests from the year before.

In various committee meetings, the publication of rulings was also raised as an issue. Since 1994, the Department has published rulings in redacted form on its website. Between 2005 and 2010, the Department published an average of 29% of the rulings issued in each of those years. Between 2011 and 2013, the Department increased the publication rate to an average of 88%. I am pleased to report that the Department has published 100% of the rulings issued in 2014.

This enhanced publication rate has been accompanied by a corresponding decrease in requests for rulings. From 2002 to 2011, the Department received an average of 50 requests for rulings each year. During the years 2012 through 2014, the number of ruling requests received fell to an average of 16 per year. I believe that this dramatic decrease underscores the Department's commitment to providing taxpayers with easily accessible resources and guidance and to creating efficiencies in government.

More detailed information is contained in the attached Report and Statistics; please do not hesitate to contact me at (615) 253-2934 or kristin.husat@tn.gov if you have any questions or would like to discuss this matter further.

Sincerely,

Kristin Husat

Kristin Husat
Assistant Commissioner & General Counsel

Enclosure

cc: Governor Bill Haslam
Senator Bo Watson
Senate Standing Committee, Finance Ways and Means
House Standing Committee, Finance Ways and Means
Secretary of State Tre Hargett
Justin P. Wilson, Comptroller

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TENNESSEE DEPARTMENT OF REVENUE
LETTER AND REVENUE RULINGS: 2014 REPORT AND STATISTICS

February 5, 2015

Statutory Authority. TENN. CODE ANN. § 67-1-109(a) (2011) grants the Commissioner of Revenue the power to issue letter and revenue rulings, at the Commissioner's discretion. The Department has issued rulings since 1988. A letter ruling, which is binding on the Department with respect to the taxpayer to whom the ruling is issued, is an interpretation and application of the tax law as it relates to a specific set of existing facts as described by the taxpayer and furnished to the Department. In the case of a letter ruling, the taxpayer's identity must be disclosed to the Department. A revenue ruling is not binding, and is a statement regarding the substantive application of law and statements of procedure that affect the rights and duties of taxpayers and other members of the public. In the case of a revenue ruling, the taxpayer's identity is not disclosed to the Department.

Satisfaction of Requests. During 2014, the Department completed a total of 28 requests. As of January 1, 2014, the Department had 11 requests for rulings pending from 2013, and received an additional 17 new requests during the year. As of January 1, 2015, zero requests were pending, which represents a 100% reduction from the previous year in the number of requests awaiting a response.

In 2014, the Department achieved the following:

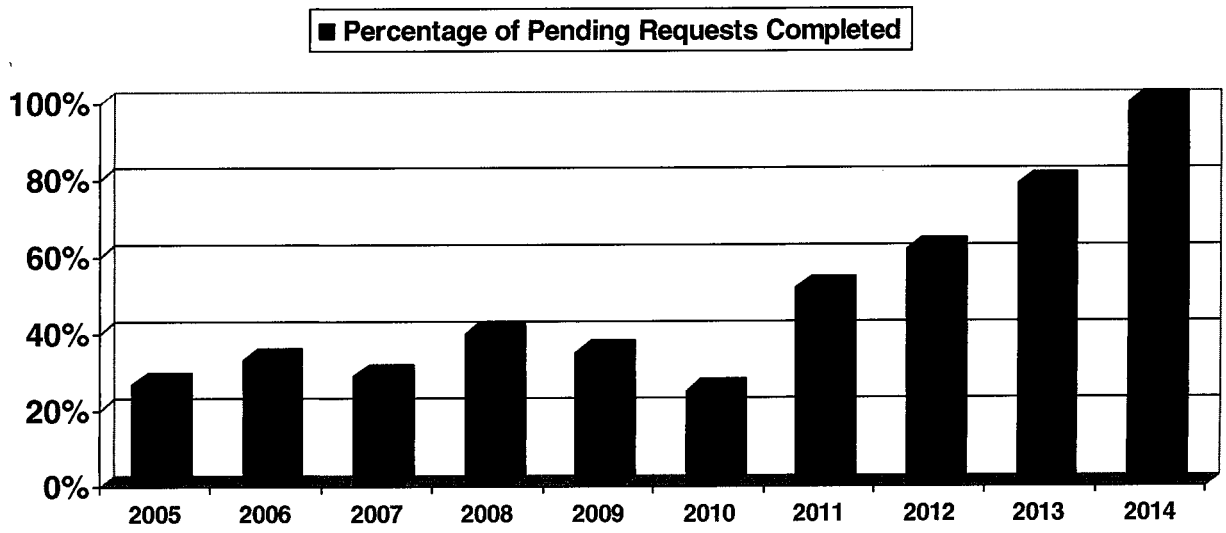
- 15 rulings were issued.
- Additionally, 9 informal responses were provided in lieu of a ruling, with fees refunded to the taxpayer (see below for details).
- 3 files were closed due to a lack of response to the Department's requests for additional necessary information.
- 1 file was closed after the taxpayer withdrew the request, due to the discovery of additional facts that clearly determined the application of the law.
- During 2014, the Department completed 100% of all pending ruling requests.

Additional discussion of informal responses may be helpful. In certain circumstances, a ruling may not be the most suitable vehicle for assisting a particular taxpayer. In such cases, the Department will provide the taxpayer with an informal response and a refund of the ruling fee.

As set forth above, the Department provided 9 informal responses in lieu of a ruling in 2014, with fees refunded.

- 3 responses involved a request for confirmation of existing law, with no application of the law as it relates to a specific set of facts.
- 3 responses involved issues for which detailed published guidance is already available. The Department provided the taxpayer with a copy of the published guidance and an explanation of the applicable law.
- 3 responses were to simple questions that did not require an in-depth analysis of the law. The Department routinely responds to questions of this sort informally, without charge to the taxpayer.

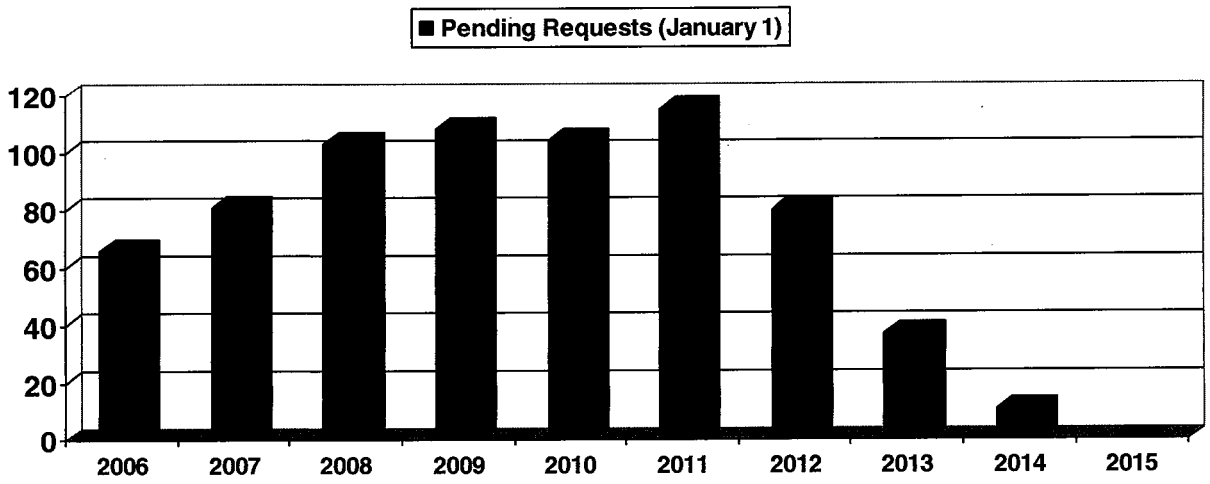
During 2011-2014, the Department satisfied a total of 216 requests. The following chart illustrates the percentage of pending requests completed each year between 2005 and 2014.



In the period 2011 through 2014, the Department significantly reduced the number of pending ruling requests. Between 2003 and 2010, the backlog of unanswered requests increased nearly every year. Over 100 requests were awaiting completion on each January 1 of 2008, 2009, 2010, and 2011.

In 2012, the Department reduced the number of pending requests by 30%. The Department continued this effort, reducing the number of pending requests by an additional 54% in 2013. As of January 1, 2015, zero requests were pending; this represents a 100% reduction in the number of pending requests from the year before, and is the lowest number since the Department began tracking this information in 2002.

The following chart illustrates the number of requests awaiting a response as of January 1 of each year during the previous decade.



Average Response Time. The multiyear backlog that existed in 2011 included a large number of requests that had been pending for over one year. Before 2014, the Department did not track the average response time to ruling requests. This year, the Department set a goal of responding to ruling requests received during 2014 within an average time frame of 90 days, excluding days during which a request is placed on hold while the Department awaits the taxpayer's response to requests for additional necessary information.

The Department exceeded its goal by responding to the 17 ruling requests received during 2014 within an average of 48 days.

Publication of Issued Rulings. The Department began publishing rulings in redacted form in 1994. Since 1994, the Department has published an average of approximately 60% of the rulings issued in a given year. Published rulings assist taxpayers by providing guidance on issues they may have that are similar to ones addressed in the rulings. The Department agrees that the benefits to taxpayers of publication more than justify the time and effort required to prepare a ruling for publication.

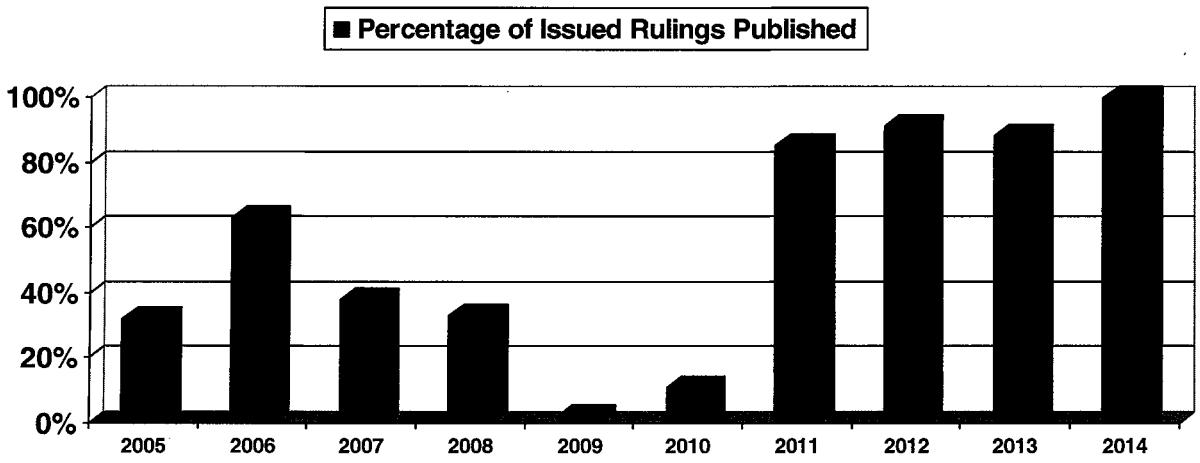
In keeping with Tennessee's taxpayer confidentiality laws, the Department redacts all information covered by these statutes before a ruling is published. The Department places a high priority on protecting a taxpayer's information, and therefore works closely with the taxpayer to whom a ruling is issued to ensure that all confidential or identifying information is redacted prior to publication of the ruling.

In 2014, the Department's publishing efforts resulted in the following:

- All rulings issued in 2014 have been published in redacted form. See Exhibit A for specific publication information relating to rulings issued in 2014.

- This brings the total number of published rulings to 15, which equals 100% of the rulings issued in 2014.

The following chart indicates the percentage of rulings issued in a given year that were published between 2005 and 2014.



Issued Rulings vs. Published Rulings. As the charts above show, the rate of responses to requests has been more consistent than the rate of publication. The 2011 hearings clearly impressed the legislature's desire to publish rulings. As illustrated in the chart immediately above, the Department has made substantial progress in bridging this gap and improving the service to taxpayers and tax practitioners.

The progress made in 2014 is clear evidence of our Department's commitment to improving the ruling process. In 2015, the Department will continue to place a very high priority on the completion of requests for letter and revenue rulings.

Exhibit A
Publication of Rulings Issued in 2014

RULING NUMBER	DATE PUBLISHED ON WEBSITE
14-01	06/24/2014
14-02	07/31/2014
14-03	07/31/2014
14-04	07/31/2014
14-05	10/06/2014
14-06	10/06/2014
14-07	10/06/2014
14-08	10/06/2014
14-09	11/03/2014
14-10	11/03/2014
14-11	12/08/2014
14-12	12/08/2014
14-13	12/08/2014
14-14	12/19/2014
14-15	01/23/2015