

# INSTRUCTIONS FOR THE PREPARATION OF THE TENNESSEE SALES AND USE TAX RETURN

**(NOTE: These instructions apply to Tennessee's sales and use tax return for periods beginning after June 30, 2006.)**

The due date for the sales and use tax return is the **20<sup>th</sup> of the month** following the end of the reporting period. Payment of the amount shown on **Line 18** is to be made to the Tennessee Department of Revenue, Andrew Jackson State Office Building, Nashville, Tennessee 37242.

## PAGE ONE INSTRUCTIONS

**Line 1.** Enter the amount of all sales. Include: (a) cash sales, (b) credit sales, (c) conditional sales, (d) sales exempt from tax, (e) leases and rentals of tangible personal property, (f) telecommunications, (g) charges for fabricating personal property for consumers, and (h) taxable services. **EXCLUDE:** The amount of sales tax collected or accrued.

**Line 2.** Enter the cost of all tangible personal property which was purchased from a dealer without the payment of sales or use tax that was not resold, but used and consumed in the conduct of business. Do not enter the cost of items remaining in inventory for resale.

**Line 3.** Enter the cost of all tangible personal property purchased or imported from out-of-state for use and consumption in-state when no tax was paid to the supplier. Do not include items purchased from out-of-state that are to be resold in the conduct of business.

**Line 4.** Enter the fair market value of tangible personal property fabricated, produced, compounded, or severed from the earth for use in Tennessee. In addition, the purchase price or fair market value, whichever is greater, of all property furnished to, or used by, a contractor when a sales or use tax has not been previously paid must be included.

**Line 5.** Add Lines 1, 2, 3, and 4.

**Line 6.** Enter the total amount from Page 2, Schedule A, Line K. Exemptions may be disallowed if not detailed as indicated in the appropriate category in Schedule A. (See instructions for Schedule A.)

**Line 7.** Subtract Line 6 from Line 5.

**Line 8.** Multiply the amount on Line 7 by the state sales tax rate shown on your return and enter the amount on Line 8.

**Line 9.** Multiply the amount on Page 2, Schedule A, Line A by 6% and enter that amount on Line 9. (See instructions for Schedule A, Line A.)

**Line 10.** Multiply the amount on Line 7 by the local tax rate shown on your return. If the return reflects zero local tax, and the taxpayer has no physical presence in Tennessee, the taxpayer must collect 2.25%. If adjustments to the local tax are necessary, complete Page 2, Schedule B.

**Line 11.** Add any tax collected in excess of that shown on Lines 8, 9, and 10, after exclusion of the use tax.

**Line 12.** Enter the amount from Page 2, Schedule C, Line 7. (See instructions for Schedule C.)

**Line 13.** Enter the amount from Page 2, Schedule C, Line 9. (See instructions for Schedule C.)

**Line 14.** Add Lines 8, 9, 10, 11, 12, and 13.

**Line 15.** If your account has a credit balance from an overpayment on a prior return, enter the amount on this line.

**Line 16.** When the return is late at the time of filing, enter 5% of Line 14 for 1-30 days late, 10% for 31-60 days late, and so on until a maximum of 25% of Line 14 is reached for returns that are more than 120 days late. When a credit balance is shown on a return that is late at the time of filing, first deduct Line 15 from Line 14 and calculate the penalty charges on the net amount after the credit deduction. For example, if Line 14 were \$500 and Line 15 were \$100, the penalty would be calculated on \$400. The minimum penalty is \$15, even when the return reflects no tax due but is late filed.

**Line 17.** Interest is figured at the rate indicated per year on the amount of tax due from Line 14 (or on the net of Line 15 from Line 14 when a credit is present) from the due date of the return until the late filed return is postmarked.

**Line 18. TOTAL DUE.** When the return is **timely filed**, deduct Line 15 from Line 14. On **late filed returns**, deduct line 15 from line 14, and add amounts calculated on Lines 16 and 17.

*For additional information, contact the Taxpayer Services Division in one of our Department of Revenue offices:*

<b>Nashville</b> (615) 253-0600 3 <sup>rd</sup> Floor Andrew Jackson Building 500 Deaderick Street Nashville, TN 37242	<b>Chattanooga</b> (423) 634-6266 Suite 350 State Office Building 540 McCallie Avenue Chattanooga, TN 37402	<b>Knoxville</b> (865) 594-6100 Room 606 State Office Building 531 Henley Street Knoxville, TN 37901	<b>Jackson</b> (731) 423-5747 Suite 340 Lowell Thomas Building 225 MLK Jr. Blvd. Jackson, TN 38301	<b>Memphis</b> (901) 213-1400 3150 Appling Road Bartlett, TN 38133	<b>Johnson City</b> (423)854-5321 204 High Point Dr. Johnson City, TN 37601
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Tennessee residents can also call our statewide toll free number at **(800)342-1003**. Out-of-state callers must dial **(615) 253-0600**. Detailed instructions, tax guides, and notices are available at our website, [www.Tennessee.gov/revenue](http://www.Tennessee.gov/revenue).

### SCHEDULE A – EXEMPT TRANSACTIONS

The law provides for the deduction from gross sales and purchases those items specifically exempt from tax. Schedule A is used to identify these items. Schedule A, Line A, is also used to identify the total food sales subject to the 6% state tax rate. Any amount claimed as an exemption on Page 1, Line 6 must be itemized on this schedule.

**Line A.** Include all sales of food and food ingredients that are subject to the 6% state tax rate. **Add this amount to Schedule B, Line 2.**

**Line B.** Include all sales which were made to vendors or other establishments for resale, or for rental or leasing, and sales of items to be used in processing for sale. These transactions must be supported by valid certificates of resale, to be retained in the dealer's files.

**Line C.** Enter sale of exempt items not deducted elsewhere on Schedule A. Examples include, but are not limited to (1) fertilizer and field and garden seed for farm purposes, (2) gasoline, (3) livestock and poultry feeds, (4) prescription drugs, and (5) other items specifically exempt by state law. Also include allowances for trade-in items of like kind and character. Dealers must keep documentation. Any other deductions authorized by law must be explained here. Also enter the amount of actual cash discounts taken where tax was paid on gross. Do not include trade discounts.

**Line D.** Enter all sales to the federal government, the State of Tennessee, its political subdivisions, and sales to qualified institutions such as churches, nonprofit schools, hospitals, homes for the aged, and orphanages. These transactions must be supported by proper exemption certificates retained in the dealer's files.

**Line E.** Include only taxable items voluntarily returned by the purchaser which have been included in Gross Sales on this or a previous return and for which full credit is given to the purchaser. Do not include repossessions.

**Line F.** Enter sales of farm machinery and industrial machinery which have been sold to qualified exempt purchasers. These transactions must be supported by proper exemption certificates that must be retained in the dealer's files.

**Line G.** Deduct those sales originating in Tennessee where the purchaser takes possession outside of Tennessee for use or consumption outside this state. Also deduct sales of motor vehicles and trailers delivered out-of-state by dealers and sales of motor vehicles and boats removed by non-resident purchasers within three (3) days. Non-resident removals must be supported by three-day removal affidavits in the dealer's files.

**Line H.** Enter that portion of the unpaid principle balances due from tangible personal property repossessed from the customer in excess of \$500. (See instructions for Schedule B, Lines 2 and 6, below.)

**Line I.** Enter the total of all sales not subject to full state tax and sales made to manufacturers and farm users. **Do not include commercial energy fuel sales.**

**Line J:** Enter the total of all sales not subject to tax during the annual Sales Tax Holiday, from 12:01 a.m. on the **first Friday of August** through 11:59 p.m. on the **following Sunday of August**. **Also include qualified sales made during the one-time Sales Tax Holiday, from April 27 through April 29, 2007.**

**Line K.** Add the amounts appearing on Lines A through J and enter on this line. This total must also be entered on Page 1, Line 6 of the return.

### SCHEDULE B – COMPUTATION OF LOCAL SALES AND USE TAX

Use this schedule if local taxable sales do not equal state taxable sales. (This will occur if transactions include energy fuel sales, "single article" sales subject to a maximum local tax, food or food ingredients subject to the state tax rate of 6%, or other items requiring an adjustment of tax.)

**Line 1.** Enter net taxable sales from Page 1, Line 7.

**Line 2.** Add items used and subject to local tax on which state tax only has been paid to supplier. Add the amount from Schedule A, Line A with any amounts included in Schedule A, Line E, that exceed the single article tax base. Also add any amount shown on Schedule A, Line H. (See instructions for Schedule B, Line 6.) Also include any other deductions taken in Schedule A, for state tax purposes that are not deductible for local tax purposes.

**Line 3.** Add Lines 1 and 2.

**Line 4.** Enter the total of the amounts in excess of the maximum on each single article sold which have not been deducted elsewhere. Also, enter any amounts in excess of the maximum per single article purchased and reported for use tax on this return. (See Page 1, Line 10 for the single article tax base.)

**Line 5.** Enter energy fuel sales not included elsewhere on the return.

**Line 6.** Enter amount of qualified local tax deduction not reported on lines 4 and 5. An explanation must be given. For some repossessions, a deduction on this line may be authorized for a credit of a portion of the local option tax previously paid on repossessed tangible personal property.

**Line 7.** Deduct the total of the entries on lines 4, 5, and 6 from the amount on Line 3. Enter the result on this line. This becomes the base for the local option tax.

**Line 8.** Multiply Line 7 by the local tax rate shown on Line 10 on the front of the return. Enter the amount of local tax due on this line and on Page 1, Line 10.

### SCHEDULE C – STATE SINGLE ARTICLE TAX AND REDUCED RATES ON ENERGY & WATER

**Line 1.** Enter the total sales from \$1,601 through \$3,200 on the sales price of all single articles sold.

**Line 2.** Multiply the amount on Schedule C, Line 1 by 2.75% (.0275) and enter the result.

**Line 3.** Dealers must enter the amount of water sales to manufacturers for which the reduced rate of 1% state tax has been collected. Manufacturers purchasing water must enter the amount of water purchased at the reduced rate that has not been previously reported to the supplier. The portion of this amount subject to reduced local tax will also be entered on Schedule C, Line 8.

**Line 4.** Enter 1% of Line 3.

**Line 5.** Dealers must enter the amount of energy fuel sales to users that are authorized for the reduced rate of state tax (1.5%) for which the tax has been collected. Manufacturers must enter the amount of purchases of energy fuel that are authorized for the reduced rate of state tax (1.5%) for which the taxes have not been paid to suppliers.

**Line 6.** Enter 1.5% of Line 5.

**Line 7.** Enter the total of Lines 2, 4, and 6 on this line and on Page 1, Line 12.

**Line 8.** Enter the amount of water sales or purchases subject to the reduced local tax that are included in the amount reported on Schedule C, Line 3.

**Line 9.** Multiply the amount on Line 8 by ½ of 1%. Enter the amount here and on Page 1, Line 13.