

Job Tax Credit Changes

Public Chapter 1019 (2006)

Franchise and Excise  
taxes notice  
#07-02

Effective for periods beginning on or after January 1, 2006, Public Chapter 1019 amends Tenn. Code Ann. Section 67-4-2109 concerning the franchise and excise tax provisions for the job tax credit. This amendment modifies the job tax credit by establishing tiered criteria and benefits.

The following chart reflects the different criteria and benefits now available:

Minimum Required Capital Investment	Minimum Qualifying New Jobs Required	Per Job Credit Allowed	Duration of Annual Credit
\$100,000,000	100	\$5,000	3 Years
\$250,000,000	250	\$5,000	6 Years
\$500,000,000	500	\$5,000	12 Years

A qualified business enterprise must file a Tennessee Job Tax Credit Business Plan on or before the last day of the fiscal year in which the capital investment is made. The qualified business enterprise should indicate on the business plan the investment made, the number of jobs the investment will create, and the expected dates the jobs will be filled. Taxpayers should also indicate the tier for which they expect to qualify.

In order to be eligible for the enhanced jobs tax credit, the new jobs must pay at least 100% of the Tennessee **average industrial wage**.

“**Average industrial wage**” means the average industrial wage for all manufacturing sectors as reported in the Monthly Labor Report published by the Tennessee Department of Labor and Workforce Development.

The job tax credit established for the initial creation of the new job will be subject to the usage and carry-forward limitations outlined in Tenn. Code Ann. Section 67-4-2109(c).

In addition to the \$5,000 job tax credit allowed in the year(s) the jobs are created, an annual tax credit shall be allowed to offset up to 100% of the taxpayer’s franchise and excise tax liability. The annual credit begins with the first tax year after the investment and job threshold criteria are met. The annual credit shall equal \$5,000 for each net new **industrial wage job** created during the **investment period** provided that the jobs remain filled by employees, at wages equal to or greater than Tennessee’s average industrial wage for the month of January of the year during which the credit is being taken.

“**Industrial wage jobs**” means full-time employee jobs with wages equal to or greater than Tennessee’s average industrial wage for the month of January of the year during which the job was created.

“**Investment period**” means a period not to exceed three years from the filing of the business plan related to the qualified business enterprise during which the required capital investment must be made.

This annual credit may be used to offset up to one hundred percent (100%) of the taxpayer’s franchise and excise tax liability for that year. However, any unused annual credit shall not be carried forward.

The annual credit will continue for a period determined based on the taxpayer’s capital

investment and new qualifying jobs created. The chart above indicates the duration of the additional annual credit based on the different tiers.

When claiming the credit the taxpayer should include on Schedule D, Line 5, of the franchise and excise tax return, the job tax credit allowed for the creation of the net new jobs. The annual credit should be claimed on Schedule D, Line 6.

The credit allowed on each tax return will be equal to the total of the job tax credit created and the annual credit, subject to each of their limitations. (Annual credit limitation is 100% of the franchise and excise tax liability and the job tax credit limit depends on the total number of Tennessee employees.) The annual credit will be applied to the franchise and excise tax liability before any job tax credit. Any unused job tax credit can be carried forward to subsequent tax years up to a maximum of fifteen (15) years.

In addition, as provided in Tenn. Code Ann. §67-4-2108, the minimum measure of the franchise tax does not include “exempt required capital investments,” which means two-thirds (2/3) of all capital investments which are the basis for the taxpayer’s entitlement to the credits provided under Section 67-4-2109(c)(2)(H) and (I).

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) 397-8395. Callers from Nashville or out-of-state may dial (615) 253-0700. You can access additional information on our Web site at [www.Tennessee.gov/revenue](http://www.Tennessee.gov/revenue).

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**Example:** A company creates 75 jobs in year 1 of the business plan, with a capital investment of \$50,000,000. In year 2, the company does not create any jobs and makes no capital investment. In year 3, it creates 100 jobs, with a capital investment of \$100,000,000.

**Result:** The company qualifies for the 1<sup>st</sup> tier with the 3-year annual credit. It would not start taking job tax credit until it met both the job and investment threshold for that tier, year 3 in this example. The jobs created in year 1 would be added to the jobs created in year 3, with the credit being taken in year 3. The job tax credit allowed will depend on the number of Tennessee jobs, as provided in Tenn. Code Ann. Section 67-4-2109(c)(2)(G). In this example, the annual credit will first be applied in year 4 and will be limited to 100% of the franchise and excise tax liability each year for 3 years.

Year of business plan	Net new industrial wage jobs	Investment	Job tax credit allowed (limited depending on total TN jobs) & Carryforward up to 15 years	Annual credit allowed (limited to 100% of franchise & excise tax liability)
1	75	\$50,000,000	0	\$0
2	0	0	0	\$0
3	100	\$100,000,000	\$875,000	\$0
4	0	\$0	Unused job tax credit carryforward	\$875,000
5	0	\$0	Unused job tax credit carryforward	\$875,000
6	0	\$0	Unused job tax credit carryforward	\$875,000