Tennessee Works Tax Act Updates - Sourcing

Overview
On May 11, 2023, Governor Lee signed into law the Tennessee Works Tax Act (“TWTA”), Public Chapter 377 (2023). The TWTA makes several changes to Tennessee sales and use tax laws by adopting a majority of the sourcing provisions consistent with the Streamlined Sales and Use Tax Agreement. Adopting these sourcing rules clarifies for sellers which state’s tax is due on a sale into or outside the state. These changes are effective July 1, 2024.

Destination Sourcing for Sales of Services Performed on Tangible Personal Property and Computer Software
The TWTA adopts destination sourcing for interstate sales of services performed on tangible personal property and computer software. Tennessee imposes tax on the following sales of services to tangible personal property and computer software:

- performing repairs to tangible personal property or computer software,
- laundering or dry-cleaning tangible personal property,
- installing tangible personal property that remains tangible personal property after installation, and
- installing computer software.

For interstate sales of these services:
- If the service is performed in Tennessee and the serviced property or software is then shipped or delivered for use and consumption in Tennessee, the sale is sourced to the location where the serviced property or software is received by the purchaser or its designee and is subject to tax at the state and applicable local rate. Sales of services performed on tangible personal property and computer software where the serviced property or software is received by the purchaser or its designee in Tennessee are not impacted by the new sourcing provisions and are subject to tax.

Sourcing for Marketplace Facilitators
All sales, including services, made through the marketplace facilitator’s marketplace are sourced where the product is received by the purchaser.

Sourcing for Leased Property
The TWTA adopts destination sourcing for leased property, including licensed computer software or specified digital products, where the primary property location moves out of Tennessee during the lease period. The recurring periodic payments covering periods after the leased or licensed property is moved out of Tennessee are no longer sourced to Tennessee and reported as exempt interstate sales. This provision does not apply to the sale of leased transportation equipment; trucks and trailers, locomotives, aircraft, and shipping containers; and large vessels used in interstate commerce.

For leased property, including licensed computer software or specified digital products, where the
primary property location moved into Tennessee, the recurring periodic payment covering periods after the move are sourced to Tennessee and subject to tax at the state and applicable local rate.

The primary property location is defined as an address for the property provided by the lessee to the lessor.

The lease of property, including licensed computer software and specified digital products, in Tennessee where the primary property location remains in Tennessee are not impacted by the new sourcing provisions and are subject to tax.

Sourcing for Sales of Direct Mail Distributed to Mail Recipients Outside Tennessee

The TWTA adopts destination sourcing for sales of direct mail distributed by mail or other service to recipients outside Tennessee. Sales made from a Tennessee business location of advertising and promotional direct mail and other direct mail distributed to recipients outside Tennessee is no longer sourced to Tennessee. If the sales price includes distribution both in and out of state, the portion of the sales price that equals the percentage of direct mail distributed to recipients outside Tennessee is not sourced to Tennessee and reported as exempt interstate sales.

The purchaser must provide the seller delivery information or a fully completed Streamlined Sales Tax Certificate of Exemption to claim the direct mail is distributed to recipients outside Tennessee.

Sales of direct mail distributed to recipients in Tennessee are not impacted by the new sourcing provisions and are subject to tax.

Magazine and Book Distribution Exemption

For sales made on or after July 1, 2024, sales into Tennessee of magazines and books by mail or common carrier, where the seller has limited activities in Tennessee, are no longer exempt. These sales are sourced to Tennessee and subject to tax.

Cooperative Direct Mail Businesses

The TWTA deletes an exemption for sales by a person solely engaged in cooperative direct mail advertising (i.e., combined mailings of discount coupons and advertising leaflets for multiple businesses) distributed in Tennessee.

For More Information

Visit www.tn.gov/revenue. Click on Revenue Help to search for answers or to submit an information request to one of our agents.

Detailed information is also available in the Department's Sales and Use Tax Manual.

References

Public Chapter 377 (2023); Tenn. Code Ann. §§ 67-6-203, 67-6-329(a)(6), 67-6-344, and 67-6-901-905