



Sales and Use Tax Notice

Notice #26-01

January 2026

End of Penny Production

Overview

The federal government stopped producing the penny in November 2025. Although pennies remain legal tender, some retailers have started rounding cash transactions to the nickel when necessary.

This notice instructs retailers on how to calculate sales tax when customers pay with cash if these transactions are affected by a shortage of pennies.

Calculating Sales Tax on Transactions

For sales and use tax collection, applicable law requires retailers to continue calculating sales tax to the exact cent, regardless of the payment method used by the customer. This includes remitting the exact amount of sales tax shown on the receipt or invoice.

If a cash transaction requires change to be given to the customer, retailers may choose their own rounding procedures. For example, they may round up or down to the nearest nickel, round all transactions up to the nearest nickel, or round all transactions down to the nearest nickel. Regardless of the procedure chosen, sales tax remains due on the sales price prior to the retailer applying rounding due to the lack of pennies. As such, the amount of sales tax due will remain the same for cash transactions as it is for other methods of payment, such as credit card transactions. All sales tax collected must be remitted as required by law.

Example 1: A retailer charges \$29.50 for a taxable item, and the applicable sales tax rate is 9.75%. The tax due on the item is \$2.88, and the total due is

\$32.38. The retailer has a rounding policy in effect that rounds the total to \$32.40. The sales tax due on this transaction remains \$2.88.

Example 2: A retailer charges \$29.99 for a taxable item, and the applicable sales tax rate is 9.75%. The tax due on the item is \$2.92, and the total due is \$32.91. The retailer has a rounding policy in effect that rounds the total to \$32.90. The sales tax due on this transaction remains \$2.92.

The applicable law for rounding the sales tax calculation remains in effect. The tax computation is always carried to the third decimal place and rounded to the second decimal place. Whenever the third decimal place is greater than four, the tax shall be rounded to the next whole cent.

This notice is for Tennessee sales and use tax purposes only and does not address other potential state or federal laws related to rounding. The Department recognizes this may be an evolving issue and will update this Important Notice to reflect any changes to state or federal law.

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.

References

31 U.S.C. § 5111(a). Tenn. Code Ann. §§ 67-6-102(87)(A), 67-6-504(h), Tenn. Comp. R. & Regs. 1320-05-01-.90.