

To the users of the Retail Sales Report:

The tax law changes of July 2002 have affected the retail sales report and may create some comparability issues. There are two principle issues. One issue derives from Public Chapter 719, which makes Tennessee law conform to the federal Mobile Telecommunications Sourcing Act. This act allows cellular and other wireless telecommunications companies to pay tax into one fund which is distributed among the counties rather than paying sales tax in every county in which they have customers. The revenues in this fund are then distributed to the counties on a formulaic basis. These sales were previously included in the non-retail sales report; now they are not included. The other issue derives from the final budget, Public Chapter 856. In this legislation there were changes in the taxability of food sales as well as an additional 2.75% single article tax on goods with a sales price between \$1,601 and \$3,200. To incorporate these changes, the Department of Revenue made changes to its sales tax forms. These changes have created a small amount of confusion among taxpayers as to where to record certain non-taxable sales. While the confusion does not affect the taxpayer's tax liability, it does affect the retail sales report as we include certain nontaxable sales in calculating retail activity.

For this report, retail sales are characterized as net taxable sales plus certain non-taxable sales. Sales of exempt items (eg. school books) or sales to exempt organizations (eg. county governments) are included in retail sales. Also included are sales destined for out-of-state delivery. The trade-in value of an automobile is included as part of the total purchase price of an automobile sale. While purchases made with food stamps are tax exempt, those purchases are included in the retail sales for a food store. By far the largest category of sales not included in the retail report is sales for resale. Sales for resale are excluded to prevent double counting of sales. It is this category that has proven most problematic on the new sales tax form. The line that was used for recording sales for resale on the old form is now used for recording food sales.

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