Department of Revenue

Tax Manual for Military Members and Veterans

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Sales and Use Tax

Overview

The Tennessee sales and use tax is a combination of a state tax (7% for most items) and a local option tax (up to 2.75%) imposed by city and/or county governments. The sales tax is generally applied to retail sales of tangible personal property, including leases and rentals and the sale of certain services, amusements, and digital products specified in the law. The use tax generally applies to taxable purchases when the sales tax is not paid on such purchases.

Sales and use tax exemptions are available for certain U.S. military service members on motor vehicle purchases and for adaptive equipment that is necessary to ensure that the eligible person will be able to operate an automobile or other vehicle in a manner consistent with such person's own safety and the safety of others. Boats and trailers are not considered motor vehicles. Thus, they are not eligible for these exemptions. Camper trailers are considered motor vehicles for these purposes.

Military Service Member Exemption for Motor Vehicles

1. Military Members That Are Eligible

Motor vehicles registered in Tennessee are exempt from sales and use tax if the vehicle is sold to any of the following military service members:

- A member of a uniformed service in active military service of the United States,[1] who is stationed in Tennessee or on a military reservation located partially within Tennessee under orders of the member's branch of service;

- A member of the Tennessee National Guard or reserve member of a uniformed service of the United States, who is a participant in the Active Guard Reserve program (“AGR”) and who is stationed in Tennessee or at a military reservation located partially within Tennessee under orders of the member's branch of service; or

- A member of the Tennessee National Guard or a reserve member of a uniformed service of the United States, who has been called into active military service of the United States, and who is stationed in a combat zone. This exemption applies from

the effective date of official military orders assigning the individual to a combat zone. It expires 90 days after the effective date of official military orders releasing the individual from the combat zone.

Relatives

The military service member exemption applies only if the motor vehicle is titled and registered in the name of the qualifying individual, either alone or jointly with a spouse or a lineal relative. A "lineal relative" is a person who is directly related to the service member (e.g., grandparents, parents, children, grandchildren, etc.). For these purposes, formally adopted children are considered lineal relatives. Stepchildren are not considered lineal relatives.

Foreign Military Members

Service members of foreign militaries, even if stationed in Tennessee, are not eligible for the exemption. Likewise, because veterans are not current service members in a branch of the United States military, they are not eligible for the. However, disabled veterans may be eligible for the automotive adaptive equipment exemption or the Veterans Affairs Automobile Grant. Additionally, non-military-based exemptions, such as the exemption for mobility enhancing equipment, might also apply.

2. Exemption Depends on When and Where the Vehicle is Registered

The applicability of the military service member exemption is determined by when the service member becomes stationed in Tennessee and where the service member purchases the motor vehicle.

Motor Vehicle Purchases Inside Tennessee

The military service member exemption applies if the service member was stationed in Tennessee at the time of the motor vehicle purchase. This is because the sales tax is due at the time of the sale. If the service member purchases a motor vehicle in Tennessee before being officially stationed in Tennessee, the military service member exemption does not apply even if the service member registers the motor vehicle after being stationed in Tennessee.

Conversely, if a service member purchases a motor vehicle in Tennessee while officially

stationed in Tennessee, but registers the motor vehicle after expiration of the official military orders, the exemption may still apply because the service member was stationed in Tennessee at the time of the purchase.

Motor Vehicle Purchases Outside Tennessee

If a service member purchases a motor vehicle outside of Tennessee or in a foreign country and subsequently imports it and registers it in Tennessee, the military service member exemption applies if the service member is stationed in Tennessee at the time the motor vehicle is registered in Tennessee. This is because use tax is due upon registration of the motor vehicle.

Documentation Required for the Motor Vehicle Exemption

To establish eligibility for the military service member exemption, the purchaser must provide to the county clerk (and to the seller of the vehicle, if the purchase occurs in Tennessee) a copy of the official military orders related to the stationing of the purchaser and, if applicable, the purchaser's status as a member of the AGR program.

1. Permanent Change of Station (PCS)

An official order that service members commonly provide when applying for the exemption is a **Permanent Change of Station ("PCS")** order. A PCS is an official order stationing a service member to a designated location. A PCS qualifies the service member for the military service member exemption if it stations the service member in Tennessee and has not expired.

If the PCS contains a commitment or expiration date showing that the service member is still stationed in Tennessee, no additional documentation is required unless the county clerk has reason to believe that the service member is not currently stationed in Tennessee or at Fort Campbell.[2]

Service members may receive **orders that contain an official reporting date but permit early reporting**. If an order permits an early reporting date and the service member actually reports within the early reporting period, eligibility for the exemption begins on the date that the service member reports for duty under orders. A notarized statement signed by the service member stating the date that he or she reported may be accepted by the county clerk if the clerk has no reason to deny it.

If the service member is officially stationed in Tennessee, the order itself is deemed sufficient. Official orders are not required to be stamped indicating that the service member has in fact reported for duty. However, a stamp indicating that the service member has reported early is acceptable if the official orders permit early reporting.

Orders printed off a website may be accepted by the county clerk if the orders appear to be legitimate and current. The full set of orders is preferred but is not required. If the clerk has good reason to believe that the pages submitted are not fabricated, the clerk may accept only the relevant pages of the orders (e.g., the page containing the service member's name and where he or she is stationed).

2. Leave and Earnings Statement (LES)

Orders, including PCS orders, often do not provide a commitment or expiration date. In these cases, the county clerk may ask the service member to provide other documentation showing that he or she is stationed in Tennessee or at Fort Campbell. Common documents provided by service members include, but are not limited to, a **Leave and Earnings Statement ("LES")** and an **Enlisted Record Brief**.

An LES is a monthly document given to service members documenting their pay and leave status. The LES also typically provides the zip code for the location where the service member is stationed. However, for service members living on a military base, the LES will not typically provide a zip code. Instead, the LES may provide an **Accounting and Disbursing Station Number**, indicating on which military base the service member is stationed.

Note that an LES is not an order from the military – it merely helps establish that a service member is stationed in Tennessee or Fort Campbell. A service member providing an LES to the county clerk must also present official orders to qualify for the military service member exemption.

3. Enlisted Record Brief ("ERB")

An ERB is a form that provides a summary of a service member's qualifications and career history. ERBs are not used by all military branches. As such, similar documents showing a service member's qualification and career history should also be accepted when appropriate. Like an LES, an ERB is not equivalent to official military orders, but it may be accepted as evidence that the service member is stationed in Tennessee or at Fort Campbell.

However, an ERB alone is insufficient – the service member must also provide official orders.

4. Request & Authorization for PCS

A **Request and Authorization for Permanent Change of Station** is similar to a PCS in that it is an official order stationing a service member to a designated location. However, like a PCS, if the Request and Authorization for Permanent Change of Station does not provide a commitment date, the service member must provide an LES or a similar document proving that he or she is stationed in Tennessee or Fort Campbell.

5. Permanent Change of Assignment (PCA)

A **Permanent Change of Assignment (PCA)** or similar duty assignment contained within PCS orders sends a service member to a location other than where he or she is stationed for a temporary or indefinite duration. Examples include service members assigned to universities, recruiting offices, or other locations in Tennessee. While PCAs and similar duty assignments are generally considered official orders, the service member must provide additional documentation showing that he or she is actually stationed in Tennessee (such as an LES or ERB indicating location in Tennessee).

> **Example: A service member is issued a PCS to Fort Jackson, located in Columbia, SC. Within the PCS orders is a duty assignment to teach at Austin Peay State University in Clarksville, TN. This is an official order stationing the service member in Tennessee. The service member may verify that he or she is stationed in Tennessee by providing the county clerk with an LES or an ERB.**

A service member may also be sent to Tennessee to receive medical care for injuries sustained while serving. Such a service member may qualify for the military service member exemption by providing the original orders, along with the assignment statement sending the service member to Tennessee, and an LES or similar document showing that the service member is stationed in Tennessee.

> **Example: A service member is stationed in Germany under PCS orders. The service member is injured while serving and is sent to Nashville, Tennessee, to receive medical treatment for the next six months. While recovering, the service member's LES shows that the service member is stationed in Tennessee. The service member, therefore, qualifies for the military service member exemption.**

6. Temporary Duty (TDY)

Like a PCA or duty statement, a **Temporary Duty ("TDY")** order is an official order sending a service member to a designated location. However, unlike a duty assignment, a TDY generally lasts for a shorter duration of time, typically less than six months, and it does not constitute being stationed in Tennessee unless the service member's LES shows a Tennessee location. Therefore, the county clerk should only accept TDY orders if the service member can also provide an LES or similar document showing that the member is actually stationed in Tennessee.

> **Example: A service member receives a 24-hour TDY sending her to Tennessee. The service member's LES provides a zip code from another state. The service member does not qualify for the military service exemption because she is not stationed in Tennessee.**

7. Order of Award

An **Order of Award** (e.g., Purple Heart, Bronze Star, etc.) is not considered an official order. A service member may not substitute official orders with an Order of Award.

8. Reservists

Reservists who have been activated and stationed in a combat zone qualify for the military service member exemption for 90 days following the effective date of official military orders releasing the service member from the combat zone. The 90-day period begins to run on the date of the orders releasing the service member from active duty, not on the date the service member physically left the combat zone.

> **Example: A reservist was activated from the Tennessee National Guard and ordered to a combat zone from March 1 through July 31. However, on May 1, the reservist was injured and flown to a Tennessee hospital to recover from injuries. Reservist's orders were extended through August 31 to last the duration of the recovery. The 90-day time period begins on, and includes, September 1, meaning the reservist may qualify for the military service member exemption until November 29 (i.e., 90 days after August 31).**

Reserve Officers' Training Corps (ROTC)

A service member in a **Reserve Officers' Training Corps ("ROTC")** program is considered a reservist while in the program. Therefore, an ROTC member must either be in the AGR program or deployed to a combat zone to apply for the military service member exemption. However, upon graduation, the service member may be activated and transferred to Tennessee or Fort Campbell. Once activated, the service member is no longer a reservist. The service member may apply for the military service exemption if he or she can provide documentation showing that the service member has been activated from the reserves and is stationed in Tennessee or at Fort Campbell under official orders.

9. Active Duty Operational Support ("ADOS")

ADOS orders apply to reservists, placing them in operational support of the active duty. ADOS orders are temporary orders, generally lasting between one and six months. To qualify for the military service member exemption, a Tennessee National Guard member or reservist must be:

- A participant in the AGR program;
- Stationed in Tennessee on Title 10 orders; or
- On active duty assigned to a combat zone.

Therefore, ADOS orders alone do not qualify reservists for the military service member exemption.

10. Documentation Reference Chart

The below chart serves as a quick reference guide to the different types of documents often provided by military service members to establish eligibility for the exemption. Please note that orders can be nuanced and that the table should be consulted in conjunction with the rest of this manual.

Document	Is It an Order?	Is It Alone Sufficient for the	Additional Documentation Necessary
Permanent Change of Station (PCS)	Yes	Yes	None, unless the order does not reflect the station, has expired, or the clerk has reason to doubt its authenticity.
Request & Authorization for PCS	Yes	Yes	None, unless the order does not reflect the station, has expired, or the clerk has reason to doubt its authenticity.
Permanent Change of Assignment (PCA)	Yes	No	An LES or other documentation is necessary to show where the service member is stationed.
Temporary Duty (TDY)	Yes	No	An LES or other documentation is necessary to show where the service member is stationed.
Active Duty Operational Support (ADOS)	Yes	No	The ADOS is sufficient only if it sends the service member to a combat zone or Title 10 orders reflect a Tennessee station.
Leave and Earnings Statement (LES)	No	No	Only useful in conjunction with other orders; helps identify where the service member is stationed.

Enlisted Record Brief (ERB) or equivalent service record book	No	No	Only useful in conjunction with other orders; helps identify where the service member is stationed.
Order of Award (Purple Heart, Bronze Star, etc.)	No	No	An Order of Award does not provide relevant information for the exemption.

Adaptive Equipment Exemption

Any adaptive equipment for a motor vehicle that is necessary to ensure that an eligible person can operate an automobile safely is exempt from Tennessee sales and use tax.[3] To qualify, an applicant must be an honorably discharged disabled veteran of a branch of the United States Armed Forces and have a service-connected disability equivalent to those described in the law.[4]

Veterans Affairs Automobile Grant

Effective March 5, 2018, new or used vehicles sold, given, or donated to disabled veterans or active-duty service members who have a service-connected disability and who receive a Veterans Affairs automobile grant, are exempt from sales tax, registration fees, and local motor vehicle privilege taxes. The sales and use tax exemption is limited to the portion of the sales price that exceeds the amount of the grant received. The Department published guidance on this subject; see **Important Notice 18-15**.

Other Sales and Use Tax Exemptions

Other exemptions that are not military specific may also be available to service members. State law provides that individuals moving to Tennessee may generally bring personal effects into the state without subjecting such items to the Tennessee sales and use tax.[5] Therefore, if a service member is transferred to Tennessee from another state or country

and brings a personal motor vehicle, the use tax does not apply to the importation of the vehicle, assuming the service member was a resident of another state before moving to Tennessee and becomes a resident of Tennessee. For more details about the legal requirements for this exemption, please see sales and use tax **Important Notice #07-07**.

Tennessee law[6] lists certain medical equipment and devices that are exempt from sales and use tax, including mobility enhancing equipment, prosthetic devices, and durable medical equipment for home use. For more information, see sales and use tax **Important Notice #07-22**.

Professional Privilege Tax

Overview

The Tennessee professional privilege tax is an occupation tax on certain active Tennessee professional licensees.[7] The tax is due annually on June 1.[8] Beginning June 1, 2023, individuals who are licensed or registered in Tennessee to practice any of the following professions are subject to the tax:

- Attorney
- Agent (Securities)
- Broker-Dealer
- Investment Adviser
- Lobbyist

The professional privilege tax law has two provisions pertaining to military service members who are licensed or registered in Tennessee to practice any of the above professions.

Privilege Tax Exemption

The professional privilege tax does not apply to any active United States military member if the member has served for more than 180 days during the year prior to the due date of the privilege tax (June 1).[9]

Eligibility for the exemption must be supported each year by provision of orders documenting 181 or more days of active duty served during the qualifying period.

Delayed Filing and Due Date

If an individual does not qualify for the professional privilege tax exemption, he or she must pay the professional privilege tax. However, the individual may be eligible for a delayed filing

and due date for the tax.

An active United States military member that owes the professional privilege tax does not have to file and pay the tax until 180 days after deployment in a combat zone that is outside the United States ends or 180 days after transfer out of a combat zone, whichever is sooner.[10]

When filing, the member must provide proof of the deployment status and the return from deployment.[11]

> **Example: A Tennessee-licensed attorney enrolls in the U.S. Army on April 1, 2019. On May 1, 2019, the service member is deployed outside of the United States, which lasts until November 1, 2019. During this period, the service member is entitled to combat compensation due to the hostile nature of the member's deployment. On November 1, 2019, the service member is transferred to a friendly territory outside of the United States where the service member is not entitled to combat compensation. The service member returns to Tennessee on December 1, 2019. The service member does not have to file and pay the 2019 professional privilege tax return until April 29, 2020.**

A person licensed as an attorney in Tennessee is subject to the Tennessee professional privilege tax, due on June 1. Here, the service member was in the armed forces of the United States for only 61 days prior to the due date.[12] Because the service member was in the armed forces of the United States for fewer than 180 days prior to June 1, 2019, the service member does not qualify for the professional privilege tax exemption.

However, because the service member was engaged in a combat zone outside of the United States at the time the tax was due,[13] the privilege tax is not due until 180 days after transfer from the combat zone. The service member was transferred from the combat zone on November 1, 2019, so the professional privilege tax originally due June 1, 2019, would be due on April 29, 2020 (180 days after November 1, 2019).

Assuming the service member continues service with the U.S. Army, the service member will not be subject to the professional privilege tax in 2020 because, as of June 1, 2020, the service member would have been with the armed forces each of the preceding 365 days, ensuring that the 180-day requirement is met for 2020.

Hall Income Tax

Overview

The Hall income tax is imposed on individuals and entities receiving dividends from stock and interest from bonds and notes.[14] The tax return is due April 15.[15]

Delayed Filing and Due Date

An active United States military service member who owes the Hall income tax has 180 days following the conclusion of his or her deployment to a combat zone or 180 days after he or she is transferred from the combat zone to file and pay the tax.[16]

When filing, the member must provide proof of the deployment status and the return from deployment.

Prisoner of War Exemption

Under Tennessee law, a Tennessee citizen who is determined to be a prisoner of war by the United States Department of Defense is exempt from paying the Hall income tax during the time of the person's capture and imprisonment and for 60 days after the person's release.[17]

Business Tax

Overview

Engaging in any vocation, occupation, business, or business activity listed in the Tennessee business tax law is a taxable privilege subject to the Tennessee business tax.[18] Any person engaging in these activities, including members of the United States military and veterans, is subject to the business tax. However, certain disabled veterans may be exempt from the business tax.

Business Tax Exemption

Under Tennessee law, an individual is exempt from business tax if the individual is either (1) a disabled former uniformed member of the armed forces who is a veteran of any armed conflict, or (2) a peacetime uniformed member of the armed forces who was disabled while in regular service, and the individual:

- Owns less than $5,000 of property, in excess of any debts on the property;
- Does business with a capital stock of no more than $5,000;
- Is a citizen of Tennessee and resides in the county in which the exemption is claimed; and
- Is the sole beneficiary of the business. [19]

Individuals claiming this exemption may not also claim the business tax exemption for blindness.[20] For example, if a disabled veteran is also blind, he may only claim either the tax exemption for disabled veterans or the tax exemption for blind individuals but not both. Any business for which the exemption is claimed must be conducted by the qualifying veteran or by a member of the veteran's immediate family. The veteran or family member may not be assisted by more than one person who is not a member of the veteran's family.[21]

To establish eligibility for the exemption, the individual must complete an **affidavit** which is located on the Department's website at **www.tn.gov/revenue**.

Contact Us

Please contact the Taxpayer Services Division in one of the Department of Revenue's offices for additional information.

Nashville:	Andrew Jackson Building 500 Deaderick Street Nashville, Tennessee 37242-1099 (615) 253-0600 (800) 342-1003
Knoxville:	7175 Strawberry Plains Pike, Suite 209 Knoxville, Tennessee 37914 (865) 594-6100
Memphis:	3150 Appling Road Bartlett, Tennessee 38133 (901) 213-1400
Jackson:	Lowell Thomas Building, Room 405B 225 Martin Luther King Drive, Suite 340 Jackson, Tennessee 38301 (731) 423-5747
Chattanooga:	1301 Riverfront Parkway, Suite 203 Chattanooga, Tennessee 37402 (423) 634-6266
Johnson City:	204 High Point Drive Johnson City, Tennessee 37601 (423) 854-5321

[1] "Active military service of the United States" means "full-time duty in the army, navy (including marine corps), air force or coast guard of the United States." Tenn. Code Ann. § 58-1-102(2). Tennessee National Guard members and reserve members stationed in Tennessee on Title 10 orders qualify under this provision.
[2] Fort Campbell is a military reservation located partially in Tennessee and Kentucky, such that members stationed in Fort Campbell may be eligible for the military service member exemption, pursuant to Tenn. Code Ann. § 67-6-303(a)(2).
[3] Tenn. Code Ann. § 67-6-353.
[4] *See* 38 U.S.C. § 3100 *et seq*.
[5] Tenn. Code Ann. § 67-6-210(b).
[6] Tenn. Code Ann. § 67-6-314.
[7] *See* Tenn. Code Ann. § 67-4-1702(a). For more information on the professional privilege tax, please visit: **https://www.tn.gov/content/tn/revenue/taxes/professional-privilege-tax.html.**
[8] Tenn. Code Ann. § 67-4-1703(a).
[9] Tenn. Code Ann. § 67-6-1708(c).
[10] Tenn. Code Ann. § 67-4-1703(c).
[11] Tenn. Code Ann. § 67-4-1703(c)(2).
[12] The due date in this example is June 1, 2019, and the service member was in the armed forces throughout all of April and May 2019.
[13] The due date in this example is June 1, 2019, and the service member was in a combat zone from May 1, 2019, through November 1, 2019.
[14] Tenn. Code Ann. § 67-2-102. For more information on the Hall income tax, please visit: **https://www.tn.gov/content/tn/revenue/taxes/hall-income-tax.html.**
[15] *See* Tenn. Code Ann. §§ 67-2-107-112(a).
[16] Tenn. Code Ann. § 67-2-112(b).
[17] *See* Tenn. Code Ann. § 67-2-104(d).
[18] Tenn. Code Ann. §§ 67-4-708(1)-(5). For more information on the business tax, please visit: **https://www.tn.gov/revenue/taxes/business-tax.html.**
[19] Tenn. Code Ann. § 67-4-712(a)(2).
[20] Tenn. Code Ann. § 67-4-712(a)(2).
[21] Tenn. Code Ann. § 67-4-712(a)(2).