



# FRANCHISE & EXCISE TAX EXEMPTIONS

Consolidated Net Worth Election

Updated December 2020

# Purpose of Election

- Allows entities in an affiliated group to compute their net worth base for franchise tax purposes on a consolidated basis
- The election is a group election, and each affiliated entity is bound to report their net worth using this consolidated basis
- The election is not for filing a combined return. Combined returns can only be filed by financial institutions that are part of a unitary group.

# Net Worth - Defined

- For taxpayers filing on a separate entity basis, “net worth” is defined as the difference between a taxpayer’s total assets less its total liabilities
- For taxpayers required by this part to file as a unitary group on a combined basis, “net worth” is defined as the difference between each such taxpayer’s total assets less its total liabilities computed in accordance with generally accepted accounting principles

# Affiliated Group - Defined

An “affiliated group” is any of the following:

- A taxpayer that, standing alone, is subject to the Tennessee franchise tax
- All other domestic persons in which the taxpayer, directly or indirectly, has more than fifty percent (50%) ownership interest
- All other domestic persons that, directly or indirectly, have more than fifty percent (50%) ownership interest in the taxpayer; and
- All other domestic persons in which a person described in (3) above, directly or indirectly, has more than fifty percent (50%) ownership interest, regardless of whether such persons do business in Tennessee

# Voluntary Election

- Since 2004, a voluntary election has existed to calculate the net worth base for franchise tax purposes on a consolidated basis
- Taxpayers continue to pay on the greater of apportioned net worth or the value of real and tangible personal property in Tennessee regardless of the method that is used to arrive at the apportioned net worth

# Calculating Consolidated Net Worth

- For a taxpayer electing to compute its net worth on a consolidated basis, net worth is defined as the difference between the total assets less the total liabilities of the affiliated group at the close of business on the last day of the tax year, as shown by a pro forma consolidated balance sheet including all members of the group
- The pro forma consolidated balance sheet should be prepared in accordance with generally accepted accounting principles wherein transactions and holdings between members of the group and holdings in non-domestic persons have been eliminated
- Tenn. Code Ann. § 67- 4-2106(b)

# Registration

- A taxpayer electing to compute its net worth on a consolidated basis shall make such election by filing a group registration form with the department and providing such information as may be reasonably required by the commissioner on or before the due date of the tax return for the period for which such election is to take effect. (Tenn. Code Ann. Section 67-4-2103(g))
- The group election is made on the Consolidated Net Worth Election Registration Application. ***This election must be made on or before the due date of the return for the period for which the election is to first apply.***
- The election is binding for a minimum of five years. Elections remain in effect after the minimum period until revoked.

# Amendments

- An amended registration form should be filed if a member of the group enters or leaves the group at any time during the tax year. The following situations are permissible:
  - Change in ownership
  - Merger
  - Liquidation of a member
- The member exiting the group is excluded from the group and computes its net worth on an unconsolidated basis. (Tenn. Code Ann. Section 67-4-2103(g))



# Revocation

- The affiliated group may revoke the election, after five years, by filing the Consolidated Net Worth Election Registration Application form with the Revoke Election box checked (Tenn. Code Ann. Section 67-4-2103(h))
- The form should be mailed to the address shown on the form on or before the due date of the tax return for the period during which such election is to be revoked.

# Exclusions

- The Commissioner of Revenue is authorized, upon written request from the taxpayer, to exclude one or more persons from the taxpayer's affiliated group if it is determined that the persons are so remote from the taxpayer that it cannot obtain the information necessary to calculate the net worth of the group (Tenn. Code Ann. Section 67-4-2103(j)(1))
- Excluding such persons from the affiliated group must result in a fair representation of the affiliated group's net worth
- If the exclusion is granted, all members of the affiliated group are bound by it
- The Commissioner may require information to substantiate a request, due on or before the due date of the return when the exclusion is to be applicable, and may for good cause accept a late filed request

# Resources

- Consolidated Net Worth Election Registration Application
  - New elections
  - Amended elections to add or remove group members
  - Revoke election
  - Indicate that the application is for a financial institution affiliated group
- Tenn. Code Ann. § 67-4-2106(b)
- Tenn. Code Ann. § 67-4-2103(g)
- Tenn. Code Ann. § 67-4-2103(h)
- Tenn. Code Ann. § 67-4-2004(2)
- Tenn. Code Ann. § 67-4-2103(d)
- Tenn. Code Ann. § 67-4-2103(j)(1)



**THANK YOU**