Exemption for machinery and equipment that is necessary to and primarily for research and development, and includes associated parts, accessories and appurtenances, installation and repair labor.

Rule 128 specifies what research and development includes and what it does not include.
WHAT QUALIFIES?

Research and development (R&D) must be for one of:

✓ Basic research in a scientific field of endeavor
✓ Advancing knowledge or technology in a scientific or technical field of endeavor
✓ Development of a new product
✓ Development of an existing product
✓ Development of new uses of an existing product
✓ Design and development of prototypes
WHAT DOES NOT QUALIFY?

Activities that do not qualify as R&D:

- Market research
- Efficiency surveys
- Consumer surveys
- Advertising and promotions
- Management studies
- Research in connection with literacy, historical, social science, psychological, or other nontechnical activities
- Ordinary quality control testing/inspection of materials/products (except testing/inspection that occurs during qualified research and development)
SALES AND USE TAX EXEMPTION:

Includes...

- ✓ Machinery and equipment used primarily for R&D
- ✓ Parts, accessories, and appurtenances for qualified R&D machinery
- ✓ Repair parts and repair labor for qualified R&D machinery
- ✓ Installation labor for qualified R&D machinery
- ✓ Hydraulic fluids, lubricating oils, and greases for qualified R&D machinery
SALES AND USE TAX EXEMPTION:

Does not include...

- Energy fuel reduced rates or exemption
- Water reduced rates or exemption
- Industrial supplies exemption
APPLICATION: Where to Find

https://www.tn.gov/content/dam/tn/revenue/documents/forms/sales/f1325101.pdf

www.tn.gov/revenue
Tax Resources
Forms
Tax-specific Forms
Sales and Use Tax

Application for Research and Development Machinery Exemption
APPLICATION: Important to Note

- In order to receive R&D exemption, the applicant **must have an active** TN sales and use tax account
- Applicant is not required to be engaged in fabricating or processing tangible personal property for resale to qualify for the R&D exemption
- Applicant with a TN industrial machinery exemption **must submit** the R&D application to qualify for the R&D exemption
- **Common reasons applications are rejected:**
  - Missing description of R&D activities conducted
  - Missing machinery list with description of R&D use
  - Missing description of R&D services provided to customers
Exempt entities must provide vendors with **either**:

- Copy of the certificate, or
- Fully completed Streamlined Sales Tax certificate of exemption (must include the R&D exemption authorization number included on the certificate issued by TDOR)

Issued by mail and on TNTAP upon application approval
Exemption authorization must be obtained prior to making tax-exempt purchases

Retroactive authority for the R&D exemption may be granted when failure to obtain authority prior to making a purchase resulted from...

- Major restructuring of the business/change in ownership
- Death of a key person in the organization’s tax area
- Entity was misled by state officials which indicated that authority to purchase R&D machinery was not required
- Any other grounds that the Commissioner finds satisfactory to allow retroactive application of exemption
To claim a refund or credit for tax paid on purchases of qualifying R&D items made on or after July 1, 2015, must use the following procedure:

1. Request a refund from the vendor and provide vendor with the certificate of exemption
2. Vendor must file a refund claim within three years from December 31 of the year in which the tax was remitted to the Department
3. Vendor must provide a copy of the purchaser’s certificate of exemption with the claim for refund
4. Vendor must refund or issue a credit memo for the collected tax to the purchaser and submit such documentation showing the purchaser received a refund or credit for the tax paid
THANK YOU