



Franchise/Excise Tax Basics

Tax Webinar: October 29, 2024



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Information is current as of the date presented and may not reflect legislative and other subsequent changes. For the most up-to-date information, please refer to our [published tax manuals](#) and [Revenue Help articles](#). Additionally, you can find legislative summaries by year/tax type [here](#).

Thanks for joining us!

We will begin at 9:00 am (CST)

Please check your audio settings

- Audio issues:
 - Contact WebEx Support <https://help.webex.com/contact/>
- Try leaving and then re-entering the event

View a recording of today's presentation tomorrow

- [tn.gov/revenue](https://www.tn.gov/revenue) > Taxpayer Education > Tax Webinars > Webinar Video Library

Please submit specific account-related questions or any questions that do not get addressed in this webinar to us directly

- www.tn.gov/Revenue
- Revenue.support@tn.gov
- General Tax Line 615.253.0600
- F&E Tax Practitioner Line 615.253.0700



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Overview

The excise tax and the franchise tax are imposed on corporations and most limited liability companies for the privilege of doing business in Tennessee.

Tenn. Code Ann. §§ 67-4-2001 et seq
Tenn. Code Ann. §§ 67-4-2101 et seq

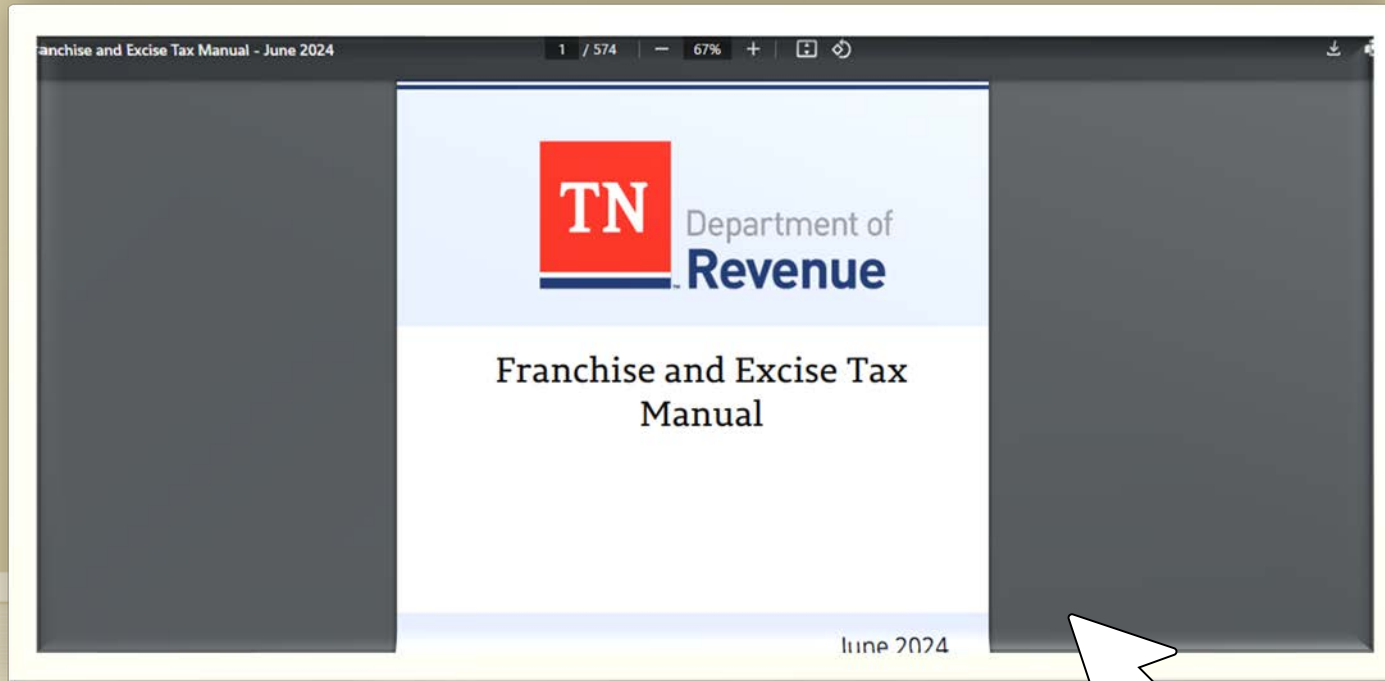
Topics covered this session include:

- **Registration/Nexus**
- **Filing/Extensions**
- **Estimated Payments**
- **Minimum Payment**
- **Exemptions**
- **Schedules**
- **FAQs**



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Informational Manual

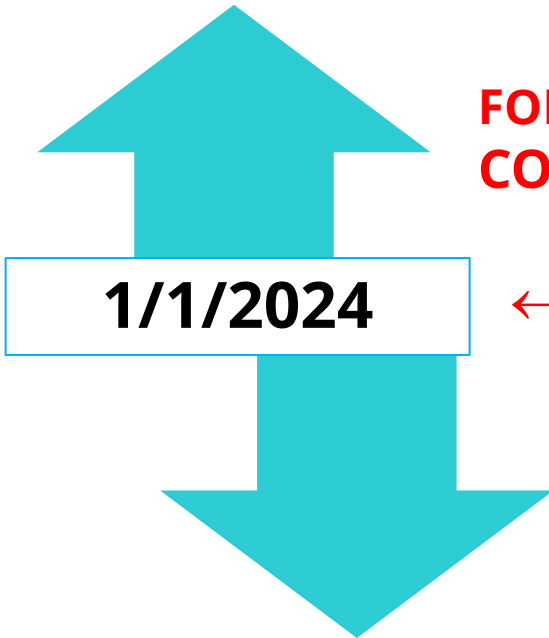


<https://www.tn.gov/revenue/tax-resources/legal-resources/tax-manuals/franchise-excise-tax.html>



What is F&E Tax?

FRANCHISE TAX



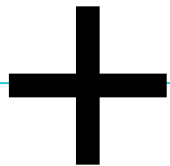
**FOR TAX YEARS ENDING ON OR AFTER 1/1/24 -
COMPUTED ON NET WORTH**

1/1/2024

← **Per Public Chapter 950 (2024)**

<https://www.tn.gov/revenue/2024franchisetax.html>

For tax years ending on or before 12/31/2023 -
computed on the greater of net worth or the
value of property owned or used in the state



EXCISE TAX

COMPUTED BASED ON THE ENTITY'S NET INCOME OR LOSS



Registration

ENTITIES SUBJECT TO F&E:

- Corporations (including S Corporations)
- Limited Liability Companies
- Limited Partnerships
- Real Estate Investment Trusts
- Business Trusts

ENTITIES NOT SUBJECT TO F&E:

- Sole Proprietorship
- General Partnership

- **Parent companies and subsidiaries register and file separately***

*exceptions: LLC owned 100% by a corp. is included in parent's return; and, financial institutions and captive REIT affiliated groups file form FAE174 on a combined basis.

- **Subject from date of formation or date operations began with nexus in TN**

Exempt Entities

1. **Industrial Development Corporations**
2. **Masonic lodges** and similar lodges
3. **Regulated Investment Companies** owning 75% in United States, Tennessee, or local bonds
4. Federal and state **credit unions**
5. LLCs or LPs that **acquire receivables from an affiliate** that reported the income in TN
6. LLCs or LPs that **provide affordable housing** and receives Low-Income Housing Credits
7. Tennessee **historic property preservation** entities
8. **Insurance companies** (not agencies)
9. **TN Investco entity** that receives investment credits under Tennessee Small Business Act
10. Any entity **owned in whole or part by the Armed Forces and** has 50% of income from property primarily for benefit of members of Armed Forces
11. **Qualified Low-income Community Historic Structure**
12. LLCs or LPs where the **members are fully-obligated** for the debts of the entity*
13. Partnership, trust, REMIC, or FASIT that has **asset-backed security of debt** obligations*
14. **Family-owned Noncorporate Entity (FONCE)***
15. LLC, LP, or business trust organized as a **Diversified Investing Fund***
16. **Venture Capital Funds***
17. **Farming / personal residence in LLCs or LPs***



10-17 Application and renewal required

*13-17 May require audit evaluation

Nexus for Out-of-State Entities

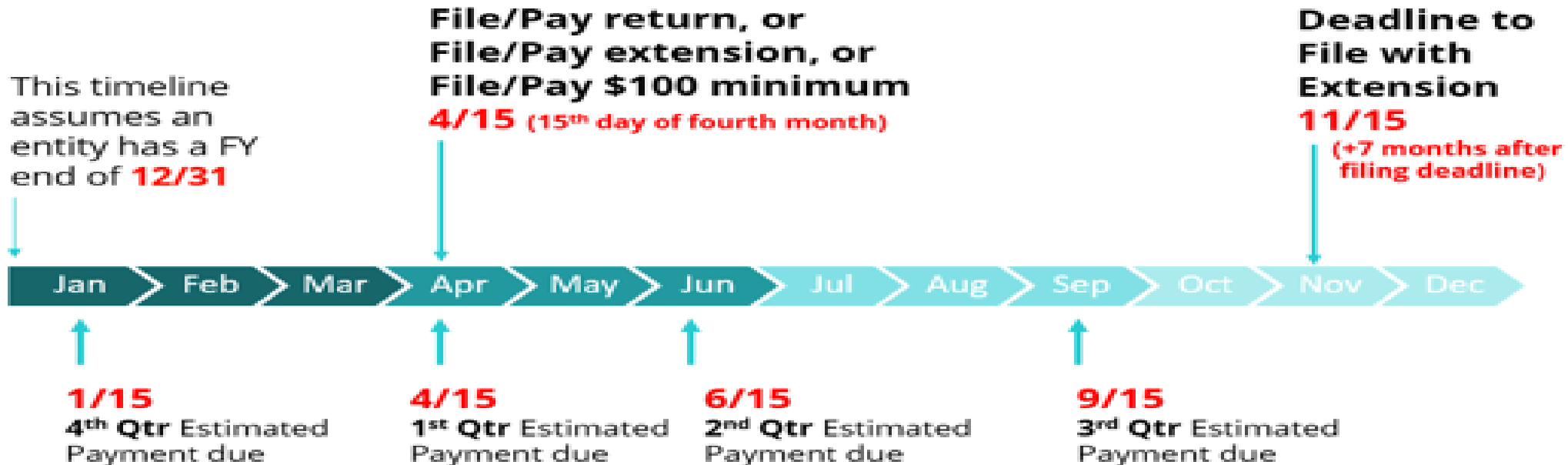
Out-of-state businesses “doing business” in TN and with “substantial nexus” are subject to F&E tax.

A taxpayer without a physical presence in TN may have substantial nexus in the state for F&E Tax purposes if it meets this bright-line presence definition

- ✓ At least \$50,000 of property or payroll in TN, **or**
- ✓ At least \$500,000 of receipts in TN, **or**
- ✓ At least 25% of its total property, payroll, or receipts in TN

NOTE: A business engaged in systematic and continuous business activity in the state that has produced receipts attributable to TN customers will have substantial nexus with the state even if they do not have bright-line presence.

Filing



- Returns, extensions and quarterly estimated payments through the IRS Modernized e-File (MeF) Program
- LINK: [MEF Certified Vendors](#)

Extensions

A **seven-month** extension will be granted if payments by the due date equal the **lesser of...**

- ✓ 90% of the current period liability, or
 - ✓ 100% of the previous period liability, annualized to 365.25 days, or
 - ✓ \$100 if the previous period does not exist.
-
- Once the financial requirement for an extension is paid, the extension is automatic.
 - Extension payments should be made on TNTAP.

Estimated Payments

Taxpayers are required to make estimated tax payments when there is a combined F&E tax liability of \$5,000 or more (after applicable tax credits) for both the prior tax year and the current tax year.

PAYMENT	DUE DATE
1 st Payment	15th day of the 4 th month of the current taxable year
2 nd Payment	15th day of the 6 th month of the current taxable year
3 rd Payment	15th day of the 9 th month of the current taxable year
4 th Payment	15th day of the 1 st month of the subsequent taxable year

Penalty & Interest

VALID EXTENSION AND TIMELY FILING

- only interest will be due on the balance of tax due

INVALID EXTENSION OR RETURN NOT FILED BY THE EXTENDED DUE DATE

- penalty and interest will be due on the balance of tax due from the due date until date paid

Delinquency penalty is 5%/mo., max 25%.

Minimum \$15 penalty on any late filed return.

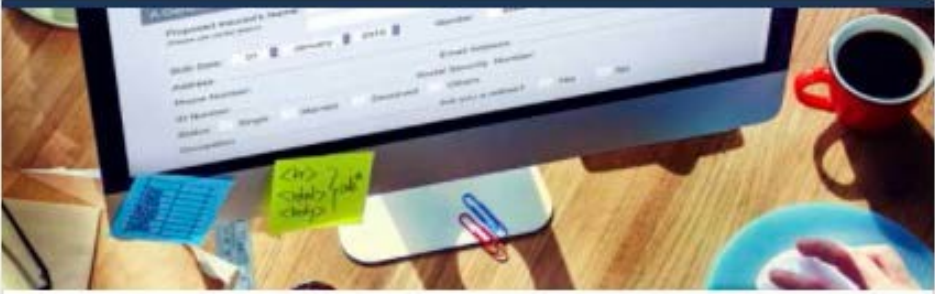
[LINK TO INTEREST RATE INFO](#)



Penalties, cont'd

- **LATE ESTIMATED PAYMENT** - penalty assessed at 2% per month up to 24% and interest is calculated at the current rate
- **LATE EXEMPTION RENEWAL** - \$200 penalty
- ARTICLE: [How to Request a Penalty Waiver](#)
- Interest cannot be removed

F&E Tax – Minimum Filing



FOR INACTIVE ENTITIES OR NO INCOME/ASSETS
File Minimum \$100 F&E Tax without even logging into TNTAP!

Returns
File a return.

View Return Links

File a return

Returns
> Minimum (\$100) F&E Tax

Franchise and Excise Minimum Tax Return

Franchise and Excise Minimum Tax Return

Information Account Information Questions Payment



Computation of Franchise Tax – Schedule A

Schedule F1 – Non-consolidated Net Worth

- Multiply net worth by apportionment ratio as determined by **Schedules N, N1, O, P, R, or S** (or 100% if not apportioned)

Schedule F2 – Consolidated Net Worth

- Multiply consolidated net worth by apportionment ratio as computed on **Schedule 170NC, 170NC1, 170SF, or 170SC**
- Tax rate is 25¢ per \$100 of value (.0025)
- Minimum tax is \$100
- For tax years ending 12/31/23 and prior, see F&E manual for Schedule G info

Franchise Tax – Final Return

Final return - complete business sale/merger/consolidation

- Do not report \$0 on Schedule F or G
- Final return box should only be checked after all assets have been sold or distributed
- **Liquidation is initiated & completed in 1 day:** Report net worth & property values as of date immediately preceding the liquidating event
- **Liquidation is not completed in 1 day:** Report “average monthly values” of net worth (Sch. F) and property (Sch. G) from worksheet

Computation of Excise Tax – Schedule B

Starting point in calculating the excise tax:

Entity Type	TN Schedule J	Federal Form & Line
Corporation	Schedule J4	1120 – Line 28
Subchapter S Corporation	Schedule J3	1120S – Line 21
Partnerships	Schedule J1	1065 – Line 22
Single Member LLC filing as Individual federally	Schedule J2	1040 – Schedules C, D, E, F, etc.

- Tax rate is 6.5%
- No minimum tax – A current year loss is carried forward, never back
- No proration allowed for short periods

Computation of Excise Tax, cont'd

- From the starting point as indicated on Schedules J1/J2/J3/J4, additions and deductions are reported on **Schedule J**
- Total Business Loss per Sch. J line 29 is not current year net operating loss (NOL)
 - NOL is computed in **Schedule K**
- Losses may be carried forward 15 years (**Schedule U**)
 - NOL's do not survive to successor if taxpayer ceases to exist from liquidation, merger, etc.
- Apportionment is allowed if a taxpayer would be subject to tax outside of TN based on same criteria of “doing business” & “substantial presence” for nexus in TN (**Schedule N** – 3 factor, **Schedule S** – 1 factor)
- Credits – **Schedule D**

Good Standing/Tax Clearance

- Good Standing Certificate - often requested by businesses to give to third parties to show that their taxes are current
- Tax Clearance - must be provided to the TN Secretary of State (SOS) by registered businesses wishing to dissolve or terminate.
 - If all periods are filed/paid, letter will be issued automatically to the address on our system
 - If tax clearance is not automatically issued, TDOR will notify the taxpayer in writing of:
 - Outstanding debits
 - Delinquent returns
 - Additional information needed for audit (i.e. Schedule of Liquidation)

Questions



FOLLOW/CONTACT US!

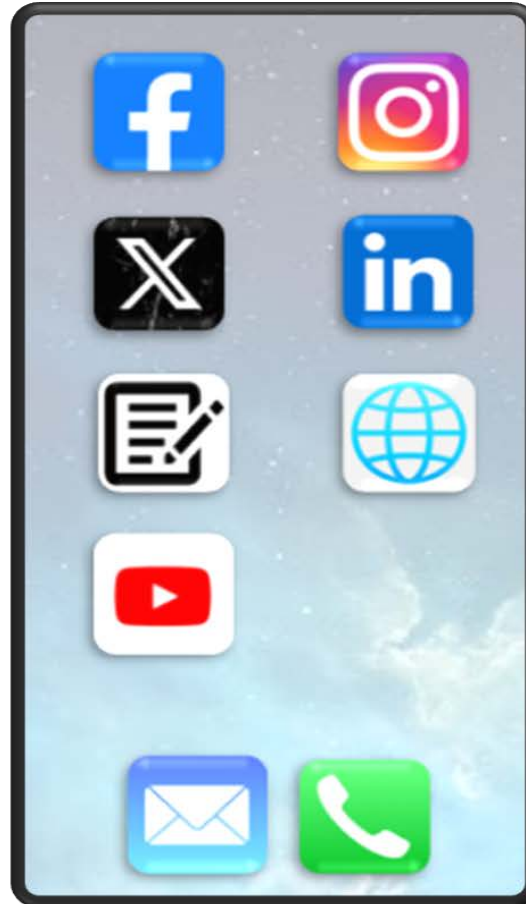
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General Tax Line
615.253.0600

Franchise & Excise Tax
Practitioner Hot Line
615.253.0700

SUPPORT STAFF AVAILABLE TO ASSIST YOU M-F 8am - 4:30pm

[All Dept. of Revenue Contact Numbers and Office Locations](#)



UPCOMING!

- **Upcoming Webinars**

- 11/26 – Marketplace Sellers & Facilitators
- 12/17 – TN Consumer Use Tax

- **New Business Workshop: 1/8/25**



Taxpayer Education & Outreach



**PLEASE TAKE A MOMENT
TO COMPLETE A BRIEF
SURVEY UPON EXITING!**

IMPORTANT: In order to receive CPE credit for attending, you must answer yes to question 4 of the post-event survey.