

## Sales & Uses Taxes

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The issue of “sales tax” is often a concern for folks involved in agricultural production and food processing. The State of Tennessee imposes a 6% tax on all sales, leases or rentals of tangible personal property. In addition, counties and cities may levy a local sales tax not to exceed 2.75%. Tennessee imposes a use tax on the price of property that is not sold in Tennessee but is used, consumed, distributed or stored for use in Tennessee. A few items are specifically exempt from sales tax like agricultural products sold by the grower directly to the consumer. However, almost all retail transactions not directly related to agricultural products like crafts, flea market sales and home businesses are liable for sales taxes.

There are a number of items exempt from the Tennessee Sales and Use Tax. These include: industrial machinery, repairs to industrial machinery, air and water pollution control equipment, and raw materials used for processing. However, farmers are not automatically exempt from payment of sales tax. To be eligible for an agricultural exemption, goods must be used exclusively on a commercial farm in the production of agricultural products. Also, manufacturers can pay a substantially reduced sales tax on fuel and water used in their operations. Equipment associated with a required capital investment by a distribution or warehouse facility is also exempted.

### **How do I register my business for collection of sales tax?**

Registration for sales or other taxes requires the completion of a no cost application, available upon request from the Taxpayer Services Division. When completed properly and received by the division, a registration number will be issued to qualified applicants.

### **What is a single article sale?**

The sales and use tax law limits the local option tax to the first \$1,600 of the purchase or use of a single article of tangible personal property. A single article of tangible personal property is generally defined as one preassembled, self contained unit of tangible personal property in the form that it comes from the manufacturer. Examples of single articles are motor vehicles, earth moving equipment and television sets.



**What are the registration requirements for a sales tax number?**

Any person that sells, leases or rents tangible personal property or provides a taxable service in Tennessee is required to register for sales or use tax purposes, even though the product sold may be tax exempt. Persons that sell, on the average, less than \$400 per month and pay tax to their suppliers do not need to register until their average monthly sales exceed that amount. Persons that do not sell tangible personal property or taxable services, but buy untaxed merchandise from out-of-state for use and consumption in Tennessee must register and pay the use tax directly to the Department of Revenue. Returns are due monthly, quarterly or annually dependent upon the filing status.

**What is use tax?**

Use tax, at the same rates as sales tax, becomes due when the user and consumer of taxable merchandise does not pay tax to the supplier. Examples include purchases of tangible personal property for use from an out-of-state vendor who does not collect the tax, extractions from inventory purchased on a resale certificate for personal use and consumption. Generally, contractors become liable for a use tax on materials used in realty construction even when the contactee first purchases the materials on an exemption certificate. Use tax is due even on purchases made by citizens from another state which are not taxed by the seller.

**When can a business use a resale certificate?**

A business, registered for sales and use tax can use a resale certificate only when the merchandise being purchased is to be resold by the business. A business cannot use a resale certificate to purchase merchandise that they will use and consume in the conduct of business. Any merchandise obtained upon resale certificate is subject to the Sales and Use Tax if it is used or consumed by the vendee in any manner, and must be reported and tax paid thereon direct to the Department of Revenue.

**What are the sales and use tax benefits for manufacturers?**

Preauthorized manufacturers are eligible for complete exemption from sales and use tax on qualified industrial machinery equipment, including repair parts and labor, that are necessary for product creation for sale. Pollution control facilities required of manufacturers are included in the exemption. Substantially reduced rates of sales and use tax are available for energy and water used by manufacturers.

**What are the exemptions for buying containers and packaging materials?**

According to the Tennessee Department of Revenue, items that will actually accompany a product during sale or shipment, without which the delivery of the product is impracticable due to the character of the contents, and for which there is no separate charge, are not subject to Sales or Use Tax. These items include such things as containers, packing materials, labels or name plate affixed to products manufactured, and printed matter containing only directions for use. Sales of containers, wrapping and packing material and related products which actually accompany work done for customers, when the services are subject to the Sales or Use Tax, are exempt from the Sales or Use Tax. Sales of tangible personal property to persons who render services which are not subject to the Sales or Use Tax, are subject to the Sales or Use Tax.

**Where can I get more information?**

Specific questions concerning sales tax issues, questions and exemptions should be directed to the Tennessee Department of Revenue, Taxpayer Services, Andrew Jackson Building, 500 Deaderick Street, Nashville, TN 37242, (615) 741-3580.

**What do I need in order to buy tax-exempt inputs and sell tax-exempt wholesale items?**

A tax identification number is needed in order to purchase tax-exempt inputs. Most suppliers of items that are not "automatically" tax exempt will require a tax identification number. Similarly, a tax identification number is also required for (for reporting purposes) for the sale of wholesale products.