

# PUBLICATION

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## Spotlight on Tennessee: Department of Revenue Proposes Tax Regulations

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The Tennessee Department of Revenue (the Department) is in the process of proposing a wide range of regulations addressing current state tax laws. The purpose of this project is to promulgate new regulations to clarify and enhance tax laws that were enacted during the 2015 Legislative Session and to modify other regulations which have been in existence for many years but which require updating. Additionally, the Department proposes to make numerous housekeeping regulation changes to coordinate with existing statutory law and also intends to repeal many regulations which merely repeat or are otherwise obsolete because of current statutory law.

The Department's proposals address regulatory changes dealing with (1) taxpayer remedies and the enforcement procedures; (2) business taxes; (3) franchise and excise taxes; and (4) sales and use taxes. The Department's proposals are only in draft form at present and have been circulated to certain recipients, such as the Tennessee Chamber of Commerce and Industry and other business groups, as well as to certain professional organizations, among others. The Department has requested that any comments for these proposals be placed in writing and sent to the Department no later than October 26, 2015.

Of particular interest, among the many proposals, the Department's draft includes (i) a new regulation for franchise and excise tax purposes addressing market-based sourcing for sales other than sales of tangible personal property, such proposal being over 40 pages in length and including numerous examples regarding the Department's interpretation of the market-based sourcing statute which was enacted during the 2015 Legislative Session and which is effective for all tax years beginning on or after July 1, 2016; (ii) a new regulation addressing research and development in the context of the industrial machinery exemption for sales and use tax purposes, such exemption being expanded during the 2015 Legislative Session to include research and development effective July 1, 2015; and (iii) new regulations for franchise and excise tax purposes addressing disregarded entities and series limited liability companies.

These proposals may have far-reaching effects for your particular business or organization and we encourage your review and consideration of these proposals. After reviewing these draft proposals, we encourage you to direct any questions or comments to one of the Tennessee attorneys within the Firm's Tax Group or to your particular attorney contact within this Firm. To the extent possible, we will include your questions/comments within our written suggestions provided to the Department.

Please remember that advice and counsel regarding your particular tax related issues, including the potential impact on your business or organization of the draft regulations referenced above, would be dependent upon your specific facts and circumstances. Please do not hesitate to let us know if we can assist you in that regard.