



STATE OF TENNESSEE

Franchise/Excise Tax Basics

February 2022

Overview

Franchise Excise Tax

- Who is liable, due dates overview, delinquencies, account closure/termination

Minimum Return Filing

- Applicability, how to file/pay

Estimated Payments

- Who is liable, how to compute, remitting, delinquencies

Extensions

- How and when to file/pay

Resources

- Where to go to find information on our website, contact information, chat Q&A

Franchise/Excise Tax - Overview

Franchise Tax

- greater of net worth or the book value of real or tangible personal property owned or used in Tennessee



F&E Tax

Excise Tax

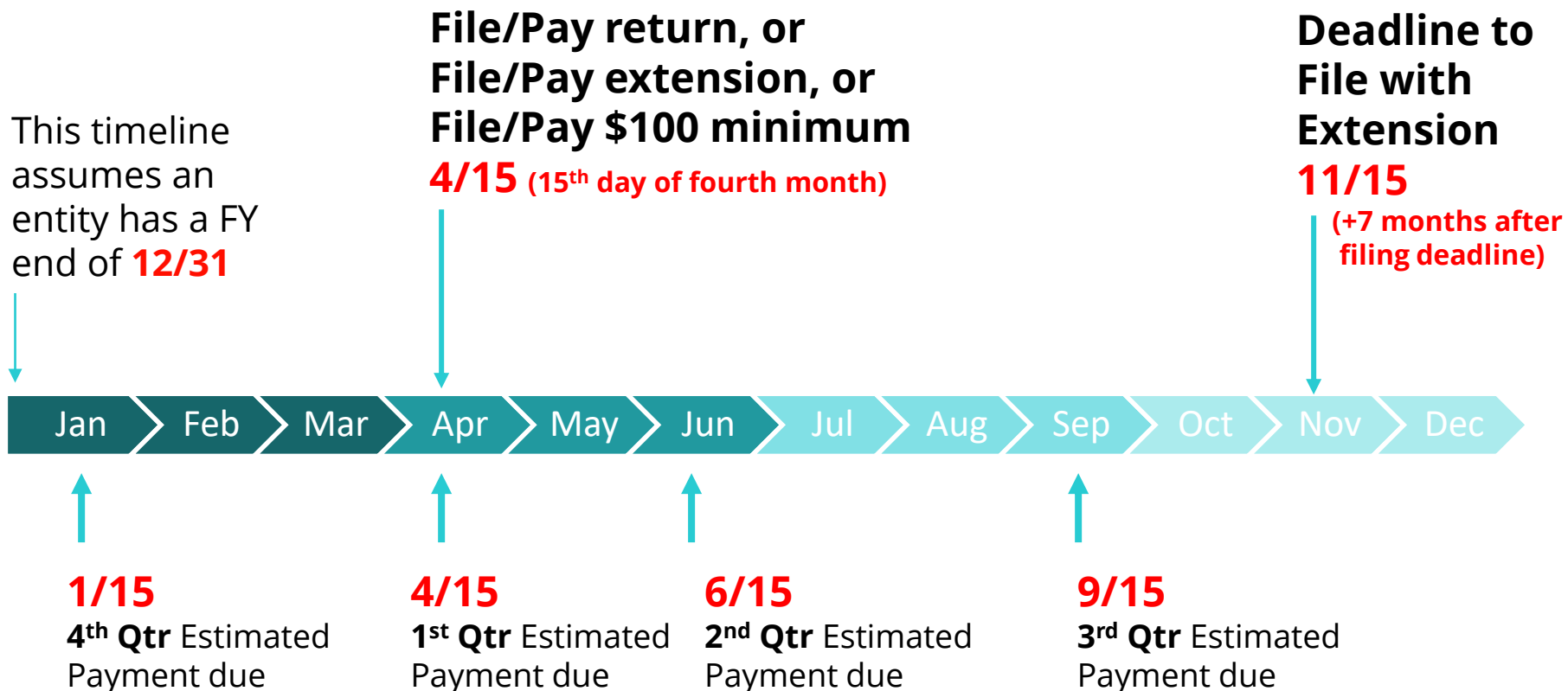
- net earnings or income for the tax year

Franchise/Excise Tax – Who is Liable?

All for-profit, foreign, and domestic entities chartered, qualified, or registered in Tennessee or doing business in TN must file the F&E tax return and pay at least the minimum tax.

- Includes corporations, limited partnerships, LLC's, and business trusts
- Entities are subject to F&E tax from their date of formation. Entities not registered with the Secretary of State, will be liable for the tax from the date they begin operations with substantial nexus in the state.

Franchise/Excise Tax – Due Dates



Franchise/Excise Tax - Delinquencies

PENALTY: Failure to file, late filing and/or payment results in penalty fees computed at a rate of 5% per month

- maximum penalty = 25% of the tax amount due (or assessed amount)
- minimum penalty = \$15, regardless of the amount of tax due

INTEREST: Applies to any taxes not paid timely, even if there is a filing extension.

- All delinquent or deficient tax payments begin accruing interest from the date delinquent or deficient until paid.



Failure to file a F&E tax return or pay required fees and taxes may result in the revocation of a business's charter or certificate.

Franchise/Excise Tax - Termination

To properly terminate or withdraw charter:

- File a final F&E tax return, timely filed by the due date of the return;
- Submit a schedule of liquidation, distribution, or disposition of assets with the final return;
- Pay all taxes owed to the Department;
- Obtain a tax clearance certificate from the Department; and
- Provide the tax clearance certificate, along with Articles of Dissolution, to the Tennessee Secretary of State.

Minimum Filing

Minimum franchise tax = \$100

Applicable to any taxpayer with a franchise liability equal to or less than \$100, including:

- A taxpayer that is active and has no net worth or book value of real or tangible personal property owned or used in Tennessee and no revenue
- A taxpayer that is inactive (no net worth, no revenue), that has had its charter or other registration forfeited, revoked, or suspended without having been dissolved or otherwise properly terminated
- An out-of-state company incorporated in Tennessee even if there is no property, payroll, or sales within TN must file full return with an apportionment Schedule N.

Minimum Filing – How To



Returns
File a return.

> View Return Links

File a return

Returns

- > Minimum (\$100) F&E Tax
- > File Hall Income Tax Return

EASY!
File Minimum \$100
F&E Tax without even
logging into TNTAP!

Franchise and Excise Minimum Tax
Return

Franchise and Excise Minimum Tax Return

Information Account Information Questions Payment

Estimated Payments – Who is Liable?

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.

- If the prior period's return was for a period of less than 12 months (short-period return), the actual liability from the prior short period must be annualized. Under these circumstances, the taxpayer is required to make estimated tax payments if both the annualized liability for the prior tax period and the projected liability for the current tax period are \$5,000 or more

Estimated Payments - When

Quarterly payments of estimated franchise and excise tax are made according to the schedule below. The term “quarterly” is used because there are four payments due. The days between each quarter may vary.

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

Estimated Payments – How to Compute

Quarterly estimated tax payments are computed using either the STANDARD method or the alternative ANNUALIZED INCOME INSTALLMENT method but may not switch between methods during the tax year.

- Link to worksheet used to calculate payments under both methods <https://www.tn.gov/content/dam/tn/revenue/documents/forms/fae/rvr00104.pdf>



Estimated Payments – Standard Method

The amount of each quarterly installment is the same, regardless of that quarter's actual revenue.

The standard method computes the minimum quarterly payment amount as the lesser of:

- 25% of the prior year's total liability (annualized if the tax period was less than 12 months); or
- 25% of 80% of the projected current year's liability.

Estimated Payments – Annualized Income Installment Method

The election to use this alternative method is an annual election made on the franchise and excise tax return .

Do you wish to elect the annualized income installment method for quarterly estimates?

Yes

No

Franchise and excise tax components of the quarterly estimates are computed separately:

- **Excise** - computed in accordance with Section 6655(e)(2) of the Internal Revenue Code.
- **Franchise** - the lesser of 25% of the franchise tax shown on the tax return for the preceding tax year (annualized if less than 12 months) or 25% of 80% of the current year's liability.

Estimated Payments - Remitting

- Electronic payment required (either through bank account or through the IRS Modernized e-File Program.) Penalty and interest charges may apply if the taxpayer fails to remit payments electronically.
- Accepted forms of payment include ACH debit, ACH credit, and credit card (service fee is added to payments made by credit card.)
- Funds must be readily available.
- Any taxpayer owing \$2,500 or more in connection with any quarterly estimated tax payment must remit that tax payment to the state in funds that are immediately available to the state on the date the payment is made.

Estimated Payments – Remitting/TNTAP

Payment

Payment Type *

Required ▼

- Required**
- Account Payment
- Audit Payment
- Estimated Payment ←
- Extension Payment
- Return Payment

Confirm Amount *

Required

Estimated Payments – Delinquent/Deficient

- Penalty rate is 2% per month (max 24%) plus interest at the current rate per year.
- Penalty and interest are computed from the due date of the installment to the date paid or until the 15th day of the fourth month following the close of the taxable year.
- If a taxpayer has timely filed estimated tax payments for at least two years, but the estimated tax payments resulted in an underpayment of tax on which penalties and interest accrued, may apply for waiver of penalty.



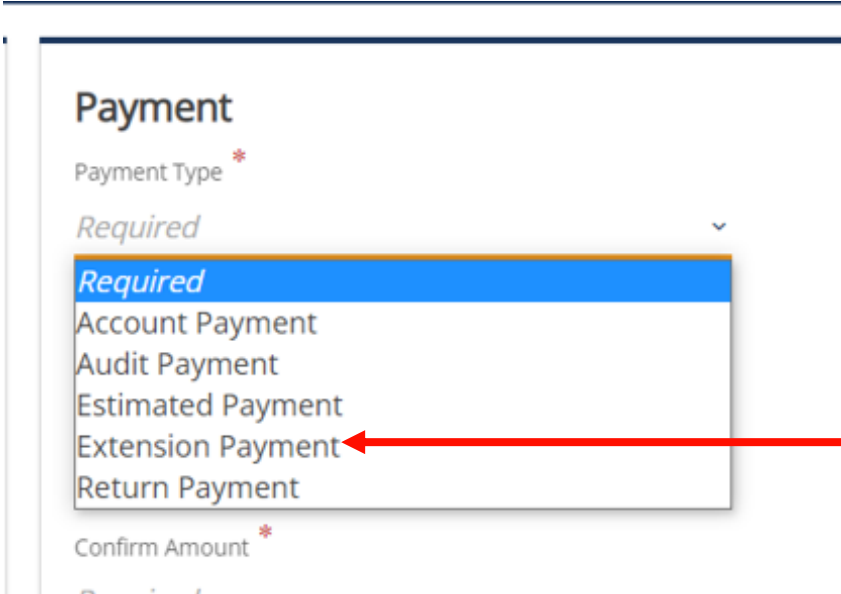
Extensions – How To Request

To receive a 7-month extension, a taxpayer must have paid, on or before the original due date, an amount equal to or greater than...

- ✓ 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.

Extensions – How To Pay

- The extension is automatic if the payment requirements for receiving an extension have been met.
- TNTAP has a drop-down box to indicate when a payment is for an extension; otherwise, there is not a place or a need to formally request an extension.
- When filing the return on TNTAP, check “yes” when asked “Have you filed for an extension?”



The screenshot shows a web form titled "Payment". The "Payment Type" field is marked with an asterisk and is currently set to "Required". A dropdown menu is open, showing the following options: "Required" (highlighted in blue), "Account Payment", "Audit Payment", "Estimated Payment", "Extension Payment" (indicated by a red arrow), and "Return Payment". Below the dropdown, the "Confirm Amount" field is also marked with an asterisk and is currently set to "Required".

Extensions – Important Info

- The filing extension is ***not a payment extension.***
- If the taxpayer anticipates that it will be due a credit or refund of tax with the return for which it is requesting an extension (due to having made sufficient tax payments as of the original return due date), ***the taxpayer does not need to file an extension application or make an extension payment. The extension will automatically be granted.***

Extensions – Deficient Payments

- **Any tax unpaid as of the original due date of the return will be assessed interest.**
 - Example – Taxpayer pays 100% of the previous years liability which is \$50,000 by the regular due date; however, upon filing the actual liability is \$60,000. Interest will be calculated on \$10,000
- **If a timely extension request is made but does not meet the extension payment requirements or if the taxpayer does not file the return by the extended due date, penalties and interest will be calculated as though no extension had been granted.**

Resources

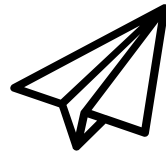
- www.tn.gov/revenue > taxes > Franchise & Excise Tax
- www.tn.gov/revenue > tax resources > Tax Guides > Franchise & Excise Tax
- www.revenue.support.tn.gov > taxes > Franchise & Excise Tax
- www.tn.gov/revenue > taxpayer education > taxpayer workshops > Franchise & Excise Tax
- www.tn.gov/revenue > taxpayer education > tax webinars > webinar video library > Franchise & Excise Tax

Resources

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



www.tn.gov/Revenue



Revenue.support@tn.gov



615.253.0600 (M-F 8-4:30 CST)



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