



# STATE OF TENNESSEE

Research & Development  
Machinery Exemption

April 2021

# LAWS/RULES: **Research & Development Machinery Exemption**

**Tenn. Code Ann.  
§ 67-6-102(44)(M)  
& 67-6-206(a)**

July 2015

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

**Tenn. Comp. R. &  
Regs. 1320-05-01-  
.128**

Sept. 2016

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>



TENNESSEE DEPARTMENT OF REVENUE  
Application for Research and Development Machinery  
Sales and Use Tax Exemption

1. Business Name \_\_\_\_\_ FEIN or SSN \_\_\_\_\_

2. Mailing Address \_\_\_\_\_  
Street City State ZIP Code

3. Sales Tax Account No. \_\_\_\_\_ Location Identifier \_\_\_\_\_

4. Location of Research Facility \_\_\_\_\_  
Street City County

5. Business Contact \_\_\_\_\_  
Name Phone Number Email Address

6. Has the applicant filed for the Federal Research and Development Credit under IRC § 41 for the current or immediately preceding tax year?  Yes  No If yes, please attach a copy of Federal Form 6765 (pro forma form 6765 if applicant is part of a combined group for federal tax purposes).

7. Has the applicant been issued an Industrial Machinery Exemption Certificate for this location?  Yes  No If yes, provide Industrial Machinery Exemption Number from the certificate for this location: \_\_\_\_\_

8. Does applicant provide contract research and development services to non-affiliated customers?  Yes  No If yes, attach description of research and development service(s) provided.

9. The applicant must be engaged at the facility listed above in at least one of the following as its ultimate goal. (Check all that apply.)  
 a. Basic research in a scientific field of endeavor

## 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



# CERTIFICATES:

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)

STATE OF TENNESSEE  
DEPARTMENT OF REVENUE

Taxpayer Name  
Address  
City State Zip Code

Effective Date: July 1, 2015  
Account No: 1XXXXXXX-SLC  
Exemption No: XXXXXXX  
Facility Address:  
Address  
City State Zip Code

Research and Development  
Sales and Use Tax Certificate of Exemption

The taxpayer is engaged in qualifying research and development activities at the referenced facility and therefore, may purchase tax exempt the following items that are necessary to and primarily for research and development:

- machinery and equipment, with all associated parts, appurtenances, accessories, hydraulic fluids, lubricating oils, and greases, that are necessary to and primarily for research and development
- repair parts and repair and installation services for such qualified research and development machinery

This exemption certificate may not be used to make untaxed purchases for use at other locations.

Seller's Name \_\_\_\_\_ Seller's Address (City & State) \_\_\_\_\_

I, \_\_\_\_\_, as an authorized representative of the taxpayer named above, affirm that the purchases qualify for the exemption and will be used at the location of the facility address referenced above. Under penalty of perjury, I affirm this to be a true and correct statement.

Print Name of Authorized Representative \_\_\_\_\_ Date \_\_\_\_\_

**Issued by mail  
and on TNTAP  
upon application  
approval**

# CERTIFICATES:

**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

# IMPORTANT TO NOTE....



**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**