



FRANCHISE & EXCISE TAXES

TAXES & EXCEPTIONS

1. What is Franchise and Excise Taxes?

Tennessee imposes a Franchise and Excise tax on limited liability companies and corporations. It has two levels: 6.5% excise tax on the net earnings of the entity, and \$0.25 per \$100 based on either the fixed asset or equity of the entity, whichever is greater. Many people do not realize that the rent of your building is considered a taxable item for franchise tax. For examples, if you rent a building for \$100,000 a year, you will owe \$2,000 tax on it. Excise tax is an income tax; it is a 6.5% tax on the entities net income. There are several adjustments that can be made. The most common adjustment is an adjustment to depreciation expense and an adjustment to any gains and losses based on this difference to depreciation. When dealing with excise tax, remember that salaries and wages paid to owners of a corporation or LLC is deductible for excise tax, and Tennessee does not have a tax on earned income.

2. Tax Credits

There are many credits against Excise tax in Tennessee. They include:

- Credit for insurance companies on gross premium tax credits
- Green energy tax credit
- Brownfield property credit
- Broadband internet access credit
- Industrial machinery and research credit
- Jobs tax credit
- Annual jobs tax credit

3. UDITPA

Most states have adopted the UDITPA (Uniform Division of Income for Tax Purposes), which is a way to apportion income amongst the different states you may have business in. It is not mandatory, and it can be adjusted by state. The formula apportions profits based on each state's share of companies' overall property, payroll, and sales in the state. These three factors are equally weighted. However, many states have increased the sales factor to 2x instead of 1x. This weighting reduces the taxes paid by companies that have their headquarters in a particular state. Tennessee has adopted this weighting style.

4. Exceptions to Franchise and Excise Taxes

There are many exceptions to the Tennessee Franchise and Excise Tax:

- General Partnerships and Sole Proprietorships- Partners and sole individuals are personally liable for all debts of their company.
- Industrial Development Corporations or Boards, Masonic Lodges, Regulated Investment Companies, Federal and State Credit Unions, Venture Capital Funds, Farming, Personal Residents, Certain LLCs or LLPs, Family Owned Non-Corporate Entities (FONCE), Tennessee Historic Property Preservation Entities, Insurance Companies, Tennessee Invesco Entity, Any Entity Owned in Part or Whole by the Armed Forces, Qualified Low Income Community Historic Structures, Some Non-profit Corporations.