



MULTISTATE INDIRECT TAX

Tennessee enacts changes to sales and use tax laws

Tax Alert

Overview

On May 11, 2023, Tennessee enacted [House Bill 323](#) (H.B. 323), known as the Tennessee Works Tax Act. The bill includes changes to the business tax, franchise and excise tax, and sales and use tax laws.

This Tax Alert summarizes some of the provisions in H.B. 323, most of which relate to sourcing sales under the sales and use tax laws. The changes to the business tax and franchise and excise taxes are covered in a separate [Alert](#).

Sales and use tax changes

- H.B. 323 provides for a sales tax holiday on food and food ingredients sold between August 1, 2023 and October 31, 2023.
- Generally effective July 1, 2024, H.B. 323 adopts certain Streamlined Sales Tax Sourcing provisions including the following:
 - The retail sale of a product from outside of Tennessee into the state is sourced as follows:
 - (1) When the product is received by the purchaser at the seller's business location, the sale is sourced to that location.
 - (2) When the product is not received by the purchaser at the seller's business location, the sale is sourced to the location of receipt by the purchaser or purchaser's designee, including the location indicated by delivery instructions known to the seller.
 - (3) When (1) and (2) above do not apply, the sale is sourced to the address for the purchaser that the seller has in its ordinary business records, when use of such address does not constitute bad faith.
 - (4) When (1-3) above do not apply, the sale is sourced to the address for the purchaser obtained during the consummation of the sale, including the address of payment, if no other address is available, when such use does not constitute bad faith.
 - (5) When (1-4) above do not apply or the seller is without sufficient information to determine which sourcing

requirement applies, the sourcing location will be the address from which tangible personal property was shipped, from which a digital good or electronically delivered software was first transmitted by the seller, or from which the service was provided.

- Generally effective July 1, 2024, H.B. 323 also provides specific sourcing guidance and adds certain definitions for some of the following items:
 - Leases and rentals that do not require recurring periodic payments as well as those that do require recurring periodic payments;
 - Origin sourcing for intrastate sales and leases;
 - Sales and leases of transportation equipment;
 - The repair of tangible personal property or computer software; laundering or dry cleaning of tangible personal property; and installing of tangible personal property that remains tangible personal property after installation; and installing of computer software;
 - Direct mail; and
 - Calling services or prepaid wireless calling services.

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