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#83

CHANGES TO THE STATE AND LOCAL SALES AND USE TAX RETURN – EFFECTIVE JULY 15, 2002

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Cities by now should be aware of the changes in the state and local sales and use tax brought about by Chapter 856, Public Acts of 2002. The Department of Revenue has revised the sales and use tax return to reflect these changes. The new form (SLS 450) should be sent to municipal taxpayers within the next few days, or it can be downloaded from the Department of Revenue web site at <http://www.state.tn.us/revenue/forms/sales/2002s450after715.pdf>. The new form will be used to report sales effective with the month of July 2002. Because the sales tax rate increase became effective July 15, 2002, reporting sales for the entire month of July may be somewhat complicated due to the fact a municipality may have water or other taxable sales from July 1-14 at the old state rate of 6 percent and sales from July 15-31 at the new state rate of 7 percent.

In discussions with Tennessee Department of Revenue personnel, MTAS has gained some insight into how the department expects the forms to be completed for the month of July 2002. The procedure for filing monthly forms for August 2002 forward should not be significantly different from what municipalities are currently using since there will not be any split sales after July 2002. Municipalities will continue to use the new revised form for August and thereafter.

Changes to the revised SLS 450 form that municipalities should be familiar with include the following:

ON THE FRONT

Line 1. All gross sales will continue to be reported on this line. For July 2002, this will include sales at both the old 6 percent state rate and the new 7 percent state rate.

Line 6. Exempt transactions continue to be reported on this line. **For July 2002 only, municipalities may also include water and other sales subject to the old state sales tax rate of 6 percent.** These sales (at the 6 percent rate) would then be included on line A, schedule A under exempt transactions on the back of form SLS 450.

Line 9. This line has been added to provide for the calculation of state sales tax on food items subject to the reduced state rate of 6 percent. **For July 2002 only, municipalities may use this line to calculate state tax on water and other sales from July 1-14 subject to the old 6 percent state sales tax rate.**

Line 10. Continue to report local option sales tax on this line. The rate is the rate for your jurisdiction.

Line 12. This line will include the new state sales tax at 2.75 percent on single article items in excess of \$1,600 but equal to or less than \$3,200 (maximum tax of \$44) and state tax at reduced rates, such as industrial water and energy fuel sales. **The new state rate of 2.75 percent on single articles does not apply to industrial water or energy fuel sales.**

Line 14. The old reference to vendor's compensation has been eliminated. It has been replaced to report total tax due from lines 8 through 13.

ON THE BACK

Schedule A, Line A. This line has been added to identify food sales subject to the new 6 percent state tax. As noted above, **for July 2002 only, municipalities may use this line to report water and other sales from July 1-14 subject to the old state rate of 6 percent.**

Schedule A, Line I. Continue to report sales of energy fuels on this line.

Schedule A, Line J. Use this line to report sales of industrial water at reduced state and local sales tax rates.

Schedule B. This did not change except for reference to Line A in Schedule A.

Schedule C. Report sales of industrial water subject to the reduced state and local sales tax. **The single article cap does not apply to sales of water to industries.** Tax is calculated on the total sales, regardless of amount.

SAMPLE FILLED-IN FORM

MTAS has available a sample filled-in form that municipalities may review for an accepted method of completing form SLS 450 for July 2002. **Please contact your MTAS management or finance consultant to receive a copy of the completed sample form.** Reports for sales in July are due no later than August 20, 2002.

Assumptions for filled-in form:

A municipality with a local option sales tax rate of 2.50 percent has total water sales for the month of July 2002 of \$100,000 as follows:

July 1-14 residential and commercial water sales	\$30,000
July 1-14 industrial water sales	\$3,000
July 1-14 exempt sales (schools, churches, etc.)	\$500
July 15-31 residential and commercial water sales	\$60,000
July 15-31 industrial water sales	\$6,000
July 15-31 exempt sales (schools, churches, etc.)	\$500

Using these assumptions, the sales and use tax form SLS 450 may be filled in as provided in the example.

ALTERNATIVE METHOD OF REPORTING AND FILING FORM SLS 450 FOR JULY 2002 SALES

Form SLS 450 does not have specific spaces to report sales from July 1-14 and July 15-31. A municipality may manually calculate the taxes due separately and complete the form without breaking out July 1-14 sales as exempt transactions in schedule A, the method used in the previous example. Using this alternative method, the example form would have the following changes:

Line 6 would be \$10,000. Include only sales to schools, churches, etc. and industrial water sales.

Line 7 would be \$90,000, the total sales at both the 6 percent and 7 percent rate.

Line 8 would be \$6,000. **Caution:** Using this method, the total tax on line 8 will not equal Line 7 x 7 percent if gross sales subject to state tax (line 7) include sales from July 1-14. The total tax would have to be calculated separately, with the total entered on this line.

Line 9 would be \$0.

Line A, Schedule A would be \$0.

Line K, Schedule A would be \$10,000, which would flow to Line 6 on the front of the form.

Line 1, Schedule B would be \$90,000.

Line 2, Schedule B would be \$0.

All other lines would remain the same. The total tax to be remitted to the state would remain \$8,385. (A filled-in form for this alternative method of reporting sales and use tax is not available.)

If you have questions regarding this information, please contact Dick Phebus, MTAS Finance and Accounting Consultant at (731) 587-7057. You also can contact the Tennessee Department of Revenue, Taxpayer Services Division at (800) 342-1003.

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