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Technical Bulletins: Effects of New State Sales Tax Law on Tennessee Cities

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EFFECTS OF NEW STATE SALES TAX LAW ON TENNESSEE CITIES

The act increasing the state sales tax rate from 3½% to 4½%, effective April 1, directly affects Tennessee municipalities for several reasons:

1) The maximum amount of the local option sales tax levy will increase from 1 3/4% to 2 1/4%, subject to voter approval in a referendum in cities and/or counties.

2) For cities operating electric and/or natural gas utilities, the tax billing for April and subsequent months will change. The state sales tax rate for residential users has been reduced to 1½%. Sales of these fuels to manufacturers, who have been issued authorization to purchase at the reduced rate of 1%, will include a tax increase to 1½%. The rate for all other users will be 4½%. Sales for residential use are limited to residents of owned or rented premises occupied as living quarters only (landlords of multi-family dwellings do not qualify for the lower tax rate).

Note that this change in rate does not apply to water utilities.

The new rates are effective for all bills issued on or after April 1. So if your city prepares its utility bills on or after that date, the new rate will apply to some March usage.

The State Department of Revenue is preparing new tax charts and will send a bulk supply to the county court clerk in each county (each vendor will be mailed only two charts). If the city receives requests for the charts, refer inquiries to the county court clerk.

The Department also plans to continue using existing tax forms until the supply is exhausted. Cities operating utilities, as well as other vendors, already should have received instructions from the Department on how to change these forms to conform to the new law. If you need further information, contact the Sales and Use Tax Division, Department of Revenue, Nashville (phone 615/741-3581).