

## Single Sales Factor for Manufacturers

### Manufacturers May Elect to Apportion Using a Single Sales Factor for Franchise and Excise Tax

Sections 28-29 of the IMPROVE Act (Public Chapter 181) provide that manufacturers may elect to apportion net earnings and net worth to Tennessee based on a single sales factor for tax years beginning on or after January 1, 2017.

### Only Manufacturers May Make the Election

To elect apportionment using the single sales factor, a taxpayer's principal business in Tennessee must be manufacturing. A taxpayer is a manufacturer when more than 50% of the taxpayer's revenue from its activities in this state, excluding passive income, is from fabricating or processing tangible personal property for resale and consumption off the premises. Passive income includes dividend income, interest income, income from the sale of securities, and income from the licensing or sale of patents and other intellectual property.

### Single Sales Factor Elections

A taxpayer electing to apportion using the single sales factor must make the election on its original franchise and excise tax return for the taxable year the election first applies. An election will remain in effect for a minimum of five years. A taxpayer may revoke an election after five years, and it may only make a new election after five years have passed from a prior revocation.

### Single Sales Factor Apportionment Formula

When electing the single sales factor as the apportionment formula, a taxpayer will apportion net earnings and net worth to Tennessee by multiplying the earnings and net worth by the following fraction:

$$\frac{\text{The taxpayer's total sales in TN}}{\text{The taxpayer's total sales everywhere}}$$

### Single Sales Factor Apportionment Formula for Consolidated Net Worth

When a manufacturer electing single sales factor apportionment is part of an affiliated group that is bound by a consolidated net worth election, the manufacturer will apportion consolidated net worth to Tennessee by multiplying the group's consolidated net worth by the following fraction:

$$\frac{\text{The taxpayer's total sales in TN}}{\text{The affiliated group's total sales everywhere}}$$

Single sales factor apportionment applies only to the manufacturer making the election, and not the entire affiliated group. Affiliates that are not manufacturers, or affiliates that are manufacturers but have not made a single sales factor election, will continue to use the same apportionment method they used prior to this public chapter. The property, payroll, and sales of all affiliates will continue to be included in their denominator.

### **For More Information**

Visit [www.tn.gov/revenue](http://www.tn.gov/revenue). Click on Revenue Help to search for answers or to submit an information request to one of our agents.

### **References**

Tenn. Code Ann. § 67-4-2012; Tenn. Code Ann. § 67-4-2111; Public Chapter 181