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SUTCA

Sales and Use Tax Compliance Agreement

What is a SUTCA?

Simplification of sales and use tax compliance and administration is the shared goal of the Tennessee Department of Revenue and the taxpayer. A SUTCA is a formal written agreement between the department and an eligible taxpayer that allows the taxpayer to compute and remit use tax on aggregate purchases made during each filing period instead of computing and remitting use tax on a transaction-by-transaction basis.

Potential Benefits

For the taxpayer, a SUTCA may:

- Provide predictability and consistency of approach in tax reporting;
- Ensure tax compliance decisions are made by tax experts rather than non-tax personnel;
- Reduce the likelihood of detailed, lengthy use tax audits;
- Potentially eliminate audit penalties;
- Reduce audit, litigation, and refund review expenses;
- Increase accuracy in use tax budgeting; and
- Promote the development of a cooperative relationship between the department and the taxpayer.

Eligibility?

A taxpayer may be eligible for the SUTCA program only when, in the Commissioner's opinion, the taxpayer:

- Demonstrates a willingness and ability to comply with tax laws;
- Maintains an acceptable system of internal controls and business records;
- Maintains a large volume of taxable purchases;
- Cooperates with the state's efforts to collect tax; and
- Cooperates with a statistical sampled audit of records from the current base period.

The department will not enter into a SUTCA with certain taxpayers. Please contact the department for complete eligibility requirements.

SUTCA Provisions

A SUTCA is customized for the taxpayer. However, all agreements will require the taxpayer to consistently utilize Direct Pay (Rule 68) during the term of the agreement. Additionally, a SUTCA will include the following provisions:

- A determination of the base period and applicable purchases;

- One or more effective use tax rates;
- Length of term, not to exceed three years, for which the agreement is in effect;
- The conditions under which the agreement may be modified or terminated; and
- Other mutually agreed upon provisions.

The taxpayer is responsible for monitoring its business operations pursuant to the SUTCA and is responsible for promptly notifying the department of significant accounting or operational changes that would affect the terms of the SUTCA.

What is an effective use tax rate?

A SUTCA with the state of Tennessee encompasses taxable purchases that have reduced tax rates or that are subject to local and state single article tax statutory provisions. For this reason, the *effective tax rate* is derived by weighting all variable rates associated with the sampled population. Specifically, based on the results of a statistical sampled audit, the *effective use tax rate* is the estimated percentage of total tax liability to total purchases for the base period:

$$\text{Effective Use Tax Rate} = \frac{\text{Estimated Total Tax Liability}}{\text{Total Applicable Purchases}}$$

During the term of the SUTCA, the effective use tax rate is applied against a predetermined base of purchases to compute the taxpayer's use tax liability.

Ending or Extending a SUTCA

At the conclusion of the SUTCA, either party may request a review before formulating a new agreement or extending the old one. If the parties are unable to reach a new agreement at the end of the original SUTCA term, the agreement will expire. In such case, the parties will return to the traditional model of sales and use tax compliance.

Taxpayer Rights

A SUTCA usually specifies the manner in which disputes between the department and the taxpayer will be resolved. The taxpayer entering into a SUTCA with the department has the same appeal rights as other taxpayers.

For More Information

For more information about Sales and Use Tax Compliance Agreements or other tax matters, please contact the Tennessee Department of Revenue.

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