

Keep the Wolves at Bay—Know the Rules About Business Tax When Selling Fruits and Vegetables

Farmers Market Boot Camp Workshops
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- Purpose of this session

- **Increase awareness** of business taxes
- Information provided is for educational purposes

Business License

- Definition of business tax
- Exemption from business tax
- When a business license is needed
- When a business tax return must be filed
- How to get a business license
- How to calculate business tax
- Paying business tax

Business Tax

- A privilege tax that permits you to engage in the business of:
 - Selling tangible personal property at wholesale or retail
 - Rendering certain services

Exempt services are listed at:

<http://www.tn.gov/revenue/tntaxes/businessstax/classification3.shtml>

Misconceptions about Business Tax

- “Farmers are always exempt from business tax.”
- “As long as most of what I sell was raised by me, I don’t have to get a business license and pay business tax.”

Exemption from Business Tax Exists for Farmers

“Tennessee gross sales of livestock, horses, poultry, nursery stock, and other farm products direct from the farm are exempt from the tax, provided that those sales are made directly by the producer, breeder, or trainer.”

Tennessee Department of Revenue's *Business Tax Guide*
Tennessee Code Annotated Section 67-4-712

Exemption from Business Tax: Sales of Farm Products by the Farmer Who Raised Them

- “Products of the farm sold by the farmer who raised them” are exempt from business tax.

- Livestock
- Nursery Stock
- Fruits
- Vegetables
- Poultry



Exemption from Business Tax: Sales of Farm Products by the Farmer Who Raised Them

- The farmer who raises the product may be a person or entity (e.g., partnership, LLC).
- When we talk about “sales of farm products by the farmer who raised them” we mean that the person or entity who sells the farm products to the consumer is the same person or entity who raised them.



When a Business License is Needed

Annual Sales \$3,000 or less	No business license needed
Annual Sales between \$3,000 and \$10,000	Minimal activity license required (new in 2014) \$15 each year If located in a city, the city may require a minimal activity license as well, for an additional \$15 fee.
Annual Sales \$10,000 or more	Business license required \$15 license fee for all new businesses Renewed annually at no charge when annual business tax return is filed If located in a city, the city may require a business license as well.

When a Business Tax Return Must be Filed

- Businesses in a county or municipality with less than \$10,000 in annual sales do not have to file a business tax return.
- Businesses with annual sales of \$10,000 or more must file a business tax return.

Is There an Exemption From Business Tax on the Sale of Products the Farmer Didn't Raise?

- There is no exemption from **business tax** for a farmer's sale of purchased products.
- If a farmer purchases farm products, when he sells those purchased products they are subject to business tax.



Example 1: Raised Farm Products

- Farmer Brown raises 1,000 pumpkins and sells them to consumers for \$6.00 each for a total of \$6,000.
- Does Farmer Brown need a business license? Does he owe business tax when he sells the pumpkins?
- Answer to both questions: **No**. The sales are exempt from business tax because Farmer Brown raised the pumpkins.



Example 2: Purchased Farm Products Sold for Less Than \$3,000

- In addition to the pumpkins he raised and sold for \$6,000, Farmer Brown buys gourds and other farm products used as fall decorations and sells them for \$2,000.
- Does Farmer Brown need a business license? Does he owe business tax when he sells the purchased gourds and farm products used as fall decorations?



Example 2: Purchased Farm Products Sold for Less Than \$3,000

- Answer: **No**. Farmer Brown does not need a business license and there is no business tax to be paid. The sales of the purchased gourds and farm products for \$2,000 are not subject to business tax because Farmer Brown's sales of these products are less than \$3,000.

Example 3: Purchased Farm Products Sold for Between \$3,000 and \$10,000

- In addition to the pumpkins he raised and sold for \$6,000, Farmer Brown buys gourds and other farm products used as fall decorations and sells them for **\$6,000.**
- Does Farmer Brown need a business license? Does Farmer Brown owe business tax when he sells the purchased gourds and farm products used as fall decorations?

Example 3: Purchased Farm Products Sold for Between \$3,000 and \$10,000

- Answers:
- Since the sales (\$6,000) are between \$3,000 and \$10,000, he must pay \$15 to get a “minimal activity license” from the local clerk. The city may require a minimal activity license as well.
- The sales of the purchased gourds and farm products are not subject to business tax because Farmer Brown’s sales of these products are less than \$10,000.

Example 4: Purchased Products Sold for \$10,000 or more

- In addition to raising and selling pumpkins for \$6,000, Farmer Brown buys gourds and other farm products and sells them as fall decorations for \$12,000.
- Does Farmer Brown need a business license? Does Farmer Brown owe business tax when he sells the purchased gourds and other farm products?



Example 4: Purchased Products Sold for \$10,000 or more

- Answers:
- **Yes.** Since these taxable sales total at least \$10,000, Farmer Brown is required to get a business license, file a business tax return and pay business tax on \$12,000. The city may require a business license as well.

Who Administers Business Tax?

- Business tax law allows local governments, by a local ordinance or resolution, to levy business tax.
- Local governments (counties and cities) issue licenses.
- Effective Jan 1, 2014 businesses in all 95 counties are subject to business tax; hundreds of cities also license businesses.
- The State of Tennessee is responsible for return processing, tax payments, audit and collection.

How to Get a Business License

- County clerks and designated city officials (city tax collectors) issue business licenses for a one-time registration fee of \$15. There is no additional fee for annual business license renewal.
- You must contact the respective county or city official for registration information and forms as required by that jurisdiction.
- If the business is located in a city and a county that both have approved a business tax, two separate tax returns must be filed.
- If the business conducts sales in multiple counties, the business must register with the respective counties and cities.

Paying Business Tax

- Taxes are paid when the annual business tax returns are filed with the Tennessee Department of Revenue. Tax returns for the county and city (if the city has a business tax) should be filed. A list of the tax returns for each business tax classification is available at <http://www.tennessee.gov/revenue/forms/business/index.shtml>.
- County clerks and designated city officials will renew the business license annually after the tax return has been filed with the Tennessee Department of Revenue.

Document Business Will Receive

Upon registering, a business will receive:

- **Business License** (for each county and municipality where sales occur)

The taxpayer must exhibit the license in the taxpayer's place of business.

Threshold When Business Tax Becomes Due

- Taxable product sales are \$10,000 or more in a year**



Business Tax Classifications

- There are five classifications of businesses.
- Each of these classifications is subject to a different rate.
- Rates within some classifications also vary according to whether the sales are made at wholesale or retail.
- Your dominant business activity determines your classification.

- A farmer whose taxable sales are sales of farm products are in Classification 4.
- In Example 4, Farmer Brown had taxable sales of \$12,000 from purchased gourds and farm products used for fall decorations. These sales are in Classification 4.



Business Tax Rates

CLASSIFICATION	RETAIL	WHOLESALE	TAX PERIOD	DUE DATE
Class 1A	0.001	0.00025	Jan 1 – Dec 31	February 28
Class 1B & 1C	0.001	0.000375	Jan 1 – Dec 31	February 28
Class 1D – Fuel	0.0005	N/A	Jan 1 – Dec 31	February 28
Class 2	0.0015	0.000375	April 1 – March 31	May 31
Class 3	0.001875	0.000375	July 1 – June 30	August 31
Class 4	0.001	N/A	Oct 1 – Sep 30	November 30
Class 5	0.003	.003	Jan 1 – Dec 31	February 28



Figuring the Tax

- The minimum tax for taxpayers in Classification 4 is \$22.
- In Example 4, the tax is computed by multiplying sales by 0.001.
- In Example 4, Farmer Brown's business tax on taxable sales of \$12,000 would be the minimum tax of \$22.
($\$12,000 \times 0.001 = \12 , but the minimum tax is \$22).

Filing Return and Paying the Tax

- Tax returns are filed annually, for the period that applies to the Classification.
- All businesses must file their business tax returns and make tax payments to the Department of Revenue electronically.

Farmers Markets

- The owner, manager, operator or promoter of a farmers market must obtain a business license and collect and submit to local tax officials a \$1 fee per day per booth from vendors who do not have a business license.
- Vendors have option of either obtaining a business license and remitting the business tax, or remitting the \$1 per day per booth to the farmers market.
- If the city has a business tax, the fees will total \$2 per day (\$1 each for county and city) per booth.
- Note: This fee does not apply to farmers whose sales are entirely from their raised products. They are not required to have a business license.

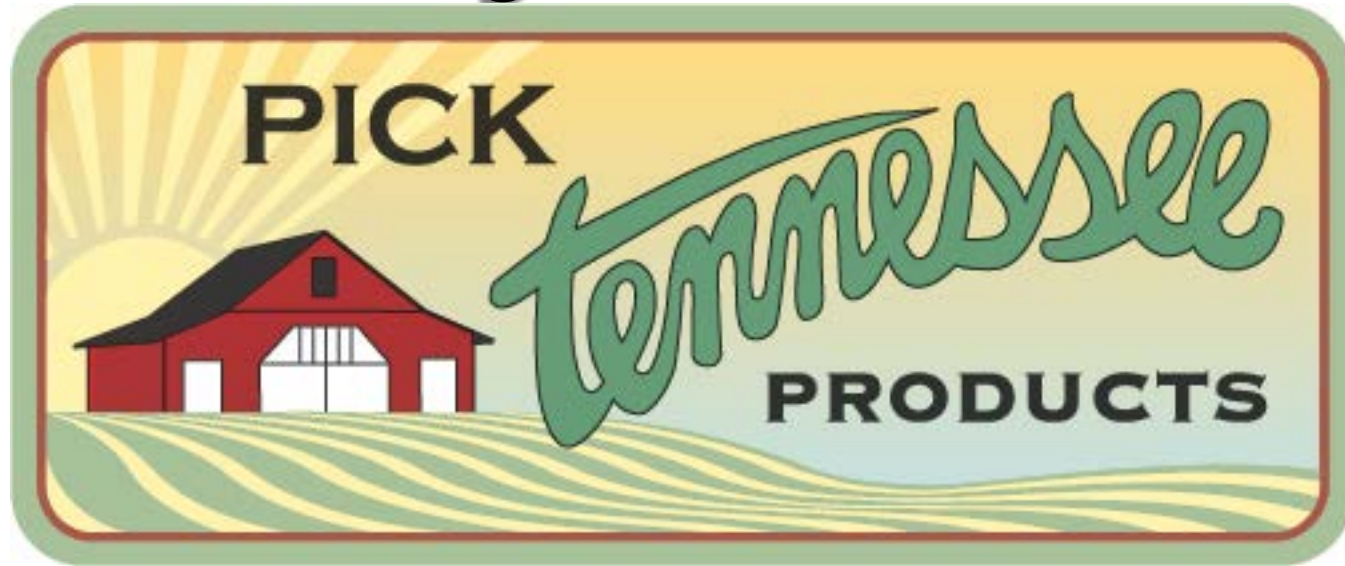
Take Home Messages

- Farms with annual taxable sales between \$3,000 and \$10,000 are required to pay \$15 each year to get a “minimal activity license.” The city may require a minimal activity license as well.
- Farms with annual taxable sales of \$10,000 or more must get a business license from the local clerk. There is a one-time \$15 license fee and business tax paid annually to the Tennessee Department of Revenue. The city may require a business license as well.

Resources that may be helpful...

- Business Tax Information
- <http://www.tn.gov/revenue/tntaxes/business.shtml>
- Business Tax Guide
- <http://www.tennessee.gov/revenue/taxguides/bustaxguide.pdf>
- Tennessee Department of Revenue
 - (800)342-1003
 - <http://www.tn.gov/revenue/index.shtml>
 - Email TN.revenue@TN.gov

**Special “Thanks” to
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