
Business Licenses and Taxes for Tennessee Farms with Value-Added Enterprises



FOREWORD

The intent of this publication is to provide information to assist Tennessee farmers engaged in direct marketing, value-added agriculture enterprises and agritourism with questions about business licenses and business tax. The authors have attempted to review and interpret the available information regarding business licenses and business tax from the Tennessee Department of Revenue and apply it to general farm situations. Much of the information provided in this document was developed through extended conversations and consideration of a variety of “what if” scenarios with officials in the department to better understand the application of business license and business tax rules to Tennessee farmers.

The authors have relied heavily on information contained in the Tennessee Business Tax Information and Tennessee Business Tax Guide published by the department. These are important resources and are available at the following links:

- Tennessee Business Tax Information
www.tn.gov/revenue/taxes/business-tax.html
- Tennessee Business Tax Manual
www.tn.gov/content/dam/tn/revenue/documents/tax_manuals/august-2021/Business-Tax.pdf

The information contained herein is a good-faith attempt to condense details that relate to business license and business tax administration into a form that is understandable and applicable to common direct marketing, value-added agriculture enterprises and agritourism operations. While the application of the current business license and business tax regulations on various situations, examples and scenarios has been addressed by associates from the department and they reviewed the initial draft of this document, it must be understood that rules and interpretations of such rules do change. Therefore, it is important to note that the information in this document is considered correct and accurate by the authors based on the rules, input, explanations and the authors’ understanding at the time of writing. **This publication cannot be relied upon as legal advice and is not an official statement of department policy. If a reader has a specific tax issue, he or she should consult with the Tennessee Department of Revenue and a legal or accounting adviser for guidance.**

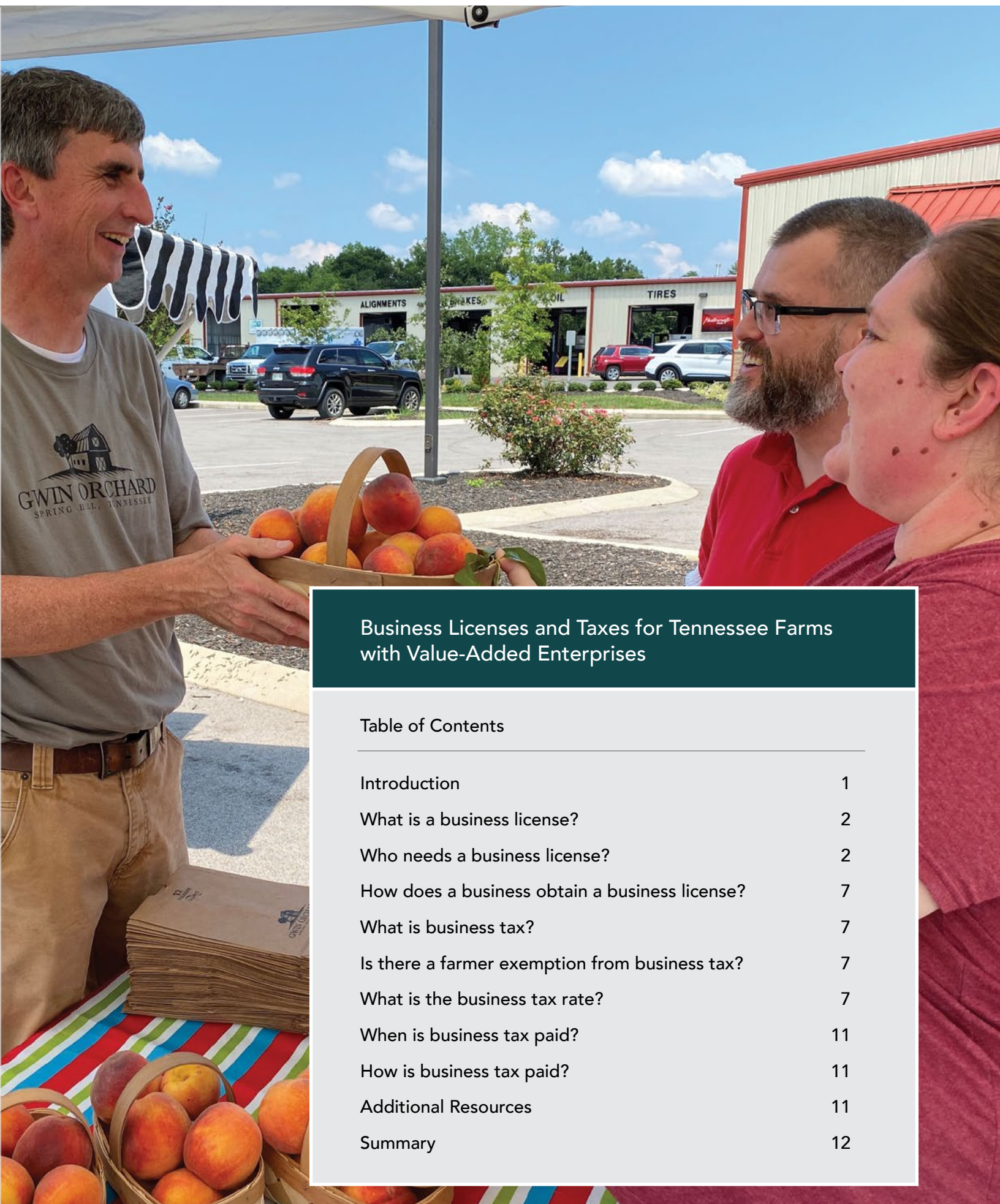


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Bradley Kountry Acres, photo by Michelle Bradley

Introduction

Farmers engaged in direct marketing, value-added agriculture entrepreneurs and agritourism operators often ask whether they are required to obtain business licenses and/or pay business taxes. Value-added enterprises add value through processing, such as berries into jam or milk into cheese. Generally, businesses across the state of Tennessee are required to obtain a business license and pay business tax to the county where they are located. If the business is located in a city that requires a business license, it must also obtain a business license and pay business tax to the city. If the business has more than one location, a separate business license is required for each location. Farmers selling only products raised on their farm do not need a business license. However, farmers who sell products not raised on their farm or who sell processed products made with ingredients other than their raised products, salt, water, sugar, pectin or preservatives may need a business license and may need to pay business tax. This publication provides guidance to farmers involved in direct marketing, value-added processing and agritourism to help them determine if a business license is needed, if business tax must be paid and how to comply with obtaining a license and paying business tax.



What is a business license?

A business license is a legal document provided by the government that allows a business to operate in a specific geographic location. Businesses required to have a business license must obtain a license for each county and municipality, if required by the city, for each business location. All 95 counties require business licenses. A list of cities requiring business licenses can be found on the Tennessee Department of Revenue website at www.tn.gov/revenue/taxes/business-tax.html.

A business only needs a business license for its permanent business location(s). Examples of permanent business locations may include a manufacturing facility and any permanent sales locations. A business would not need a business license where it conducts sales at temporary locations such as farmers markets. Premises are not temporary if the business operates at a location for more than six consecutive months.



Who needs a business license?

Generally, any person in business for profit or gain who has gross annual sales of more than \$3,000 needs a business license and may be subject to business tax. However, there are some exceptions for certain sales of farm products and services. The following farm sales categories are not subject to business licensing and business taxes:

- A farm's sale of its raised farm products (such as fruits, vegetables, livestock, poultry, eggs and nursery products).
- A farm's sale of certain value-added products such as jams and jellies where only the farm's raised fruits or vegetables are used and the only non-raised ingredients include salt, water, sugar, pectin and/or preservatives.
- A farm's sale of admissions for tours or activities that are purely educational in nature. For example, demonstrations of how a farm operates or processes farm products without any amusement, recreation or entertainment are excluded from business tax.



Tennessee farmers involved in other value-added, direct marketing and agritourism operations such as the following are subject to business licensing and business tax when sales of any individual or combination of the following exceed \$3,000:

- A farm's sale of purchased farm products.
 - A farm's sale of value-added products where there are non-raised ingredients in addition to salt, water, sugar, pectin and/or preservatives.
 - A farm's sale of admissions for tours or activities that are not purely educational in nature. Farms with admission charges for services, such as
- agritourism activities, are generally required to obtain a business license and pay business tax. Sales of farm products and services to nonprofit groups such as school groups and church groups must be included when making the calculation of sales subject to business tax rules.

The dollar amount of the annual sales of services and products subject to business tax determines whether and what type of business license is needed. There are two types of business licenses:

1. **Minimal Activity License** – Any person in business for profit or gain who has gross annual sales of products or services that are subject to business tax of more than \$3,000 and less than \$10,000 must have a minimal activity license for each permanent business location. The cost is \$15 for each business location for each year and no business tax is paid with a minimal activity license. If the person's gross receipts in the jurisdiction are \$10,000 or more, the person will be required to file a regular business tax return for the tax year and pay business tax.
2. **Business License** – Any person in business for profit or gain who has gross annual sales of products or services that are subject to business tax of \$10,000 or more must have a business license for each permanent business location. The license fee is \$15 for each business location for each year for all new businesses. Businesses in this category are subject to business tax on their annual sales. The business license is renewed annually at no charge when the annual business tax return is filed.



Table 1 provides a summary of business license and business tax requirements for farms with value-added, direct marketing and agritourism enterprises.

Table 1. Summary of Business License and Business Tax Requirements for Farms with Value-Added, Direct Marketing and Agritourism Enterprises		
Farm Sales Category	Minimal Activity License Required?	Business License and Payment of Business Tax Required?
A farm's sales of only its raised products	No	No
A farm's sales of value-added products containing only its raised products and salt, water, sugar, pectin and/or preservatives		
A farm's sales of admissions for tours or activities that are purely educational in nature		
A farm's sales of purchased farm products	Yes, if annual sales of taxable products and services are more than \$3,000 and less than \$10,000	Yes, if annual sales of taxable products and services are \$10,000 or more
A farm's sales of value-added products where there are non-raised ingredients in addition to salt, water, sugar, pectin and/or preservatives.		
A farm's sales of admissions for tours or activities that are not purely educational in nature, including sales to nonprofit groups.		

The following examples may be helpful in understanding when a business license is needed and what type of license would be appropriate for a farm in Tennessee with a value-added enterprise.

1 Example 1

Farmer Juan raises cattle and has a retail meat permit from the Tennessee Department of Agriculture to direct market meat from his raised calves. His calves are harvested and processed under USDA-inspection into ground beef, steaks and roasts at a nearby plant. Juan's annual sales of meat total \$25,000. There is no need for Juan to get a business license because he raised the cattle and the meat contains no non-raised ingredients other than salt, water, sugar, pectin and/or preservatives.

There is no need for a business license when the producer sells meat from animals the producer raised and there are no non-raised ingredients other than salt, water, sugar, pectin and/or preservatives.



2 Example 2

Farmer Fred raises pumpkins and makes pumpkin pies in a commercial kitchen on the farm. Fred's annual pumpkin pie sales total \$3,500. He uses the pumpkins he raised and eggs from his chickens, plus pastry, pumpkin pie spice and sugar to make the pies. Since pastry and pumpkin pie spice are ingredients other than his raised farm products, salt, water, sugar, pectin and/or preservatives, the \$3,500 in pumpkin pie sales must be counted in calculating whether a business license is needed. Since the total sales of the pies are more than \$3,000 and less than \$10,000, a minimal activity license should be obtained from the county where the farm business is located. If the farm business is located in a city, a minimal activity license should be obtained from the city as well.



3 Example 3

Farmer Jane raises tomatoes and her annual sales of raised tomatoes at her on-farm stand total \$6,000. She purchases tomatoes during the year to add to the quantity and variety of tomatoes available for sale and sells the purchased tomatoes for \$4,000. Jane needs a minimal activity license from the county since her sales of purchased items are more than \$3,000 and less than \$10,000. If the farm business is located in a city, a minimal activity license should be obtained from the city as well.



4 Example 4

Farmer Jane sells the tomatoes she raised for \$6,000. She also purchases tomatoes and sells them at her on-farm stand for \$10,000. She needs a business license because the sales of purchased tomatoes are \$10,000 or more. If the farm business is located in a city, a business license should be obtained from the city as well.

A minimal activity license is needed from the county when annual sales of tomatoes purchased for resale are more than \$3,000 and less than \$10,000. A business license is needed from the county when those sales are \$10,000 or more. If the business is located in a city, a license should be obtained from the city as well.



5 Example 5

Farmer Tom has a pumpkin patch with a corn maze, slide and other recreational activities. Within the year he sells his raised pumpkins for \$10,000. Tom sells admission tickets to his agritourism operation for \$25,000, food and drinks from his concession stand for \$10,000 and t-shirts and apparel for \$4,000. Tom should get a business license and pay business tax on the \$39,000 sales of admissions, concessions and apparel since the sales of these items total \$10,000 or more. Business tax is not due on the sales of pumpkins he raised. If the agritourism operation is located in a city, a business license should be obtained from the city as well.



6 Example 6

Farmer Isabella has a cow dairy and makes cheese from the milk in a licensed food manufacturing facility on the farm. Salt, starter cultures and rennet are added to the milk during the cheese making process. Since starter cultures and rennet (ingredients other than milk from her cows, salt, water, sugar, pectin and/or preservatives) are used to make the cheese, the cheese sales must be counted in calculating whether a business license is needed. Isabella retails her cheese through her e-commerce site and farm store, and she wholesales her cheese products through a distributor. Her annual sales of cheese at retail are \$40,000 and wholesale through a distributor are \$250,000, for a total of \$290,000. Isabella needs a business license since total cheese sales are \$10,000 or more. If the cheese-making business is located in a city, a business license should be obtained from the city as well.

Dairy products contain non-raised ingredients other than salt, water, sugar, pectin and preservatives, so a minimal activity license from the county is required if annual sales are more than \$3,000 and less than \$10,000. A business license is needed when sales are \$10,000 or more. If the business is located in a city, a license should be obtained from the city as well.



Flowers Creamery, photo by Morgan Flowers.



How does a business obtain a business license?

Business licenses may be obtained from the county clerk's office and designated city official, typically the city tax collector. The fee for a minimal activity license is \$15 per year. Business licenses require a one-time registration fee of \$15. There is no additional fee for annual business license renewal.

Businesses must submit information and forms required by each specific jurisdiction where a business license is required. The business will receive a business license for each county and municipality for each of its permanent business locations. The document must be exhibited in the place of business.

Contact the respective county or city official for registration information and forms as required by that jurisdiction. It may take up to 10 business days for the Tennessee Department of Revenue to register a business.

What is business tax?

Business tax law allows local governments (cities and counties), by local ordinance or resolution, to levy business tax. Business tax is a privilege tax that permits one to engage in the business of:

1. Selling tangible personal property at wholesale or retail, or
2. Rendering certain services.

Some services are exempt from business tax and these exempt services are listed at www.tn.gov/revenue/taxes/business-tax.html.

The State of Tennessee Department of Revenue is responsible for return processing, tax payments, audit and collection. Business tax must be paid when a business has gross product or service sales of \$10,000 or more per year. Businesses that hold a minimal activity license with gross product or service sales of more than \$3,000 and less than \$10,000 do not pay business tax. They simply pay the \$15 annual fee for the minimal activity license.

Is there a farmer exemption from business tax?

According to the Tennessee Department of Revenue's Business Tax Guide, "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."

What is the business tax rate?

There are five classifications of businesses, many with subclassifications, each subject to a different business tax rate. Rates within some classifications vary according to whether the sales are made at wholesale or retail. The dominant business activity determines the classification.

Table 2 lists the classifications for selected farm-related products and services with a brief description of products and services included in the class, as well as the applicable retail, wholesale and/or general tax rate associated with each class. Once the business determines whether it is a retailer or a wholesaler at a particular location, the appropriate rate is applied to all the taxable gross sales at that location. If at least 50 percent of taxable gross sales are retail sales, the business is considered a retailer. If at least 50 percent of taxable gross sales are wholesale, the business is considered a wholesaler.



Classification	Description	Retail Tax Rate	Wholesale Tax Rate	General Rate
Class 1A	<p>Classification 1A is for businesses providing:</p> <ul style="list-style-type: none"> Food and beer for home consumption, except for retail sales of delicatessens and candy 	0.001	0.00025	N/A
Class 1B	<p>Classification 1B is for businesses selling products such as:</p> <ul style="list-style-type: none"> Building materials or builders hardware Electrical supplies Farm equipment Hardware Lumber Paint Tools 	0.001	0.000375	N/A
Class 1C	<p>Businesses in the 1C classification are selling farm, nursery and related products including:</p> <ul style="list-style-type: none"> Bulbs Feed Fertilizer Grain Hay Nursery stock Seeds Other farm, lawn and garden tools and supplies 	0.001	0.000375	N/A
Class 2	<p>Any business selling tangible personal property that is not specifically named or described in this or any other classification uses Classification 2. Examples include:</p> <ul style="list-style-type: none"> Nurseries Restaurants that prepare food and drinks, including alcoholic beverages for consumption on and/or off the premises 	0.0015	0.000375	N/A
Class 3	<p>Classification 3 is for service businesses and those that sell tangible personal property such as:</p> <ul style="list-style-type: none"> Delicatessens Candy Pet food Bait 	0.001875	0.000375	N/A
Class 4	<p>Classification 4 is for contractors and for the sale of certain farm products. Persons selling the farm items listed below are considered to be under Classification 4:</p> <ul style="list-style-type: none"> Sales of livestock, poultry or other farm products, excluding sales by persons who directly produce and sell such products 	N/A	N/A	0.001

For businesses with sales of \$10,000 or more, business taxes are calculated by multiplying the appropriate tax rate by the taxable gross sales. There is a minimum tax of \$22 for each business.

Figure 1 shows the calculation of business tax owed by Farmer Jane in Example 4. Jane made sales of purchased tomatoes at her farm stand totaling \$10,000. These sales of farm products would be in Classification 4 and the general rate for Classification 4 is 0.001. The tax is computed by multiplying gross sales (\$10,000) by the tax rate of 0.001, for a result of \$10. However, the amount of business tax to be paid would be the minimum tax of \$22.

Figure 1. Calculation of Business Tax for Farmer Jane (Example 4)				
Gross Sales		x	Tax Rate	= Business Tax
\$10,000		x	0.001	= \$10, but the minimum business tax is \$22.

Figure 2 shows the calculation of business tax owed by Farmer Tom in Example 5. Tom is a retailer with annual sales of \$39,000 (\$25,000 admissions, \$10,000 concessions and \$4,000 apparel). The dominant business activity is the sale of admissions, and admissions are considered to be a service. Classification 3 is the classification for service businesses and the retail rate of 0.001875 is applied to the total sales of admissions, concessions and apparel. The amount of business tax to be paid is \$73.13 (\$39,000 x 0.001875).

Figure 2. Calculation of Business Tax for Farmer Tom (Example 5)				
Gross Sales		x	Tax Rate	= Business Tax
\$39,000		x	0.001875	= \$73.13



Agritourism operations with sales of admissions, concessions and apparel must have a minimal activity license from the county if annual sales are more than \$3,000 and less than \$10,000. A business license is needed when sales are \$10,000 or more. If the business is located in a city, a license should be obtained from the city as well. The rate for Business Tax Classification 3 applies to service businesses such as agritourism operations.





Figure 3 shows the calculation of business tax owed by Farmer Isabella in Example 6. Isabella has annual cheese sales of \$290,000 (\$40,000 retail and \$250,000 wholesale) and her business would be in Classification 1A because her cheese is a food product for home consumption. Isabella is considered a wholesaler since at least 50 percent of taxable gross sales are wholesale sales. The wholesale tax rate of 0.00025 is multiplied by total cheese sales of \$290,000 to arrive at the total business tax of \$72.50.

Figure 3. Calculation of Business Tax for Farmer Isabella (Example 6)

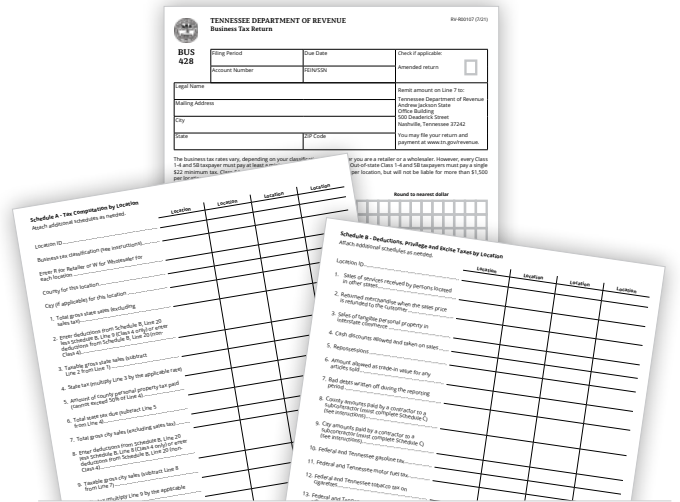
Gross Sales x Tax Rate = Business Tax

$\$290,000 \times 0.00025 = \72.50

A cheese manufacturer (Business Tax Classification 1A) with both wholesale and retail sales determines whether it is a retailer or a wholesaler based on the percentage of gross sales for each. The appropriate business tax rate is applied to all the taxable gross sales.

Flowers Creamery, photo by Morgan Flowers.





For assistance in determining which classification a business falls under, contact the county clerk, city business tax office or the Tennessee Department of Revenue.

When is business tax paid?

Taxes are paid annually when filing the business tax return with the Tennessee Department of Revenue. The business tax return is due on the 15th day of the fourth month following the end of the business' fiscal year and this is 30 days prior to the expiration date (15th day of the fifth month). For example, if the business' fiscal year coincides with the calendar year, then the return will be due on April 15. If the business' fiscal year ends on June 30, then the business tax return will be due on October 15 and so on. The tax must be paid on time in order to avoid any potential penalty and interest charges.

How is business tax paid?

Businesses must file a business tax return and pay the tax electronically on the Tennessee Department of Revenue website using the Tennessee Taxpayer Access Point (TNTAP). The business tax return form is available at www.tn.gov/content/dam/tn/revenue/documents/forms/business/bus428.pdf. Business tax returns and payments are submitted at www.tn.gov/revenue/taxes/business-tax/file-and-pay.html.

Paper returns are only accepted when filing electronically creates a hardship for the taxpayer. A hardship exception may be made for taxpayers who do not own a computer or internet access or for taxpayers whose religious beliefs prohibit the use of computers and related technology.

Additionally, a business tax return must be filed within 15 days of closing a business. Any tax that is due must be paid at that time. Businesses that have a minimal activity license, and therefore do not file business tax returns, should notify county and city, if needed, officials or the Tennessee Department of Revenue if the business closes.

Additional Resources

Tennessee Business Tax Information

www.tn.gov/revenue/taxes/business-tax.html

Tennessee Business Tax Manual

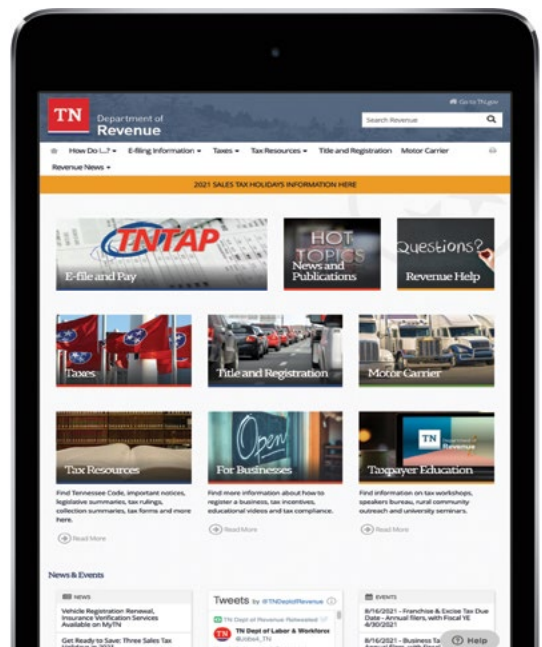
www.tn.gov/content/dam/tn/revenue/documents/tax_manuals/august-2021/Business-Tax.pdf

Tennessee Department of Revenue

www.tn.gov/revenue.html

800-342-1003

TN.revenue@TN.gov





Farms offering pick-your-own flowers may also sell admissions for photo opportunities. The sale of the farmer's raised flowers are excluded from business tax but amounts received for admissions would be included for business tax calculations.

Bradley Kountry Acres, photo by Michelle Bradley

Summary

A business with gross annual sales of more than \$3,000 needs a minimal activity license or a business license, with an exception for farmers selling only farm products they raised or value-added products where the only non-raised ingredients are salt, water, sugar, pectin and/or preservatives. A farmer selling farm products he/she did not raise would need a minimal activity license or a business license when the total of non-raised products sales exceeds \$3,000. Farmers should keep records that document the sales from their raised products.

Certain value-added products such as jams and jellies where the farmer's raised fruits or vegetables are used and the only non-raised ingredients include salt, water, sugar, pectin and/or preservatives are excluded from the calculation of sales for business tax. A farmer selling value-added products where there are non-raised ingredients in addition to salt, water, sugar, pectin and/or preservatives would need a minimal activity license or a business license if annual sales are more than \$3,000.

If admission charges are made for participants to engage in agritourism activities, these admission charges for services are generally subject to business tax rules and a minimal activity license or a business license would be needed if the total sales exceed \$3,000. Admission charges to activities that are purely educational in nature are excluded.

There are two types of business licenses: 1) minimal activity license for businesses with gross annual sales of more than \$3,000 and less than \$10,000, and 2) business license for businesses with gross annual sales of \$10,000 or more. Businesses pay \$15 per year for a minimal activity license. New businesses pay a one-time fee of \$15 for a business license and pay business tax on their gross annual sales when they file their business tax return.

Minimal activity licenses and business licenses may be obtained from the county clerk's office and designated city official, typically the city tax collector. Businesses required to obtain licenses must obtain a license for each county and municipality, if required by the city, for each of its permanent business locations.



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