

Tennessee Department of Revenue

Tax Guide for Military Members and Veterans

2015

GUIDANCE FOR MILITARY MEMBERS AND VETERANS

Tennessee law allows for some tax exemptions and other exceptions for military members and veterans. This guide discusses various benefits afforded to these individuals and how they are applied.

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The Department of Revenue strives to efficiently fund public services by fostering compliance with Tennessee’s tax and motor vehicle title and registration laws through education, fair enforcement and excellent customer service.

Sales and Use Tax

General Rule

The Tennessee sales and use tax is a combination of a state tax (7% for most items) and a local option tax (up to 2.75%) imposed by city and/or county governments. The sales tax is generally applied to retail sales of tangible personal property (including leases and rentals) and the sale of certain services, amusements, and digital products specified in the law. The use tax generally applies when the sales tax is not paid.

Sales and use tax exemptions are available for certain U.S. military service members on motor vehicle purchases and for adaptive equipment that is necessary to ensure that the eligible person will be able to operate an automobile or other conveyance in a manner consistent with such person's own safety and the safety of others. Boats and trailers are not considered motor vehicles, so they are not eligible for these exemptions. Camper trailers are considered motor vehicle for these purposes.

Military Service Member Exemption for Motor Vehicles

Military Members That Are Eligible

Motor vehicles registered in Tennessee are exempt from sales and use tax if the vehicle is sold to any of the following military service members:

(A) A member of a uniformed service in active military service of the United States,¹ who is stationed in Tennessee or a military reservation located partially within Tennessee under orders of the member's branch of service;

(B) A member of the Tennessee National Guard, or reserve member of a uniformed service of the United States, who is a participant in the active guard and reserve program (AGR) and who is stationed in Tennessee or at a military reservation located partially within Tennessee under orders of the member's branch of service; or

(C) A member of the Tennessee National Guard, or a reserve member of a uniformed service of the United States, who has been called into active military service of the United States, and who is stationed in a combat zone. This exemption applies from the effective date of official military orders assigning the individual to a combat zone. It expires 90 days after the effective date of official military orders releasing the individual from the combat zone.

The military service member exemption applies only if the motor vehicle is titled and registered in the name of the qualifying individual, either alone or jointly with a spouse or lineal relative. A "lineal relative" is a person who is directly related to the service member (such as grandparents, parents, children, grandchildren, etc.). For these purposes, formally adopted children are considered lineal relatives. Step-children are not considered lineal relatives.

¹ "Active military service of the United States" means "full-time duty in the army, navy (including marine corps), air force or coast guard of the United States." TENN. CODE ANN. § 58-1-102(1) (2013).

The military service member does not apply to service members of foreign militaries, even if stationed in Tennessee. Likewise, veterans are not current service members in a branch of the United States military, so they are not eligible for the exemption. However, disabled veterans may be eligible for the adaptive equipment for motor vehicles exemption to the Tennessee sales and use tax.

Where and When the Vehicle Is Registered Matters

The applicability of the military service member exemption is determined by when the service member becomes stationed in Tennessee and where the service member purchases the motor vehicle.

Motor Vehicle Purchases Inside Tennessee: The military service member exemption applies if the service member was stationed in Tennessee at the time of the purchase. This is because the sales tax becomes due at the time of the sale. If the service member purchases a motor vehicle in Tennessee before being officially stationed in Tennessee, the military service member exemption does not apply even if the service member registers the motor vehicle after being stationed in Tennessee. Conversely, if a service member purchases a motor vehicle in Tennessee while officially stationed in Tennessee, but registers the motor vehicle after expiration of the official orders, the exemption may still apply because the service member was stationed in Tennessee at the time of the purchase.

Motor Vehicle Purchases Outside Tennessee: If a service member purchases a motor vehicle outside of Tennessee or in a foreign country and subsequently imports and registers it in Tennessee, the military service member exemption applies if the service member is stationed in Tennessee at the time the motor vehicle is registered in Tennessee. This is because use tax becomes due upon registration.

Documentation Required for the Motor Vehicle Exemption

To qualify for the military service member exemption, the purchaser must provide to the county clerk (and the seller if the purchase occurs in Tennessee) a copy of the official orders related to the stationing of the purchaser and, if applicable, the purchaser's status as a member of the AGR program.

An official order that service members commonly provide when applying for the exemption is a **Permanent Change of Station (PCS)** order. A PCS is an official order stationing a service member to a designated location. A PCS qualifies the service member for the military service member exemption as long as it stations the service member in Tennessee, and it has not expired.

If the PCS contains a commitment or expiration date showing that the service member is still stationed in Tennessee, no additional documentation is required unless the county clerk has reason to believe that the service member is not currently stationed in Tennessee or Fort Campbell.

Service members may receive **orders that contain an official reporting date, but permit early reporting**. If an order permits an early reporting date and the service member actually reports within the early reporting period, eligibility for the exemption begins on the date that the service member reports for duty under his orders. A notarized statement signed by the service member stating the date that he reported may be accepted by the county clerk if the clerk has no reason to disbelieve it.

As long as the service member is officially stationed in Tennessee, the order itself is sufficient. Official

orders are not required to be stamped indicating that the service member has in fact reported for duty. However, a stamp indicating that the service member has reported early is acceptable as long as the official orders permit early reporting.

Orders printed off a website may be accepted by the county clerk if the orders appear to be legitimate and current. The full set of orders is preferred, but they are not required. If the clerk has good reason to believe that the pages submitted are not fabricated, the clerk may accept only the relevant pages of the orders (e.g., the page containing the service member's name and where he or she is stationed).

Orders, including PCS orders, often do not provide a commitment or expiration date. In these cases, the county clerk may ask the service member to provide other documentation showing that he is stationed in Tennessee or Fort Campbell. Common documents provided by service members include, but are not limited to, a **Leave and Earnings Statement (LES)** and an **Enlisted Record Brief (ERB)**.

An LES is a monthly document given to service members documenting their pay and leave status. It also typically provides the zip code for the location where the service member is stationed. However, for service members living on a military base, the LES will not typically provide a zip code. Instead, the LES may provide an **Accounting and Disbursing Station Number (ADSN)**, indicating on which military base the service member is stationed.

Note that an LES is not an order from the military—it merely helps establish that a service member is stationed in Tennessee or Fort Campbell. A service member providing an LES to the county clerk must also present official orders to qualify for the military service member exemption.

An ERB is a form that provides a summary of a service member's qualifications and career history. ERBs are not used by all military branches, so similar documents showing a service member's qualification and career history should also be accepted when appropriate. Like an LES, an ERB is not equivalent to official military orders, but it may be accepted as evidence that the service member is stationed in Tennessee or at Fort Campbell. However, an ERB alone is insufficient—the service member must also provide official orders.

A **Request and Authorization for Permanent Change of Station** is similar to a PCS in that it is an official order stationing a service member to a designated location. However, as with a PCS, if the Request and Authorization for Permanent Change of Station does not provide a commitment date, the service member must provide an LES or a similar document proving that he is stationed in Tennessee or Fort Campbell.

A **Permanent Change of Assignment (PCA)** or similar duty assignment contained within PCS orders sends a service member to a location other than where he is stationed for a temporary or indefinite duration. Examples include service members being assigned to universities, recruiting offices or other locations in Tennessee. While PCAs and similar duty assignments are generally considered official orders, the service member must provide additional documentation showing that he is actually stationed in Tennessee (such as an LES or ERB indicating location in Tennessee).

Example: A service member is issued a PCS to Fort Jackson, located in Columbia, S.C. Within the PCS orders is duty assignment to teach at Austin Peay State University in Clarksville, Tenn. This is an official order stationing the service member in Tennessee. The service member may verify that he is stationed in Tennessee by providing the county clerk with an LES or ERB.

A service member may also be sent to Tennessee to receive medical care for injuries sustained while serving. Such a service member may qualify for the military service member exemption by providing his original orders, along with an assignment statement sending him to Tennessee, and an LES or similar document showing that he is stationed in Tennessee.

Example: A service member is stationed in Germany under PCS orders. The service member is injured while serving, and he is sent to Nashville, Tenn., to receive medical treatment for the next six months. While recovering, the service member's LES shows that he is stationed in Tennessee. The service member qualifies for the military service member exemption.

Similar to a PCA or duty statement, a **Temporary Duty (TDY)** order is an official order sending a service member to a designated location. However, unlike a duty assignment, a TDY generally lasts for a shorter duration of time (usually less than six months), and it does not constitute being stationed in Tennessee unless the service member's LES shows a Tennessee location. Therefore, the county clerk should only accept TDY orders if the service member can also provide an LES or similar document showing that he is actually stationed in Tennessee.

Example: A service member receives a 24-hour TDY sending him to Tennessee. The service member's LES provides a zip code from another state. The service member does not qualify for the military service exemption because he is not stationed in Tennessee.

An **Order of Award** (e.g., Purple Heart, Bronze Star, etc.) is not considered official order. A service member may not substitute official orders with an Order of Award.

Reservists who have been activated and stationed in a combat zone qualify for the military service member exemption for 90 days following the effective date of official military orders releasing the service member from the combat zone. The 90-day period applies from the date of the orders releasing the service member from active duty—not the date the service member physically left the combat zone.

Example: A reservist was activated from the Tennessee National Guard and ordered to a combat zone from March 1 through July 31. However, on May 1, the reservist was injured and flown to a Tennessee hospital to recover from his injuries. Reservist's orders were extended through August 31 to last the duration of his recovery. The 90-day time period begins on (and including) September 1, meaning the reservist may qualify for the military service member exemption until November 29 (i.e. 90 days after August 31).

A service member in a **Reserve Officers' Training Corps (ROTC)** program is a considered a reservist while in the program. Therefore, an ROTC member must either be in the AGR program or deployed to a combat zone to apply for the military service member exemption. However, upon graduation, the service member may be activated and transferred to Tennessee or Fort Campbell. Once activated, the service member is no longer a reservist. He may apply for the military service exemption if he can provide documentation showing that he has been activated from the reserves and that he is stationed in Tennessee or Fort Campbell under official orders.

Active Duty Operational Support (ADOS) orders apply to reservists, placing them in operational support of the active duty. ADOS orders are temporary orders, generally lasting between one and six

months. To qualify for the military service member exemption, Tennessee National Guard members or reservists must either be a participant in the AGR program or be on active duty assigned to a combat zone. Therefore, ADOS orders do not alone qualify reservists for the military service member exemption, but if the ADOS orders send the reservist to a combat zone, the reservist may qualify for the military service member exemption for 90 days after his orders expire.

The following chart serves as a quick reference guide to the different types of documents often provided by military service members. Please note that orders can be nuanced, and that the table should be consulted in conjunction with the rest of this guide.

Document	Is It an Order?	Is It Alone Sufficient for the Exemption?	Additional Documentation Necessary
Permanent Change of Station (PCS)	Yes	Yes	None, unless the order does not reflect the station, has expired, or the clerk has reason to doubt its authenticity.
Request & Authorization for PCS	Yes	Yes	None, unless the order does not reflect the station, has expired, or the clerk has reason to doubt its authenticity.
Permanent Change of Assignment (PCA)	Yes	No	An LES or other documentation is necessary to show where the service member is stationed.
Temporary Duty (TDY)	Yes	No	An LES or other documentation is necessary to show where the service member is stationed.
Active Duty Operational Support (ADOS)	Yes	No	The ADOS is sufficient only if it sends the service member to a combat zone.
Leave and Earnings Statement (LES)	No	No	Only useful in conjunction with other orders; helps identify where the service member is stationed.
Enlisted Record Brief (ERB) or equivalent service record book	No	No	Only useful in conjunction with other orders; helps identify where the service member is stationed.
Order of Award (Purple Heart, Bronze Star, etc.)	No	No	An Order of Award does not provide relevant information for the exemption.

Other Sales and Use Tax Exemptions

Note that another exemption to the sales and use tax may apply. For example, state law provides that individuals moving to Tennessee may generally bring personal effects into the state without subjecting such items to the Tennessee sales and use tax.² Therefore, if a service member is transferred to Tennessee from another state or country and brings with him his personal motor vehicle, the use tax does not apply to the importation of the vehicle, assuming the service member was a resident of another state before moving to Tennessee, and he becomes a resident of Tennessee.

² See TENN. CODE ANN. § 67-6-210(b) (2013).

More details about the legal requirements for this exemption are available on the Department's website at: <http://www.tn.gov/revenue/notices/sales/sales07-07.pdf>.

Adaptive Equipment Exemption

Any adaptive equipment for motor vehicles that is necessary to ensure that the eligible person can operate an automobile safely is exempt from Tennessee sales and use tax.³ To qualify, an applicant must be an honorably discharged disabled veteran of a branch of the United States armed forces and have a service-connected disability equivalent to those described in the law.⁴

Other exemptions that are not military-specific may also be available. For example, state law⁵ lists certain medical equipment and devices that are exempt from sales and use tax, including mobility enhancing equipment, prosthetic devices and durable medical equipment for home use.

³ TENN. CODE ANN. § 67-6-353 (2013).

⁴ See 38 U.S.C. § 3100 *et seq.*

⁵ See TENN. CODE ANN. § 67-6-314 (2013).

Professional Privilege Tax

General Rule

The Tennessee professional privilege tax is an occupation tax on people with certain active Tennessee professional licenses listed in the law.⁶ The tax is due annually on June 1.⁷ The professional privilege tax law has two provisions pertaining to military service members.

Privilege Tax Exemption

The professional privilege tax does not apply to any active United States military member if he or she has served for more than 180 days during the year prior to the due date of the privilege tax (June 1).⁸

The exemption must be supported each year by provision of orders documenting the 181 or more days of active duty served during the qualifying period.

Delayed Filing and Due Date

If the individual does not qualify for the privilege tax exemption, he or she must pay the professional privilege tax. However, he or she may be eligible for a delayed filing and due date for the tax.

An active United States military member that owes the professional privilege tax does not have to file and pay the tax until 180 days after his or her deployment in a combat zone ends or 180 days after he or she is transferred out of a combat zone.⁹

When filing, the member must provide proof of the deployment status and the return from deployment.¹⁰

Example: A Tennessee-licensed dentist enrolls in the U.S. Army on April 1, 2014. On May 1, 2014, the service member is deployed outside of the United States, which lasts until November 1, 2014. During this period, the service member is entitled to combat compensation due to the hostile nature of his deployment. On November 1, 2014, the service member is transferred to a friendly territory outside of the United States where the service member is not entitled to combat compensation. The service member returns to Tennessee on December 1, 2014.

A person licensed as a dentist in Tennessee is subject to the Tennessee professional privilege tax, due on June 1. Here, the service member was in the armed forces of the United States for only 61 days prior to the due date.¹¹ Because the service member was in the armed forces of the United States for fewer than 180 days prior to June 1, 2014, he does not qualify for the

⁶ See TENN. CODE ANN. § 67-4-1702(a) (2013). For more information on the professional privilege tax, please visit <http://www.tn.gov/revenue/tntaxes/proftax.shtml>.

⁷ TENN. CODE ANN. § 67-4-1703(a) (2013).

⁸ TENN. CODE ANN. § 67-6-1708(c) (2013).

⁹ TENN. CODE ANN. § 67-4-1703(c).

¹⁰ TENN. CODE ANN. § 67-6-1703(c)(3).

¹¹ The due date was June 1, 2014, so the service member was in the armed forces throughout all of April and May, 2014.

privilege tax exemption. However, because he was engaged in a combat zone outside of the United States at the time the tax was due,¹² the privilege tax was not be due until 180 days after he was transferred from the combat zone. The service member was transferred from the combat zone on November 1, 2014, so his professional privilege tax for the 2014 year is due on April 30, 2015 (180 days after November 1, 2014).

Assuming the service member continues his service with the U.S. Army, he will not be subject to the professional privilege tax in 2015 because, as of June 1, 2015, he would have been with the armed forces each of the preceding 365 days, ensuring that the 180-day requirement is met for 2015.

¹² The due date was June 1, 2014, and the service member was in a combat zone from May 1, 2014, through November 1, 2014.

Hall Income Tax

General Rule

The Hall income tax is imposed on individuals and entities receiving interest from bonds and notes, and dividends from stock.¹³ The tax return is due April 15.¹⁴

Delayed Filing and Due Date

An active United States military service member who owes the Hall income tax has 180 days following the conclusion of his or her deployment to a combat zone, or 180 days after he or she is transferred from the combat zone, to file and pay the tax.¹⁵

When filing, the member must provide proof of the deployment status and the return from deployment.

Prisoner of War Exemption

Under state law, a Tennessee citizen who is determined to be a prisoner of war by the United States Department of Defense is exempt from paying the Hall income tax during the time of the person's capture and imprisonment and for 60 days after the person's release.¹⁶

¹³ TENN. CODE ANN. § 67-2-102 (2013). For more information on the Hall income tax, please visit <http://www.tn.gov/revenue/tntaxes/indinc.shtml>.

¹⁴ See TENN. CODE ANN. § 67-2-107, -112(a) (2013).

¹⁵ TENN. CODE ANN. § 67-2-112(b).

¹⁶ See TENN. CODE ANN. § 67-2-104(d) (2013).

Business Tax

General Rule

Engaging in any vocation, occupation, business or business activity listed in state law is a taxable privilege subject to the Tennessee business tax.¹⁷ Any person engaging in these activities, including members of the United States military and veterans, is subject to the business tax. However, certain disabled veterans may be exempt from the business tax.

Business Tax Exemption

Under state law an individual is exempt from the business tax if he is either (1) a disabled former uniformed member of the armed forces who is a veteran of any armed conflict, or (2) a peacetime uniformed member of the armed forces who was disabled while in regular service; and who:

1. Owns less than \$5,000 of property above any debts on the property;
2. Does business with a capital stock of no more than \$5,000;
3. Is a citizen of Tennessee and resides in the county in which the exemption is claimed; and
4. Is the sole beneficiary of the business.¹⁸

Only one business tax exemption may be claimed per individual under state law.¹⁹ For example, if a disabled veteran is also blind, he may only claim either the tax exemption for disabled veterans or the tax exemption for blind individuals, but not both.

Any business for which the exemption is claimed must be conducted by the qualifying veteran or by a member of the veteran's immediate family. The family member may not be assisted by more than one person who is not a member of the veteran's family.²⁰

The application for exemption from business tax is located on the Department's website at <http://tn.gov/revenue/forms/business/f1321401.pdf>. It must be completed and provided to the appropriate county clerk and/or city business tax official to claim the exemption.

¹⁷ TENN. CODE ANN. § 67-4-708(1)-(5) (2013). For more information on the business tax, please visit <http://www.tn.gov/revenue/tntaxes/business.shtml>.

¹⁸ TENN. CODE ANN. § 67-6-712(a)(2) (2013).

¹⁹ *Id.*

²⁰ *Id.*

Contact Us

Please contact the Taxpayer Services Division in one of the Department of Revenue's offices for additional information.

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- Jackson: Lowell Thomas Building, Room 405B
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- Chattanooga: 1301 Riverfront Parkway
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- Johnson City: 204 High Point Drive
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