

INSTRUCTIONS FOR COMPLETING THE FRANCHISE, EXCISE TAX RETURN

In the top portion of the front page of the tax return, the following items must be completed by the taxpayer:

- (1) The beginning and ending period of the return being filed must be completed in the "Taxable Year" box. The period covered must coincide with the federal return. A return can cover a 52/53-week-filing period, but cannot otherwise exceed 12 months.
- (2) Enter the account number along with the entity's Federal Employer Identification Number (FEIN). If the taxpayer does not have an FEIN, indicate the Secretary of State Control Number.
- (3) Check the appropriate block which pertains to your entity's structure. Single member LLCs that elect to file as an individual or corporation for federal purposes must file a franchise, excise tax return based on this same filing status. Corporate-owned single member LLCs that elect to file as a "Division of Parent" for federal purposes are also included in the "parent's" franchise, excise tax return. In this case, the single member LLC must file an Application of Registration with the department in order to establish a "Division of Parent" filing relationship. If none of these apply to your entity, please check "Other" and provide a description of the type of entity.
- (4) Check the appropriate boxes to indicate whether the return is an amended or final filing. Also, check whether payment for the return was sent via Electronic Funds Transfer (EFT) and if taxpayer has elected to compute apportioned new worth on a consolidated basis. If the return is marked "Final", please include a schedule of liquidation, distribution, or disposition of all assets.
- (5) Provide the date Tennessee operations began in the appropriate box.

Note: A taxable entity that is incorporated, domesticated, qualified or otherwise registered to do business in Tennessee that was inactive in Tennessee for the entire taxable period and owes only the minimum tax may file only page 1 of this return and omit pages 2 through 6.

Schedule A – Franchise Tax

- Line 1 Amount as calculated on Schedule F1, Line 5 or Schedule F2, Line 3, Page 2.
- Line 2 Amount as calculated on Schedule G, Line 15, Page 2.
- Line 3 Multiply the greater of Line 1 or 2 by \$0.25 per \$100 or major fraction thereof. The minimum tax is \$100.

Schedule B – Excise Tax

- Line 4 Amount as calculated on Schedule J, Line 33, Page 4.
- Line 5 Multiply amount on Line 4 by 6.5%. If line 4 is a loss, enter "0."
- Line 6 Amount as calculated in Schedule T, Part 2.
- Line 7 Add Lines 5 and 6.

Schedule C – Computation of Total Tax Due or Overpayment

- Line 8 Add Schedule A, Line 3, and Schedule B, Line 7. This is the total franchise, excise tax liability.
- Line 9 Deduct the total available credits from Schedule D, Line 10, Page 2. Total credits cannot exceed the total franchise, excise amount on Line 8 above.
- Line 10 Deduct Schedule C, Line 9 from Line 8. This value must be zero or greater.
- Line 11 Deduct total payments reported on Schedule E, Line 7, Page 2.
- Line 12 Penalty is calculated at a rate of 5% for each 30-day period, or portion thereof, that a return is delinquent up to a maximum of 25% of the delinquent amount. The minimum penalty is \$15 for the delinquent filing of a return.
- Line 13 Interest is due on any amount of tax that is paid after the statutory due date of the return. The interest rate is determined in accordance with Tenn. Code Ann. Section 67-1-801.
- Line 14 Penalty on estimated franchise, excise tax payments is calculated at a rate of 5% per 30-day period, or portion thereof, that an estimated payment is deficient or delinquent up to a maximum of 25% of the deficient or delinquent amount. It is calculated from the due date of the estimated payment through

the date paid or the due date of the return, whichever is earlier.

- Line 15 Interest is calculated on estimated franchise, excise tax payments on any deficient or delinquent amount. The rate of interest is the same as determined on Line 13. It is calculated from the due date of the estimated payment through the date paid or the due date of the return, whichever is earlier.
- Line 16 Total amount due (overpayment). Add Schedule C, Lines 10, 12, 13, 14 & 15, less Line 11. If an overpayment exists on this line, enter the amount to be credited to the next year in block A and/or to be refunded in block B. If a refund of \$200 or more is requested in Block B of an amended return, a Report of Debts Form must be completed and filed with the return.

Schedule D – Schedule of Credits

- Line 1 Enter amount of gross premium tax paid to the Department of Commerce and Insurance during the period covered by this return.
- Line 2 Enter the amount of any Tennessee 'Hall' Income Tax paid during the period covered by this return. If this amount exceeds the net excise tax due listed on Schedule B, Line 5, Page 1 enter the amount of net excise tax due.
- Line 3 Enter any Green Energy Tax Credit available per Tenn. Code Ann. Section 67-4-2109(m).
- Line 4 Enter any Carbon Charge Credit available per Tenn. Code Ann. Section 67-4-2109(m).
- Line 5 Enter any Brownfield Property Credit available per Tenn. Code Ann. Section 67-4-2009(8).
- Line 6 Enter any Headquarters Relocation Expense Credit available per Tenn. Code Ann. Section 67-4-2109(g).
- Line 7 Enter the amount from Schedule T, Line 11.
- Line 8 Enter the amount from Schedule X, Line 16.
- Line 9 Enter the amount from Schedule X, Line 21.
- Line 10 Add lines 1 through 9 and enter on Schedule C, Line 9, Page 1. Total credits may not exceed the amount on Schedule C, Line 8, Page 1 unless claiming a refundable Headquarters Relocation Expense Credit, Green Credit, Carbon Charge Credit or Medical Trade Center Credit under the provisions of Tenn. Code Ann. Section 67-4-2109(g), (m), (n) or (o).

Schedule E – Schedule of Payments

Total these amounts and carry forward to Schedule C, Line 11, Page 1.

Schedule F1 – Non-consolidated Net Worth

NOTE: All amounts in this schedule should be determined in accordance with generally accepted accounting principles (GAAP), however, if the taxpayer does not maintain its books on a GAAP basis, the franchise tax is computed in accordance with the accounting method used by the taxpayer for federal tax purposes, provided this method fairly reflects the taxpayer's activity.

- Line 1 Net worth is total assets less total liabilities computed in accordance with the above instructions.
- Line 2 To the extent that a corporation is inadequately capitalized, indebtedness to or guaranteed by a parent or affiliate must be added back. This amount cannot be a deduction.
- Line 3 Add amounts on Lines 1 and 2.
- Line 4 Enter apportionment ratio as computed on Schedules N, O, P, or R. If the entity is not entitled to apportion, enter 100%.
- Line 5 Line 3 multiplied by Line 4. Enter this amount on Schedule A, Line 1, Page 1. Tenn. Code Ann. Section 67-4-2121 limits the franchise tax base of any manufacturer to \$2 billion.

Schedule F2 – Consolidated Net Worth

NOTE: SCHEDULE F2 IS TO BE COMPLETED ONLY IF THE CONSOLIDATED NET WORTH ELECTION HAS BEEN MADE.

NOTE: All amounts in this schedule should be determined in accordance with generally accepted accounting principles (GAAP), however, if the taxpayer does not maintain its books on a GAAP basis, the franchise tax is computed in accordance with the accounting method

used by the taxpayer for federal tax purposes, provided this method fairly reflects the taxpayer's activity.

- Line 1 Consolidated net worth is total assets less total liabilities of all members of the affiliated group computed in accordance with the above instructions.
- Line 2 Enter apportionment ratio as computed on Schedule 170NC or 170SF.
- Line 3 Line 1 multiplied by Line 2. Enter this amount on Schedule A, Line 1, Page 1. Tenn. Code Ann. Section 67-4-2121 limits franchise tax base of any manufacturer to \$2 billion.

Schedule G – Determination of Real and Tangible Property

- Lines 1-5 The amounts on these lines are based on the year-end net book values of the assets on the entity's books and records. All tangible assets should be included in these values regardless of how the assets are classified.
- Line 6 This amount is calculated by multiplying the taxpayer's percentage of ownership, shown on Federal Schedule K-1, by the amount of real and tangible property shown on the balance sheet of an entity treated as a partnership for federal tax purposes. Only include property from a partnership on this line if the partnership itself is not required to file a Tennessee franchise, excise tax return.
- Line 7 Include all inventory and work in progress on this line. Deduct exempt inventory on Line 7a. Exempt inventory is any amount of finished goods in excess of \$30,000,000 in accordance with Tenn. Code Ann. Section 67-4-2108(a)(6)(B).
- Line 8 Enter the net book value of pollution control equipment and equipment used to produce electricity in a certified green energy production facility, as defined in Tenn. Code Ann. Section 67-4-2004, that has been certified by the Department of Environment and Conservation.
- Line 9 Enter the amount of any required capital investments exempted by Tenn. Code Ann. Section 67-4-2108(a)(6)(G).
- Line 10 Add Lines 1 through 7, less Line 7a through Line 9.
- Lines 11– 14 The amount on Lines 11(A) through 14(A) is the total net annual rental paid for property located in Tennessee. Multiply amounts on lines 11(A) through 14(A) by the multiples on Lines 11(B) through 14(B), and enter each total on Lines 11(C) through 14(C). For determination of rental value of property used but not owned, please note that for returns covering a period of less than 12 months, rents must be annualized.
- Line 15 Total Lines 10, 11(C) through 14(C), and enter total also on Schedule A, Line 2, Page 1. This amount is the total Tennessee property.

Schedule J-1 - Net Earnings for Entities Treated as Partnerships

- Line 1 Enter the amount of "ordinary income (loss)" from Line 22, Federal Form 1065.
- Line 2 Enter the amount of additional income items "passed-through" to partners or members from Federal Form 1065, Schedule K, Lines 2 through 11. This includes guaranteed payments to partners. When computing a partnership's net earnings for excise tax purposes, amounts shown in the federal 1065, Schedule K "Income (Loss)" section must be added at Line 2, Schedule J-1 of the Tennessee franchise, excise tax return. Amounts, including IRC Section 179 and contributions passed through to shareholder partners, shown in the "Deductions" section of federal 1065, Schedule K must be deducted on Line 5, Schedule J-1 of the Tennessee franchise, excise tax return. Amounts shown in the "Self-Employment" section of federal form 1065, Schedule K are deducted on Line 6 of Schedule J-1 of the Tennessee franchise, excise tax return.
- Line 3 Enter the amount of any "pass-through" net loss and expense included in the excise tax base by the taxpayer. The "pass-through" items are reported to the taxpayer on Federal Schedule K-1. This adjustment is only made if the entity issuing the K-1 is itself subject to the excise tax and filing a franchise, excise tax return. This adjustment is to prevent the duplicate recognition of the "pass-through" loss and expense in the

excise tax base. Also include on this line any net loss or expense distributed to a publicly traded Real Estate Investment Trust (REIT) by a "pass-through" entity on Schedule K-1. The name and FEIN of the REIT must be made available upon request.

- Line 4 Total of Lines 1, 2 and 3.
- Line 5 Enter the amount of additional expense items "passed-through" to partners or members from Federal Form 1065, Schedule K, lines 12 through 13 a-d.
- Line 6 Enter the amount subject to self-employment taxes distributable or paid to each partner or member net of any pass-through expense deducted elsewhere on this return, such as Section 179 expense. Do not enter a negative amount on this line. This amount is not subject to any federal tax percentage limitation or cap; however, this deduction cannot create a loss carryover. This computation is made on Schedule K, loss carryover, Page 4.
- Line 7 Enter the amount of contribution, not previously deducted, to qualified pension or benefit plans of any partner or member, including all Internal Revenue Code (IRC) 401 plans. This deduction cannot create a loss carryover. This computation is made on Schedule K, loss carryover, Page 4.
- Line 8 Enter the amount of any "pass-through" net gain and income included in the excise tax base by the taxpayer. The "pass-through" items are reported to the taxpayer on Federal Schedule K-1. This adjustment is only made if the entity issuing the K-1 is itself subject to the excise tax and filing a franchise, excise tax return. This adjustment is to prevent the duplicate recognition of the gain and income in the excise tax base. Also include on this line any net gain or income distributed to a publicly traded REIT by a "pass-through" entity on Schedule K-1. The name and FEIN of the REIT must be made available upon request.
- Line 9 Add Lines 5 through 8. This is the total amount of deductions.
- Line 10 Deduct Line 9 from Line 4, and enter on Schedule J, Line 1, Page 4. This is the total net earnings (net loss).

Schedule J-2 – Computation of Net Earnings for a Single Member LLC Filing as an Individual

- Line 1 Enter the amount of business income (loss) from Federal Form 1040, Schedule C, Line 31.
- Line 2 Enter the amount of capital gain or loss from Federal Form Schedule D that is attributable to the LLC.
- Line 3 Enter the amount of total income or loss attributable to the LLC from Federal Form 1040, Schedule E, Line 41.
- Line 4 Enter the amount of net profit or loss attributable to the LLC from Federal Form 1040, Schedule F, Line 34.
- Line 5 Enter the amount of gain or loss from Federal Schedule 4797 that is attributable to assets used by the LLC.
- Line 6 Enter the amount of any income or loss attributable to the LLC that is reported on any federal schedules not on Lines 1 through 5 above.
- Line 7 Enter the amount of any "pass-through" net loss and expense included in the excise tax base by the taxpayer. The "pass-through" items are reported to the taxpayer on Federal Schedule K-1. This adjustment is only made if the entity issuing the K-1 is itself subject to the excise tax and filing a franchise, excise tax return. This adjustment is to prevent the duplicate recognition of the "pass-through" loss and expense in the excise tax base.
- Line 8 Add Lines 1 through 7.
- Line 9 Enter the amount subject to self-employment taxes distributable or paid to the single member. This deduction is not subject to any federal tax percentage limitation or cap; however, it cannot create a loss carryover. This computation is made on Schedule K, loss carryover, Page 4.
- Line 10 Enter the amount of any "pass-through" net gain and income included in the excise tax base by the taxpayer. The "pass-through" items are reported to the taxpayer on Federal Sched-

ule K-1. This adjustment is only made if the entity issuing the K-1 is itself subject to the excise tax and filing a franchise, excise tax return. This adjustment is to prevent the duplicate recognition of the gain and income in the excise tax base.

- Line 11 Add Lines 9 and 10. This is the total amount of deductions.
Line 12 Deduct Line 11 from Line 8 and enter on Schedule J, Line 1, Page 4. This is the amount of total net earnings (net loss).

Schedule J-3 - Net Earnings for Entities Treated as Subchapter S Corporations

- Line 1 Enter the amount of "ordinary income (loss)" from Line 21, Federal Form 1120S.
Line 2 S corporation's "pass-through" income items are required to be added to ordinary income. This amount should include the total income items as shown on Schedule K of Federal Form 1120S.
Line 3 Enter the amount of any "pass-through" net loss and expense included in the excise tax base by the taxpayer. The "pass-through" items are reported to the taxpayer on Federal Schedule K-1. This adjustment is only made if the entity issuing the K-1 is itself subject to the excise tax and filing a franchise, excise tax return. This adjustment is to prevent the duplicate recognition of the "pass-through" loss and expense in the excise tax base.
Line 4 Add Lines 1, 2 and 3.
Line 5 S corporation's "pass-through" expense items are required to be deducted from ordinary income. This amount should include the total expense items as shown on Schedule K, Federal Form 1120S.
Line 6 Enter the amount of any "pass-through" net gain and income included in the excise tax base by the taxpayer. The "pass-through" items are reported to the taxpayer on Federal Schedule K-1. This adjustment is only made if the entity issuing the K-1 is itself subject to the excise tax and filing a franchise, excise tax return. This adjustment is to prevent the duplicate recognition of the gain and income in the excise tax base.
Line 7 Add Lines 5 and 6. This is the total amount of deductions.
Line 8 Deduct Line 7 from Line 4, and enter on Schedule J, Line 1, Page 4. This is the amount of total net earnings (net loss).

Schedule J-4 – Computation of Net Earnings for Entities Treated as Corporations and "Other" Entities

- Line 1 Enter the amount of net earnings (loss) from Line 28, Federal Form 1120. This is the amount of taxable income or loss before the net operating loss deduction and special deductions.
Line 2 Enter the amount of "unrelated business taxable income" before net operating loss deduction from Line 30, Federal Form 990-T.
Line 3 Enter the amount of net earnings or loss from any entity that reports on a federal return different from any of the above returns as reported on Lines 1, 2 and 3. Please enter the type of federal form and schedule in the space provided.
Line 4 Enter the amount of any "pass-through" net loss and expense included in the excise tax base by the taxpayer. The "pass-through" items are reported to the taxpayer on Federal Schedule K-1. This adjustment is only made if the entity issuing the K-1 is itself subject to the excise tax and filing a franchise, excise tax return. This adjustment is to prevent the duplicate recognition of the "pass-through" loss and expense in the excise tax base.
Line 5 Enter the amount of any "pass-through" net gain and income included in the excise tax base by the taxpayer. The "pass-through" items are reported to the taxpayer on Federal Schedule K-1. This adjustment is only made if the entity issuing the K-1 is itself subject to the excise tax and filing a franchise, excise tax return. This adjustment is to prevent the duplicate recognition of the gain and income in the excise tax base.
Line 6 Deduct Line 5 from Lines 1 through 4, and enter on Schedule J, Line 1, Page 4. This is the amount of total net earnings (net loss).

Schedule J – Computation of Net Earnings Subject to Excise Tax

- Line 1 Enter the amount of net earnings or loss reported in either Schedule J-1, J-2, J-3, or J-4.

Additions:

- Line 2 Enter the "Intangible Expense" you paid, accrued, or incurred to an "Affiliate" and deducted on your federal income tax return. "Intangible expense" and "Affiliate" are defined at Tenn. Code Ann. Section 67-4-2004(23) and Tenn. Code Ann. Section 67-4-2004(1)(A).
Line 3 Enter any depreciation under the provisions of IRC Section 168 not permitted for excise tax purposes due to Tennessee permanently decoupling from federal bonus depreciation and any depreciation or other expense deducted as result of "safe harbor" lease elections.
Line 4 Enter any deduction for domestic production activities under the provisions of IRC Section 199.
Line 5 Enter the amount of any gain on the sale of an asset sold within 12 months after distribution to a nontaxable entity. This gain is to be reported by the entity that distributed the assets. If an asset was distributed to a member, partner, shareholder or certificate holder and no sale has taken place, or the asset was sold 12 months after distribution, no entry is required. Failure to report this gain may result in a 50% negligence penalty.
Line 6 This amount is the excise tax that was deducted in determining federal net income. In the event of an overaccrual in the prior year that causes the current year's federal return to report a negative "deduction," this amount can be reported as a deduction.
Line 7 If a taxpayer elects to take the gross premium tax paid to the Tennessee Department of Commerce and Insurance as a credit against its franchise, excise taxes, the amount of the gross premiums tax expensed for federal purposes that is used as an excise tax credit must be shown here.
Line 8 This amount is all tax-exempt interest as shown on the books of the taxpayer, net of disallowed interest expense pursuant to 26 U.S.C. Sections 265 and 291. This amount is reflected on Federal Schedule M-1, "Reconciliation on Income per Books with Income per Return."
Line 9 Enter any percentage depletion deducted for federal tax purposes. This amount is reflected on Federal Schedule M-1, "Reconciliation on Income per Books with Income per Return."
Line 10 Contribution carryovers must be added back to net income when used for federal purposes. This amount is reflected in Federal Schedule M-1, "Reconciliation on Income per Books with Income per Return."
Line 11 Capital loss carryovers must be added to net income when offset against capital gains for federal tax purposes. This amount is reflected in Federal Schedule M-1, "Reconciliation on Income per Books with Income per Return."
Line 12 The excess of the fair market value over the book value of property donated must be added to net income. This amount is reflected in Federal Schedule M-1, "Reconciliation on Income per Books with Income per Return."
Line 13 The amount of rent that is paid, accrued, or incurred in excess of reasonable rent for property owned by an affiliate must be added back. Reasonable rent means rent that does not exceed 2% per month of the appraised value for property tax purposes. A taxpayer receiving excess rent, to the extent added back to net earnings by its affiliate, may enter a negative amount on this line.
Line 14 Add Lines 2 through Line 13. This is the amount of total additions.

Deductions:

- Line 15 Enter any depreciation under the provisions of IRC Section 168 permitted for excise tax purposes due to Tennessee permanently decoupling from federal bonus depreciation.
Line 16 Enter any excess gain or loss reported for federal tax purposes resulting from the basis adjustment resulting from Tennes-

see permanently decoupling from federal bonus depreciation.

Line 17 Enter the amount of any loss on the sale of an asset sold within 12 months after distribution to a nontaxable entity. This loss is to be reported by the entity that distributed the asset. If an asset was distributed to a member, partner, shareholder or certificate holder and no sale has taken place, or the asset was sold 12 months after distribution, no entry is required.

Line 18 This amount is all dividends received from corporations in which the entity owns at least 80% of the corporation's stock.

Line 19 Contributions may be deducted, in full, for the year in which the contributions were made. This amount is reflected on Federal Schedule M-1, "Reconciliation on Income per Books with Income per Return."

Line 20 Enter 75% of donations to qualified public school support organizations as defined in Tenn. Code Ann. Section 67-4-2006(b)(2)(M) or nonprofit organizations as described in Tenn. Code Ann. Section 67-4-2006(b)(2)(P).

Line 21 Capital losses may be deducted, in full, the year the loss was incurred. This amount is reflected on Federal Schedule M-1, "Reconciliation on Income per Books with Income per Return."

Line 22 Enter any expense incurred, other than income taxes, that was not deducted for federal tax purposes but was used as a credit against federal income tax. Most common are federal job credits and ESOP. The expenses are reflected on Federal Schedule M-1, "Reconciliation on Income per Books with Income per Return."

Line 23 Enter any income included for federal tax purposes and any depreciation or other expense that could have been deducted for "safe harbor" lease elections.

Line 24 Amount as calculated on Schedule M, Line 8.

Line 25 Check all boxes that apply. If you are attaching Form IE-N, "Intangible Expense—Notice of Deduction," check box A, and enter the amount from line 4 of the form. Check box B if you have previously filed Form IE-A, "Intangible Expense-Application for Approval to Deduct," but the status is pending; and enter the applicable amount. Check box C and enter the approved amount, if you have previously filed Form IE-A and received approval. By checking Box C, the taxpayer certifies that the facts and circumstances surrounding the transaction(s) remain substantially unchanged. If the taxpayer has some intangible expense deductions that fall within the exceptions of Tenn. Code Ann. Section 67-4-2006(b)(2)(N)(i)(a)-(c) and others that do not, check box A and either box B or C, whichever applies.

Line 26 Enter any "Intangible Income" from an affiliated business entity to the extent that the affiliate's corresponding intangible expense was included in the affiliate's net earnings or loss, but not deducted on the affiliate's excise tax return under Tenn. Code Ann. Section 67-4-2006(b)(2)(N).

Line 27 Add Lines 15 through 26. This is the amount of total deductions.

Line 28 Compute the sum of Lines 1 and 14, less Line 27. This is the total business income. If the corporation has a net loss, compute Schedule K.

Line 29 Enter apportionment ratio as computed on Schedules N, O, P, or R. If the entity is not entitled to apportion, enter 100%.

Line 30 Multiply Line 28 by Line 29.

Line 31 Amount as calculated on Schedule M, Line 9.

Line 32 Loss carryover from prior year as shown on Schedule U. Please note that Tennessee loss carryover is computed separately from federal loss carryover.

Line 33 Compute the sum of Lines 30 and 31, less Line 32. Enter this amount on Schedule B, Line 4, Page 1. This is the excise tax base.

Line 3 Add amounts deducted on Schedule J-1, Page 3, Line 6, Self-Employment Tax, and Line 7, Contribution to Pension Plan. Add amount deducted on Schedule J-2, Page 3, Line 9, Self-Employment Tax.

Line 4 Compute the sum of Lines 1 through 3. If the net amount is positive, then enter "0," and no loss carryover is available. This is the net reduced loss carryover.

Line 5 Enter apportionment ratio as computed on Schedules N, O, P, or R. If the entity is not entitled to apportion, enter 100%.

Line 6 Multiply Line 5 by Line 4. This is the current year loss carryover available.

Schedule K – Determination of Loss Carryover Available

Line 1 Net loss as computed on Schedule J, Line 28 above.

Line 2 Add amounts deducted on Schedule J, Lines 18 and 24 above.