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remit Tennessee sales tax if their annual sales into the state exceed \$500,000. Starting October 1, 2020, out-of-state businesses and marketplace facilitators must ...

Gail Cole • Aug. 10, 2020



Retailers with no physical presence in Tennessee are currently required to collect and remit Tennessee sales tax if their annual sales into the state exceed \$500,000. Starting October 1, 2020, out-of-state businesses and marketplace facilitators must collect and remit Tennessee sales tax if their annual sales into the state exceed \$100,000.

All businesses with a physical presence in Tennessee are required to register to collect and remit sales tax.

Tennessee's sales tax economic nexus law

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parts of Alaska — where there's local sales tax but no statewide sales tax. Most economic nexus laws provide an exception for small sellers, meaning a remote business must register to collect and remit sales tax only if its sales into the state exceed a certain threshold (the economic nexus threshold). Kansas is the outlier: [Making just one sale into Kansas could trigger a sales tax collection obligation](#).

At \$500,000, Tennessee's current economic nexus threshold is quite high; the only other states with such a high threshold are California, New York, and Texas, all of which have [much larger populations](#). Most states that tax remote sales do so if an out-of-state business has more than \$100,000 in sales in the state.

Still, there's been no call to reduce Tennessee's economic nexus threshold until recently. So why change it now?

Why reduce Tennessee's economic nexus threshold?

Like so much in life, it comes down to money.

Lowering the threshold to \$100,000 is expected to increase state and local sales tax collections by an estimated \$17,776,364 in fiscal year 2020–21, and by \$23,701,819 in subsequent years. Every dollar is needed.

The coronavirus (COVID-19) caused Tennessee to close the 2019–2020 fiscal year with a \$0.5 billion shortfall. The projected shortfall for 2020–21 is \$1 billion, which poses “[a major challenge](#)” for the state.

And as noted above, changing the threshold to \$100,000 puts Tennessee's economic nexus law in step with economic nexus laws in most other states.

New sales tax collection requirement for marketplace facilitators

The \$100,000 economic nexus threshold will also apply to [marketplace facilitators](#)

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More sales into Tennessee will be taxed

All told, reducing the economic nexus threshold for remote sellers and marketplace facilitators should generate more than \$75 million in state and local sales tax revenue by the end of the 2021–22 fiscal year. That's because a lot more sales into Tennessee will be taxed.

Many retailers not currently collecting sales and use tax in Tennessee will need to register with the Tennessee Department of Revenue on or after October 1, 2020. Tennessee law requires remote dealers to begin collecting and remitting sales tax by the first day of the third calendar month following the month in which the economic nexus threshold was met.

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Gail Cole has been researching, writing, and reporting tax news for Avalara since 2012. She's on a mission to uncover unusual tax facts and make complex laws and legislation more digestible for accounting and business professionals — or anyone interested in learning about tax compliance. [Get more sales tax news from the Avalara blog.](#)

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