

Tennessee's Destination Sourcing for Digital Products, Services Begins July 1

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Tennessee will adopt destination-based sourcing for interstate sales of digital services and some leased personal property beginning July 1.

In [Notice 24-08](#), issued earlier in May, the state Department of Revenue announced that destination-based sourcing for interstate services performed on personal property and computer software begins soon. According to the guidance, Tennessee will collect sales tax only if the serviced property is ultimately shipped to an in-state end user, regardless of where the service was performed.

The state will also adopt destination sourcing for leased property (including digital products paid for via subscription or licensing), magazines, books, and direct mail advertisements distributed to Tennesseans. The sale of leased transportation equipment for interstate commerce, however, will remain taxable.

The changes were enacted under H.B. 323, the [Tennessee Works Tax Act](#), which Gov. Bill Lee (R) signed into law in May 2023. The bill made several changes to the sales and use tax, including enacting sourcing provisions consistent with the Streamlined Sales and Use Tax Agreement to clarify which state's tax is due on interstate sales.

Lee called H.B. 323 the "single largest tax cut in state history" when he signed it. The bill was forecast to reduce tax collections by an estimated \$400 million in fiscal 2024, the majority of which were expected to come from a one-time sales tax holiday for groceries that ran from August 1 through October 31, 2023. H.B. 323 [also switched the state](#) to single-sales-factor apportionment for franchise taxes, raised the standard deduction for businesses to \$50,000, and exempted the first \$500,000 of a business's property from franchise tax.