



FRANCHISE REFORM – VOTE YES on HB 1893/SB 2103 WHAT NFIB MEMBERS ARE SAYING ABOUT THIS PROPOSAL

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NFIB strongly supports SB 2103/HB 1893. The bill would repeal the franchise tax minimum measure based on property owned in the state. Additionally, it would require the Commissioner of Revenue to issue refunds to taxpayers (property tax paid minus the net worth calculation). This measure will provide significant tax relief and certainty to 100,000 impacted entities, 75,000 of which are in state and *mostly small to mid-sized businesses*. All businesses would use the net worth calculation going forward.

Governor Lee has proposed this change because of constitutional concerns and the need to fix the issue *to avoid substantial legal risk and costs for Tennessee*. The bill would simplify the tax code and provide more certainty for businesses when projecting their annual tax liabilities. A number of our members say that the annual tax savings through the refund program would be reinvested to create new jobs and opportunities for growth across the state. Those small businesses include restaurants, paving companies, construction companies, and others with significant property totals. Here are a few examples.

Fitness Studios Owner, Davidson & Williamson Counties

This legislation is very important to us because our fitness studios have been slow to recover from the pandemic and our fixed costs are preventing us from being able to hire and operate as we did before 2020. Pre-pandemic, we had some cushion in our accounts to cover any gaps between incoming revenue and rents and bills, but that has been used up as we have been trying to make ends meet in a softer fitness market.

Also, the economy, inflation and the return to making student loan payments have all impacted our young customers' bottom line. ***A refund for past Franchise and Excise tax payments would help our operating accounts significantly. According to our accountants, we would be due about \$50,000 total in refunds. We also would benefit greatly going forward with more tax certainty and less strain on our operating accounts.*** We have six studios in Nashville and employ more than 90 people. Savings on the F&E tax would allow us to employ more people and continue offering good benefits.

Small Manufacturer, Madison

In 2023, we set up a new business to co-pack items into finished pallets. Because it was a new business, we did not have a high net worth and our 2023 Franchise Tax was approximately \$2,000. To grow the business, we purchased a building and additional equipment in 2024. But because of the alternative minimum tax portion that requires Franchise tax calculation on the GREATER of Net Worth or Property Value, we will have to pay over \$12,500 in Franchise taxes due to the ~\$5MM in building and equipment we purchased with loans. **For a growing small business that relies on keeping costs low and managing cash due to low margins, \$12,500 vs. \$2,000 is a stark difference for a start-up business.**