

# Most income is not subject to Tennessee State Income Tax!

**What about Pension income, Social Security, 401(k) and IRA distribution?** As the Tennessee income tax does not apply to salaries and wages, items of income such as Social Security and pension income are not subject to state tax. Tenn. Code Ann. Section 67-2-104(m) provides that income from stocks and bonds of pension trusts and profit-sharing trusts which are exempt from federal income taxation shall be exempt from the state income tax. This includes such accounts as IRA and 401(k) accounts. Distributions from IRAs and 401(k) plans are also exempt

**Are there any exemptions?** Yes.

The first \$1,250 of taxable income is exempt (\$2,500 on a joint return).

Individuals 65 years old or older with total annual income of \$16,200 or less (\$27,000 for joint filers) are exempt from this tax.

Blind persons may be exempt upon filing a statement from their eye specialist. Please send letters certifying blindness to Amy Green, Tennessee Department of Revenue, Audit Division, 4th Floor, 500 Deaderick St., Nashville, TN 37242.

**If no tax is due, do I need to send in a zero return?** No. Only those persons whose legal domicile is in Tennessee and whose taxable interest and/or dividend income exceed \$1,250 (\$2,500 for joint filers) are required to file.

## *Examples of nontaxable dividends and interest?*

### DIVIDENDS:

- From stock in national banks (Not holding companies - See Taxable Dividends)
- From stock in state banks in Tennessee (Not holding companies - See Taxable Dividends)
- From federal and other building and/or savings and loan associations situated in Tennessee
- From stock in insurance companies licensed to do business in Tennessee (Not holding companies - See Taxable Dividends)
- From insurance policies
- From loan companies in Tennessee
- From cemetery companies in Tennessee
- From credit unions (No income from a credit union is taxable.)
- Percentage of income from mutual funds or investment trusts that was derived from obligations of the U.S. Government or the state of Tennessee and its political subdivision

### INTEREST:

- On bonds of state of Tennessee, its counties, municipalities or other political subdivisions
- On bonds of U.S. Government and its agencies (Interest on investments backed or guaranteed by the U.S. Government is taxable. For example, interest in connection with investments in the Federal National Mortgage Association, Government National Mortgage Association, or Federal Home Loan Mortgage Corporation is taxable.)
- On certificates of deposit held inside or outside Tennessee
- On commercial paper and other written obligations that mature in six months or less from date of issue
- On oral agreements
- On insurance policies if such interest is payable on demand
- On loans made to qualified businesses for improvements, expansions, or operations within an "Enterprise Zone" and mortgages on real property within an "Enterprise Zone" (See Title 13, Chapter 28, Tennessee Code Annotated.)
- On repurchase agreements or similar evidences of indebtedness
- On savings accounts, checking accounts, and money market accounts located inside or outside Tennessee. (Not money market funds - See Taxable Dividends)
- On credit union accounts or certificates of deposit (No income from a credit union is taxable.)

## *Examples of taxable dividends and interest?*

### DIVIDENDS:

- From corporations
- From investment trusts or mutual funds, including capital gain distributions, whether taken in stock or cash
- From stock of banks or savings and loan associations situated outside Tennessee
- From distribution of profits among stockholders even though not formally declared a dividend
- From holding companies, including those holding banks or insurance companies situated inside or outside Tennessee
- From money market funds

### INTEREST:

- On all bonds issued by any person, firm, church, joint stock company, business trust or corporation
- On bonds issued by states, counties, municipalities or political subdivisions outside Tennessee including foreign governments
- On all mortgages or other commercial paper maturing in more than six months from date of issue
- On written obligations that state interest is to be paid and mature in more than six months from date of issue (See Nontaxable Interest for exceptions.)