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Business Licenses and Taxes for Tennessee Farms with Value-Added Enterprises

Hal Pepper, Retired Extension Specialist, UT Center for Profitable Agriculture
Megan Bruch Leffew, Extension Specialist, UT Center for Profitable Agriculture
Troy Dugger, Program Coordinator, UT Center for Profitable Agriculture



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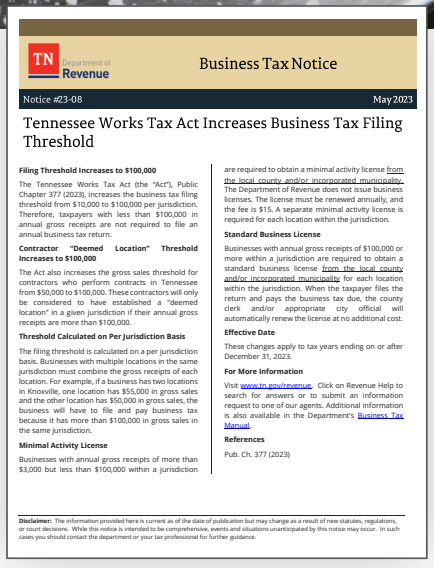


This publication was originally written by Center for Profitable Agriculture Extension specialists Hal Pepper and Megan Bruch Leffew and released in September 2021. In 2025, this publication was updated to reflect changes in Tennessee business tax law through the Tennessee Works Tax Act, Public Chapter 377 (2023). The authors are grateful for the opportunity to discuss many of the fine points of both the original and revised versions of this publication with Billy Trout of the Tennessee Department of Revenue.

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TN Department of Revenue

Business Tax Notice

Notice #23-08 May 2023

Tennessee Works Tax Act Increases Business Tax Filing Threshold

Filing Threshold Increases to $100,000

The Tennessee Works Tax Act (the "Act"), Public Chapter 377 (2023), increases the business tax filing threshold from $10,000 to $100,000 per jurisdiction. Therefore, taxpayers with less than $100,000 in annual gross receipts are not required to file an annual business tax return.

Contractor "Deemed Location" Threshold Increases to $100,000

The Act also increases the gross sales threshold for contractors who perform contracts in Tennessee from $50,000 to $100,000. These contractors will only be considered to have established a "deemed location" in a given jurisdiction if their annual gross receipts are more than $100,000.

Threshold Calculated on Per Jurisdiction Basis

The filing threshold is calculated on a per jurisdiction basis. Businesses with multiple locations in the same jurisdiction must combine the gross receipts of each location. For example, if a business has two locations in Knoxville, one location has $55,000 in gross sales and the other location has $50,000 in gross sales, the business will have to file and pay business tax because it has more than $100,000 in gross sales in the same jurisdiction.

Minimal Activity License

Businesses with annual gross receipts of more than $3,000 but less than $100,000 within a jurisdiction are required to obtain a minimal activity license from the local county and/or incorporated municipality. The Department of Revenue does not issue business licenses. The license must be renewed annually, and the fee is $15. A separate minimal activity license is required for each location within the jurisdiction.

Standard Business License

Businesses with annual gross receipts of $100,000 or more within a jurisdiction are required to obtain a standard business license from the local county and/or incorporated municipality for each location within the jurisdiction. When the taxpayer files the return and pays the business tax due, the county clerk and/or appropriate city official will automatically renew the license at no additional cost.

Effective Date

These changes apply to tax years ending on or after December 31, 2023.

For More Information

Visit www.tn.gov/revenue. Click on Revenue Help to search for answers or to submit an information request to one of our agents. Additional information is also available in the Department's Business Tax Manual.

References

Pub. Ch. 377 (2023)

Disclaimer: The information provided here is current as of the date of publication but may change as a result of new statutes, regulations, or court decisions. While this notice is intended to be comprehensive, events and situations unanticipated by this notice may occur. In such cases you should contact the department or your tax professional for further guidance.

Disclaimer

This publication is for educational purposes only and does not constitute legal advice nor is it intended to be a substitute for the services of a competent legal professional.

October 2025



Introduction

Farmers engaged in direct marketing, value-added agriculture and agritourism often ask whether they are mandated to obtain business licenses and/or pay business taxes. Generally, businesses across the state of Tennessee are required to obtain a business license and pay business tax to the county where they are located. If the business is located in a city that requires a business license, it must also obtain a business license and pay business tax to the city. If the business has more than one location, a separate business license is mandated for each location.

Farmers selling only products raised on their farm do not need a business license. However, farmers who sell products not raised on their farm or who sell processed products made with ingredients other than their raised products, salt, water, sugar, pectin or preservatives may need a business license and may need to pay business tax.

This publication provides guidance to farmers involved in direct marketing, value-added processing and agritourism to help them determine if a business license is needed, if business tax must be paid and how to comply with obtaining a license and paying business tax. Tennessee laws are subject to change by the Tennessee General Assembly, and the Tennessee Department of Revenue updates manuals and other materials on their website to reflect these changes. This publication reflects changes made to business tax laws through the 2023 Tennessee Works Tax Act.



Bradley Kountry Acres, photo by Michelle Bradley

What Is a Business License?

A business license is a legal document provided by the government that allows a business to operate in a specific geographic location. Businesses required to have a business license must obtain a license for each county and municipality, if mandated by the city, for each business location. All 95 counties require business licenses. A list of cities mandating business licenses can be found on the Tennessee Department of Revenue website.

Who Needs a Business License?

Generally, any person in business for profit or gain who has gross annual sales of more than $3,000 in a business location needs a business license and may be subject to business tax. A business license is not needed when sales are $3,000 or less. This measurement is based on the business' fiscal year, which for most taxpayers ends in December each year. The fiscal year is the same fiscal year that is used federally with the IRS.

A business only needs a business license for its permanent business location(s). These can include commercial addresses or residential addresses where business activities are allowed under local ordinances. A business would not need a business license where it conducts sales at temporary locations such as farmers markets or festivals. Premises are not temporary if the business operates at a location for more than six consecutive months.



There are some exceptions for certain sales of farm products and services, however. The following farm sales categories are not subject to business licensing and business taxes:

- A farm's sale of its raised farm products (such as fruits, vegetables, livestock, poultry, eggs and nursery products).
- A farm's sale of certain value-added products such as jams and jellies where only the farm's raised fruits or vegetables are used and the only non-raised ingredients include salt, water, sugar, pectin and/or preservatives.
- A farm's sale of admissions for tours or activities that are purely educational in nature. For example, demonstrations of how a farm operates or processes farm products without any amusement, recreation or entertainment are excluded from business tax.

Tennessee farmers involved in other value-added, direct marketing and agritourism operations such as the following are subject to business licensing and business tax when sales of any individual or combination of the following exceed $3,000:

- A farm's sale of purchased farm products.
- A farm's sale of value-added products where there are non-raised ingredients in addition to salt, water, sugar, pectin and/or preservatives.
- A farm's sale of admissions for tours or activities that are not purely educational in nature. Farms with admission charges for services, such as agritourism activities, are generally required to obtain a business license and pay business tax. Sales of farm products and services to nonprofit groups such as school groups and church groups must be included when making the calculation of sales subject to business tax rules.





The dollar amount of the annual sales of services and products subject to business tax determines whether and what type of business license is needed. There are two types of business licenses:

1. **Minimal Activity License** – Any person in business for profit or gain who has gross annual sales of products or services that are subject to business tax of more than $3,000 and less than $100,000 must have a minimal activity license for each permanent business location. The cost is $15 for each business location for each year, and no business tax is paid with a minimal activity license.

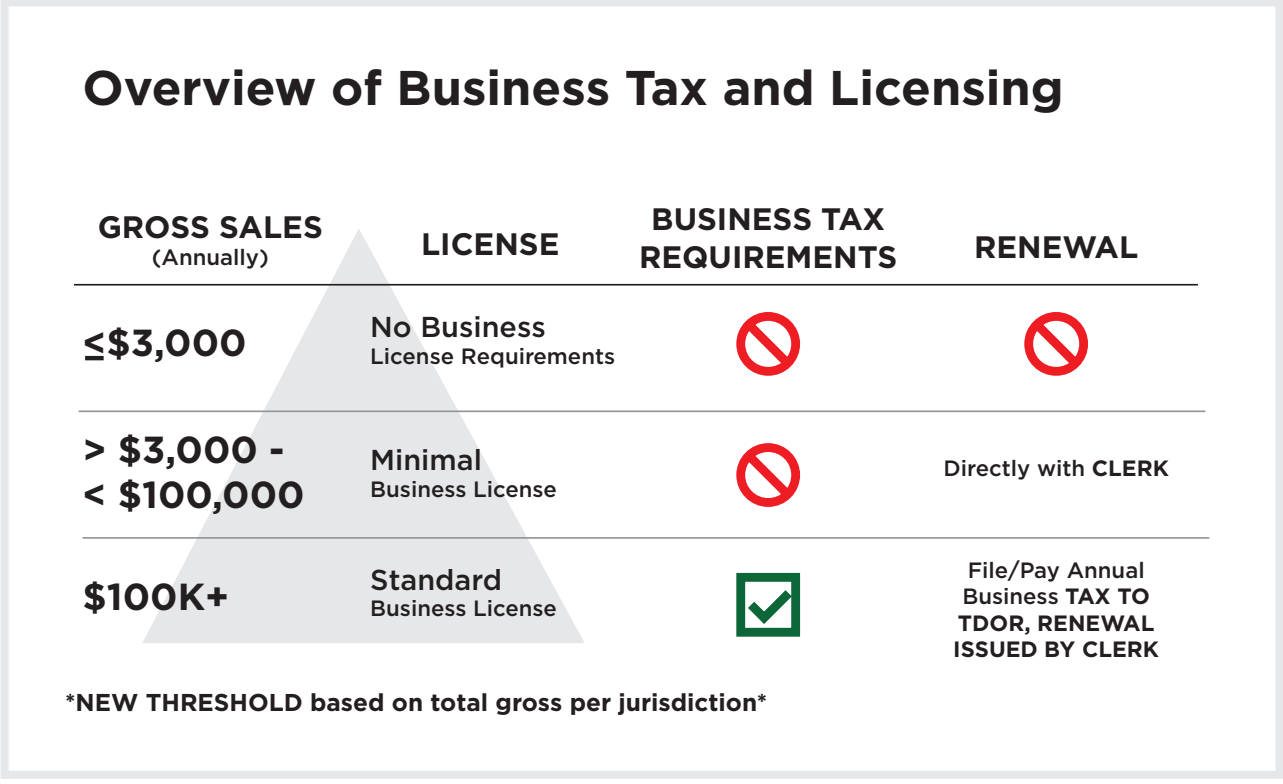
2. **Standard Business License** – Any person in business for profit or gain who has gross annual sales of products or services that are subject to business tax of $100,000 or more must have a business license for each permanent business location. The license fee is $15 for each business location for each year for all new businesses. Businesses in this category are subject to business tax on their annual sales. The business license is renewed annually at no charge when the annual business tax return is filed.

Table 1 provides a summary of business license and business tax requirements for farms with value-added, direct marketing and agritourism enterprises.

Table 1. Summary of Business License and Business Tax Requirements for Farms with Direct Marketing, Value-Added and Agritourism Enterprises

Farm Sales Category	Minimal Activity License Required?	Business License and Payment of Business Tax Required?
A farm's sales of only its raised products	No	No
A farm's sales of value-added products containing only its raised products and salt, water, sugar, pectin and/or preservatives		
A farm's sales of admissions for tours or activities that are purely educational in nature		
A farm's sales of purchased farm products	Yes, if annual sales of taxable products and services are more than $3,000 and less than $100,000	Yes, if annual sales of taxable products and services are $100,000 or more
A farm's sales of value-added products where there are non-raised ingredients in addition to salt, water, sugar, pectin and/or preservatives		
A farm's sales of admissions for tours or activities that are not purely educational in nature, including sales to nonprofit groups		

Figure 1. Illustration of Business License and Tax Requirements



The following examples may be helpful in understanding when a business license is needed and what type of license would be appropriate for a value-added agriculture operation in Tennessee.

1 Example 1

Farmer Juan raises cattle and has a retail meat permit from the Tennessee Department of Agriculture to directly market meat to household consumers from his raised calves. His calves are harvested and processed under USDA-inspection into ground beef, steaks and roasts with no added ingredients at a nearby plant. Juan's annual sales of meat total $25,000. Juan keeps accurate records documenting the sales of his raised products. There is no need for Juan to get a business license because he raised the cattle and the meat contains no non-raised ingredients other than salt, water, sugar, pectin and/or preservatives.





2 Example 2

Dairy Farmer Doyle bottles fluid milk in a licensed manufacturing facility and sells it at his on-farm retail store. Farmer Doyle's sells $55,000 a calendar year of his white fluid milk and $35,000 a calendar year of his chocolate milk. Since his fluid milk has vitamin D and A added along with flavoring for the chocolate milk, the $90,000 in fluid milk sales are considered when determining whether a business license is needed and/or business tax is due. Since the total sales of the fluid milk is more than $3,000 and less than $100,000, a minimal activity license should be obtained from the county where the farm business is located. If the farm business is located in a city, a minimal activity license should be obtained from the city as well, if required by that particular city. No business tax is due with a minimal activity business license.

3 Example 3

Farmer Jane raises tomatoes, and her annual sales of raised tomatoes at her on-farm stand total $6,000. She purchases tomatoes during the year to add to the quantity and variety of tomatoes available for sale and sells the purchased tomatoes for $4,000. Jane keeps accurate records of sales of raised and purchased products. Jane needs a minimal activity license from the county since her sales of purchased items are more than $3,000 and less than $100,000. If the farm business is located in a city, a minimal activity license should be obtained from the city also, if required by that particular city.





4 Example 4

Farmer Tom has a pumpkin patch with a corn maze, and other recreational activities. Within the year he sells his raised pumpkins for $10,000. Tom sells admission tickets to his agritourism operation for $60,000, food and drinks from his concession stand for $22,000 and t-shirts and apparel for $20,000. Tom keeps records in the event questions arise from the Tennessee Department of Revenue. Tom should obtain a business license and pay business tax on the $102,000 sales of admissions, concessions and apparel since the sales of these items total $100,000 or more. Business tax is not due on the sales of pumpkins he raised. If the agritourism operation is located in a city, a business license should be obtained from the city as well, if necessary.



5 Example 5

Farmer Isabella has a cow dairy and makes cheese from the milk in a licensed food manufacturing facility on the farm. Salt, starter cultures and rennet are added to the milk during the cheese making process. Since starter cultures and rennet (ingredients other than milk from her cows, salt, water, sugar, pectin and/or preservatives) are used to make the cheese, the cheese sales must be counted in calculating whether a business license is needed. Isabella retails her cheese through her e-commerce site and farm store, and she wholesales her cheese products through a distributor. Her annual sales of cheese at retail are $40,000 and wholesale through a distributor are $250,000, for a total of $290,000. Isabella needs a business license since total cheese sales are $100,000 or more. If the cheese-making business is located in a city, she may need to obtain a business license from the city as well. Since sales are $100,000 or more, Isabella will owe business tax on her sales.



How Does a Business Obtain a Business License?

Business licenses may be obtained from the county clerk's office and designated city official, typically the city tax collector. Businesses must submit information and forms required by each specific jurisdiction where a business license is required. The business will receive a business license for each county and municipality for each of its permanent business locations. The document must be exhibited in the place of business.

Contact the respective county or city official for registration information and forms as required by that jurisdiction. It may take up to 10 business days for the Tennessee Department of Revenue to register a business.

What Is Business Tax?

Business tax law allows local governments (cities and counties), by local ordinance or resolution, to levy business tax. Business tax is a privilege tax that permits one to engage in the business of:

1. Selling tangible personal property at wholesale or retail, or

2. Rendering certain services.

Some services are exempt from business tax, and these exempt services are listed on the Tennessee Department of Revenue website.

The Tennessee Department of Revenue is responsible for return processing, tax payments, audit and collection. Business tax must be paid when a business has relevant gross product or service sales of $100,000 or more per year. Businesses that hold a minimal activity license with gross product or service sales of more than $3,000 and less than $100,000 do not pay business tax. They simply pay the $15 annual fee for the minimal activity license.

What Is the Business Tax Rate?

Business tax rates vary depending upon business classifications and subclassifications. There are five main classifications of businesses. The dominant business activity determines the classification. Business tax rates vary according to whether the sales are made at wholesale or retail within some classifications.

Four of the main classifications may be applicable for direct farm marketers, value-added agriculture entrepreneurs or agritourism operations. Table 2 lists the classifications for selected farm-related products and services with a brief description of products and services included in the class as well as the applicable retail, wholesale and/or general tax rate associated with each class. Once the business determines whether it is a retailer or a wholesaler at a particular location, the appropriate rate is applied to all the taxable gross sales at that location. If at least 50 percent of taxable gross sales are retail sales, the business is considered a retailer. If at least 50 percent of taxable gross sales are wholesale, the business is considered a wholesaler. For a complete description of each classification, refer to the Tennessee Department of Revenue website.



Table 2. Classification of Dominant Business Activity and Applicable Tax Rate

Classification	Description	Retail Tax Rate	Wholesale Tax Rate	General Rate
Class 1A	Classification 1A is for businesses providing: ▪ Food and beer for home consumption, except for retail sales of delicatessens and candy	0.001	0.00025	N/A
Class 1B	Classification 1B is for businesses selling products such as: ▪ Building materials or builders hardware ▪ Electrical supplies ▪ Farm equipment ▪ Hardware ▪ Lumber ▪ Paint ▪ Tools	0.001	0.000375	N/A
Class 1C	Businesses in the 1C classification are selling farm, nursery and related products including: ▪ Bulbs ▪ Feed ▪ Fertilizer ▪ Grain ▪ Hay ▪ Nursery stock ▪ Seeds ▪ Other farm, lawn and garden tools and supplies	0.001	0.000375	N/A
Class 2	Any business selling tangible personal property that is not specifically named or described in this or any other classification uses Classification 2. Examples include: ▪ Nurseries ▪ Restaurants that prepare food and drinks, including alcoholic beverages for consumption on and/or off the premises	0.0015	0.000375	N/A
Class 3	Classification 3 is for service businesses and those that sell tangible personal property such as: ▪ Delicatessens ▪ Candy ▪ Pet food ▪ Bait	0.001875	0.000375	N/A
Class 4	Classification 4 is for contractors and for the sale of certain farm products. Persons selling the farm items listed below are considered to be under Classification 4: ▪ Sales of livestock, poultry or other farm products, excluding sales by persons who directly produce and sell such products	N/A	N/A	0.001



For businesses with sales of $100,000 or more, business taxes are calculated by multiplying the appropriate tax rate by the taxable gross sales. There is a minimum tax of $22 for each business.

Figure 2 shows the calculation of business tax owed by Farmer Tom in Example 4. Tom is a retailer with annual sales of $102,000 ($60,000 admissions, $22,000 concessions and $20,000 apparel). The dominant business activity is the sale of admissions, and admissions are considered to be a service. Classification 3 is the classification for service businesses and the retail rate of 0.001875 is applied to the total amount of admissions, concessions and apparel. The amount of business tax to be paid is $191.25 ($102,000 x 0.001875).

Figure 2. Calculation of Business Tax for Farmer Tom (Example 4)

Gross Sales	x	Tax Rate	=	Business Tax
$102,000	x	0.001875	=	$191.25

Figure 3 shows the calculation of business tax owed by Farmer Isabella in Example 5. Isabella has annual cheese sales of $290,000 ($40,000 retail and $250,000 wholesale), and her business would be in Classification 1A because her cheese is a food product for home consumption. Isabella is considered a wholesaler since at least 50 percent of taxable gross sales are wholesale sales. The wholesale tax rate of 0.00025 is multiplied by total cheese sales of $290,000 to arrive at the total business tax of $72.50.

Figure 3. Calculation of Business Tax for Farmer Isabella (Example 5)

Gross Sales	x	Tax Rate	=	Business Tax
$290,000	x	0.00025	=	$72.50





Agritourism operations with sales of admissions, concessions and apparel must have a minimal activity license from the county if annual sales are more than $3,000 and less than $100,000. A business license is needed when sales are $100,000 or more. If the business is located in a city, a license should be obtained from the city as well. The rate for Business Tax Classification 3 applies to service businesses such as agritourism operations.

A cheese manufacturer (Business Tax Classification 1A) with both wholesale and retail sales determines whether it is a retailer or a wholesaler based on the percentage of gross sales for each. The appropriate business tax rate is applied to all the taxable gross sales.

Flowers Creamery, photo by Morgan Flowers.

For assistance in determining which classification a business falls under, contact the county clerk, city business tax office or the Tennessee Department of Revenue.

When Is Business Tax Paid?

Taxes are paid annually when filing the business tax return with the Tennessee Department of Revenue. The business tax return is due on the 15th day of the fourth month following the end of the business' fiscal year. For example, if the business' fiscal year coincides with the calendar year, then the return will be due on April 15. If the business' fiscal year ends on June 30, then the business tax return will be due on October 15 and so on. The tax must be paid on time in order to avoid any potential penalty and interest charges.

How Is Business Tax Paid?

Businesses must file a business tax return and pay the tax electronically on the Tennessee Department of Revenue website using the Tennessee Taxpayer Access Point (TNTAP). The business tax return form is available at tn.gov/content/dam/tn/revenue/documents/forms/business/bus428.pdf. Business tax returns and payments are submitted at tn.gov/revenue/taxes/business-tax/file-and-pay.html.

Paper returns are only accepted when filing electronically creates a hardship for the taxpayer. A hardship exception may be made for taxpayers who do not own a computer or internet access or for taxpayers whose religious beliefs prohibit the use of computers and related technology.

Additionally, a business tax return must be filed within 15 days of closing a business. Any tax that is due must be paid at that time. Businesses that have a minimal activity license, and therefore do not file business tax returns, should notify the Tennessee Department of Revenue or county/city officials if the business closes.

Summary

There are two types of business licenses: 1) minimal activity license for businesses with relevant gross annual sales of more than $3,000 and less than $100,000, and 2) business license for businesses with relevant gross annual sales of $100,000 or more. Businesses pay $15 per year for a minimal activity license. New businesses pay a one-time fee of $15 for a business license and pay business tax on their gross annual sales when they file their business tax return.

Farmers selling only farm products they raised or value-added products where the only non-raised ingredients are salt, water, sugar, pectin and/ or preservatives are not required to obtain a business license or pay business tax. Farmers should keep records that document the sales from their raised products.

A farmer selling value-added products that include non-raised ingredients would need a minimal activity license if annual sales are more than $3,000 and a standard business license is needed if sales reach $100,000 or more in a business jurisdiction (city/county). Licenses may be needed in multiple locations if sales thresholds are made in permanent business locations in more than one county or city (if required).

If admission charges are made for participants to engage in agritourism activities, these admission charges for services are generally subject to business tax rules and a minimal activity license would be needed if the total sales exceed $3,000. A standard business license and business tax would be due if sales reached $100,000 or more. Admission charges to activities that are purely educational in nature are excluded.

Minimal activity licenses and business licenses may be obtained from the county clerk's office and designated city official, typically the city tax collector. Businesses required to obtain licenses must obtain a license for each county and municipality, if required by the city, for each of its permanent business locations. Business taxes are paid annually or within 15 days of a business closing through the Tennessee Department of Revenue's online Tennessee Taxpayer Access Point (TNTAP).



Farms offering pick-your-own flowers may also sell admissions for photo opportunities. The sale of the farmer's raised flowers are excluded from business tax but amounts received for admissions would be included for business tax calculations.

Bradley Kountry Acres, photo by Michelle Bradley

Additional Resources

The following contacts and resources may be helpful to farmers navigating business tax laws and processes.

Tennessee Department of Revenue Website
tn.gov/revenue.html
800-342-1003 or 615/253-0600
revenue.support@TN.gov

Tennessee Business Tax Information
tn.gov/revenue/taxes/business-tax.html

Tennessee Business Tax Manual
tn.gov/content/tn/revenue/tax-resources/legal-resources/tax-manuals/business-tax.html

A List of Cities Requiring Business Licenses
tn.gov/revenue/taxes/business-tax.html

A List of Services Exempt from Business Tax
tn.gov/revenue/taxes/business-tax/deductions--exemptions-and-credits.html

Description of Business Classifications
tn.gov/revenue/taxes/business-tax/classifications.html

Business Tax Return Document
tn.gov/content/dam/tn/revenue/documents/forms/business/bus428.pdf

Where to Submit Business Tax Returns and Payments
tn.gov/revenue/taxes/business-tax/file-and-pay.html

TNTAP E-filing Information
tn.gov/revenue/e-filing-information.html



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