



TaxNewsFlash

United States



No. 2023-147
May 1, 2023

KPMG reports: Arizona (sales tax processing exemption); Michigan (delivery and installation charges subject to sales or use tax); Tennessee (excise and franchise tax changes pending enactment)

KPMG This Week in State Tax—produced weekly by the KPMG State and Local Tax practice—focuses on recent state and local tax developments.

- **Arizona:** The Arizona Tax Court held that a laundry business was not entitled to state and city sales tax exemptions for purchases of equipment and chemicals used to transform unusable, soiled linens into disinfected linens suitable for use in healthcare facilities. The court concluded that although the taxpayer's business included some processing of the linens as they were cleaned and disinfected, it was required to look to the taxpayer's business as a whole to determine whether it was commonly understood to be a processing operation. In the court's view, a linen rental business that used equipment to clean and disinfect linens for healthcare facilities was not commonly understood to be a processing operation, but a laundry.
- **Michigan:** The Department of Treasury issued a notice in response to legislation effective April 26, 2023, providing that delivery and installation charges are not included in the "sales price" under certain conditions. Notably, such charges must be separately stated on the invoice or bill of sale provided to the purchaser, and the seller must maintain records to show separately the transactions used to determine the sales or use tax. Delivery and installation charges that fail to satisfy these

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conditions or that involve, or are related to, the sale of electricity, natural gas, or artificial gas by a utility remain subject to sales tax and use tax unless otherwise exempt.

- **Tennessee:** A significant tax package has been sent to the governor for signature. The bill makes numerous corporate excise and franchise tax changes, including adopting IRC section 168 as it exists and applies under the so-called “Tax Cuts and Jobs Act,” and phasing in single receipts factor apportionment over a three-year period. Although there is no excise rate reduction in the bill, the legislation exempts a company’s first \$50,000 in net earnings from excise tax and exempts up to \$500,000 of property in computing franchise tax liability. On the sales tax side, the bill provides for a sales tax holiday for food and food ingredients from August 1, 2023, through October 31, 2023, and also makes certain changes to the state’s sales tax sourcing rules and business tax laws.

Read a [May 2023 report](#) prepared by KPMG LLP

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