Tennessee

#8

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
8 –	48 –	1 –	45 –	23 ▲ 10	16 –

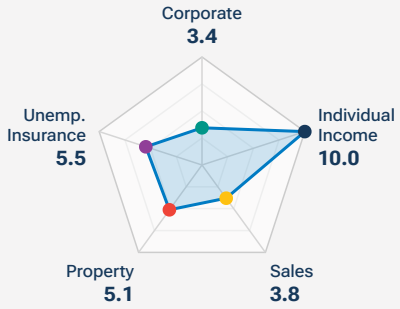
Tennessee forgoes an individual income tax, having phased out a narrow tax on interest and dividend income, known as the Hall Tax, in 2021. However, Tennessee is among the minority of states that still have a capital stock tax on the books, despite making structural improvements to it during the 2024 legislative session. Tennessee businesses also face an additional layer of tax on their gross receipts, and not just their net income (profits).

Tennessee excludes most, but not all, net CFC tested income (NCTI) from its tax base, and caps net operating loss carryforwards at 15 years, whereas most states have 20-year or unlimited carryforwards. The state recently conformed to the Tax Cuts and Jobs Act's treatment of first-year expensing under Section 168(k), but did so in such a way that maintains the phasedown that was reversed under the One Big Beautiful Bill Act (OBBBA). As such, Tennessee offers a bonus depreciation allowance of only 20 percent in 2026 and is on track to see its bonus depreciation allowance zeroed out as of 2027.

Tennessee has among the highest combined state and average local sales tax rates in the nation. The largest portion of the sales tax burden comes from the 7 percent state-level sales tax rate, which is second only to California's 7.25 percent rate (and tied with the state sales tax rates in Indiana, Mississippi, and Rhode Island). Because income taxes have a greater impact on economic growth than sales taxes, however, Tennessee's decision to rely on high sales taxes in lieu of income taxes is an economically advantageous one.

Component scores

out of 10



Tennessee and its neighbors

Overall rank, 2027 Index, with change from 2026

Tennessee	**#8**	–
Missouri	#9	▲ 3
North Carolina	#11	▲ 2
Georgia	#24	▼ 6
Kentucky	#26	▼ 1
Mississippi	#27	▼ 1
Virginia	#31	▼ 4
Arkansas	#32	▼ 3
Alabama	#35	▲ 2