



Retail Accountability Program

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TN Department of Revenue

- Mission:
 - The mission of the Department of Revenue is to make public services possible.
- Vision:
 - Our vision is to maximize voluntary compliance through transparency, innovation, and engagement.
- Our Core Values:
 - Integrity: We are honest and ethical.
 - Professionalism: We perform to the highest standards of conduct.
 - Customer Service: We provide excellent customer service to our customers and co-workers.

Outline

- Retail Accountability Program Overview
- How it works?
- Calculation Process
- Administrative Challenges
- Results and Impact

Retail Accountability Program - Overview

- RAP Purpose:
 - Ensure sales tax collected from customers is submitted to the state of Tennessee.
 - Protect compliant retailers from unfair advantages gained by non-compliant retailers.
- RAP Logistics:
 - Wholesalers file electronic information reports with the Department.
 - Wholesaler data helps the Department identify non-compliant retailers.
 - The Department brings non-compliant retailers into compliance.

RAP – Underlying Compliance Issues

- A significant portion of Special Investigations cases involved sales tax underreporting by small markets.
- Auditing small convenience markets required significant Audit Division resources.
- Most audited or investigated taxpayers reported less than 50% of beer and tobacco sales.

RAP – Program Objectives and Goals

- Increase voluntary compliance in this business segment.
- Discourage fraud.
- Reduce resources dedicated to this issue through automation.
- Increase Department's effectiveness and efficiency in other business segments.

The Beginning

- Public Chapter 657 (2012) requires beer and tobacco wholesalers to file information reports with the department
- The Department began receiving reports as early as November 2012.
- The Department issued its first batch of proposed assessments in April 2013.

RAP I- How does it work

- Beer and tobacco wholesalers electronically report sales made to retailers monthly to the Department.
- Wholesaler penalty for not complying or reporting inaccurate information is \$1,000 per month, up to a max of \$10,000.
- The Department's tax administration system compiles reported data by retailer and adds minimal markup.
- Purchases with markup are then compared to retailers' reported net taxable sales from Sales Tax Returns to calculate unreported sales.
- The Department then issues automated quarterly and by-annual sales tax assessment for tax on unreported sales.

Expansion of Program to RAP II (2015 & 2016)

- Public Chapter 907 (2016) expands the program to include food, candy and non-alcoholic beverages. Provisions on beer and tobacco remain the same.
- The Department began using food, candy and non-alcoholic beverage data in calculations starting in 2017.
- The Department must send inquiry letter 30 days before assessment.
- The Department established a portal for tobacco manufacturers to submit buydown information in an electronic format monthly.
- This bill had a provision to sunset RAP II by July 2019.

Expansion of Program to RAPII (2019)

- Public Chapter 179 (2019) extends RAPII to July 2022.
- Wholesaler penalty for not complying or reporting inaccurate information is reduced from \$1,000 per month, up to a max of \$10,000, to \$250 per month, up to a max of \$2,500.
- Allowed wholesalers to report in aggregate for each retail location, in lieu of reporting specific SKUs.

Extension of Program (2022 to Current)

- Public Chapter 887 (2022) enacts requirements for Comptroller review of the program to determine its effectiveness and efficiency.
- RAP II extended to July 2025.
- Public Chapter 335 (2025) makes the program permanent.



Project Calculations and Stats

Calculation RAP I

Beer and Tobacco Purchases			Example Numbers
Total Beer Purchases x 1.15	=	Beer Subtotal	\$15,275.50
Total Tobacco Purchases x 1.15*	=	Tobacco Subtotal	\$86,272.34
Total Purchases w/ Mark-up	-		\$101,547.84
Taxable Sales Per Return (Net Taxable Sales Line 7 Sales and Use Tax Return)	-		(\$72,367.88)
Difference (Total Purchases w/ Mark-up – Net Taxable Sales Per Return)	=	Taxable Variance**	\$29,179.96
Taxable Variance x 7% = State Tax Due		29,179.96 x 7% =	\$2,042.60
Taxable Variance x 2.5% = Local Tax Due (2.5% rate used for example)		29,179.96 x 2.5% =	\$729.50

A negative taxable variance on beer and tobacco will reduce tax due on food and other items purchased

Calculation RAP II

Food and Other Items Purchases			Example Numbers
Total Food and Other Items Purchases	=	Food and Other Item Subtotal	\$29,330.75
Total Purchases Taxable Sales Per Return (Schedule A Lines 1, 2, 3, and 4 Sales and Use Tax Return)	-		\$29,330.75 (\$15,935.00)
Difference (Total Purchases – Schedule A Lines 1-4 Sales Return Total)	=	Taxable Variance	\$13,395.75
Taxable Variance x 4% = State Tax Due***		13,395.75 x 4% =	\$535.83
Taxable Variance x 2.5% = Local Tax Due (2.5% rate used for example)		13,395.75 x 2.5% =	\$334.89

A negative taxable variance on food will not reduce tax due on tobacco and beer.

Total Tax Due Calculation

Combining Tobacco and Beer with Food and Other Items			Example Numbers
Combine State Tax Due		$2,042.60 + 535.83 =$	\$2,578.43
Combine Local Tax Due		$729.50 + 334.89 =$	\$1,064.39
Total Tax Due			\$3,642.82

Common Administrative Challenges

- Tobacco buydowns
- Inventory
- Changing owners
- Wholesaler data

Program Stats

- 12,011 Assessments
- 5,716 Adjustments
- 6,619 Taxpayer Assessment Contacts
- \$37,747,623.03 in Assessed Tax
- \$3,014,497.42 in Negligence Penalties
- \$7,590,392.84 in Fraud Penalties
- (\$15,283,856.05) in Adjustments (Tax & Penalties)
- \$33,068,657.24 Net Assessed
- \$29,682,098.09 Collected

Behavior Modification

- Increase in reported sales
 - Gross sales
 - Change in food sales to increase net sales

Increases were seen after 1st assessment

Another increase was seen after charged fraud penalty (4th assessment)

Increases in stores not assessed

Behavior Modification Examples

Example 1 - Not reporting food sales

	Date	Gross Sales	Tax Liability
Before 1st Assessment	Dec. 2012	\$ 35,023	\$ 3,240
After 1st Assessment	April 2013	\$ 62,809	\$ 5,810
After Fraud Assessed	June 2014	\$ 91,459	\$ 8,460
Recent Month	March 2016	\$ 116,822	\$ 11,352

250% Increase in Tax Liability

Behavior Modification Examples

Example 2 – Reporting food and other exempt sales

	Date	Gross Sales	Net Sales	Tax Liability
Before 1st Assessment	Dec. 2012	\$ 15,825	\$ 4,500	\$ 732
After 1st Assessment	May 2013	\$ 21,096	\$ 8,900	\$ 1,063
After Fraud Assessed	Feb 2014	\$ 30,025	\$ 19,300	\$ 2,061
Recent Month	March 2016	\$ 51,884	\$ 32,596	\$ 3,626

395% Increase in Tax Liability

Behavior Modification

- An analysis preformed in late 2013/early 2014 determined the average increase in tax collected for this business segment was \$1,324,470 per month.
- An analysis preformed in early 2016 determined the average increase in tax collected for this business segment had increased to \$2,744,362 per month. Accounts that had not received a RAP assessment make up \$1,938,512 of the increase.
- Our most recent analysis performed in 2023 determined that the tax collected for this segment had increased to \$3,561,440 per month.

RETAIL ACCOUNTABILITY PROGRAM IMPACT



**\$341 MILLION
COLLECTED**

From assessments and
long-term behavior modification
driven by the program.

Added Benefits

- Retailers selling beer or tobacco to other retailers
(Not allowed in TN)
- Non-profits and non-retailers purchasing beer & tobacco
- Same entity owning both tobacco wholesale business and retail business selling tobacco
(Not allowed in TN)
- Wholesalers operating without license or with expired license
- Help to identify wholesalers not completing tax forms and MSA reports correctly or not at all
- Identify which wholesalers and retailers need investigation or field audit.

Field Audit Follow-up

- RAP referred 60 audits that have been completed.
- \$4,762,191.86 has been assessed in these follow up audits in addition to the previous RAP assessments.
- There were no cases of field audit determining the RAP assessments should have been lower.

Want More?

More information about the Retail Accountability Program can be found at:

<https://www.tn.gov/revenue/tax-resources/compliance-information/retail-accountability-program.html>

Retail Accountability Program Manual:

https://www.tn.gov/content/dam/tn/revenue/documents/tax_manuals/Retail-Accountability-Program-Manual.pdf

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