



TENNESSEE'S BUSINESS-FOCUSED POLICY RECORD

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A Look Back and a Look Ahead

WORKERS' COMPENSATION IN TENNESSEE

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What Is Workers' Compensation? According to Tennessee's Bureau of Workers' Compensation, workers' comp "is designed to protect employees and employers from the negative consequences associated with a work-related accident. The law provides a financial safety net to employees by guaranteeing medical benefits and partial wage replacement to those injured "on the job." Employers are shielded from costly tort claims via the exclusive remedy doctrine and benefit from cost predictability in claims.

Background: Tennessee's workers' compensation system was beyond broken 15 years ago. Repetitive motion injuries that occurred outside the workplace were being approved. Serious workplace injuries sometimes were not being addressed in a timely fashion, and workers returned to work at alarmingly lower rates. "Race-to-the-courthouse" cases were common. Insurance rates were very high, as carriers left the market. Companies were leaving Tennessee or building their plants elsewhere, citing workers' comp as a factor.

What Happened: Governor Bill Haslam and the General Assembly took two full years to engage stakeholders in dozens of meetings across the state with the goal to learn how to make our workers' comp system fairer and more efficient for employers and employees. In 2013, Tennessee passed legislation (SB 200/HB 194) that removed the avenue to head to court during the middle of a claim, eliminating race-to-the-courthouse cases and sharpening the focus of participants to settle a claim in a timely, fair fashion. Definitions were changed and added, including "injury" which now requires that work contributed more than 50% in causing an injury for it to be compensable. An administrative system with well-trained, competent judges replaced a hybrid system that was contentious and inefficient.

What Resulted: The Bureau of Workers' Compensation continues to report outstanding results for both employers and injured workers. Workers' comp rates continue to decline. The Tennessee Department of Commerce & Insurance has lowered the loss cost multiplier 13 straight years (75% since the 2013 reform!). The insurance marketplace is competitive again. Businesses are moving to and staying in Tennessee. Today's judges and attentive BWC staff have eliminated red tape and are seeking more ways to improve the system. As of 2024, the average number of weeks from the date of injury to the date of maximum medical improvement decreased from 52.3 weeks pre-reform to 39.9 weeks post-reform. The average number of weeks from the date of MMI to a claim's conclusion decreased from 43.8 weeks pre-reform to 26.7 weeks post-reform. The percentage of workers who returned to work post injury to the same employer increased from 58.6% pre-reform to 72% post-reform.

What's the Latest/What's Next: The General Assembly has made other positive changes since 2013. Employee misclassification, which is very unfair to both injured workers and honest businesses paying their WC premiums, continues to be addressed through collaboration efforts by the BWC and business and labor leaders. In 2017, the legislature made revisions to utilization-review procedures, medical panels and burial expenses, as well as changes to maximum and minimum benefits to help injured workers further. In 2023, a law passed to improve benefits for a dependent spouse/child of a deceased worker, which also included provisions allowing employers to monitor eligibility for ongoing death benefits. In 2025, the legislature passed HB 128/SB 1309, which removes the sunset of the vocational recovery portion of the subsequent injury & vocational recovery fund, increases the maximum number of terms judges can serve from three six-year terms to four six-year terms, and raises the age and experience requirements from 30 to 35 years of age and from five to seven years of workers' comp experience, respectively.

Businesses continue to utilize the BWC's relatively new REWARD program to improve returns to work and TOSHA's Consultative Services to improve workplace safety and compliance. Stakeholders continue to meet regularly through regular state-authorized Workers' Compensation Advisory Council meetings to discuss ways to improve the system further.

HIGHLIGHTS

75%

REDUCTION IN TENNESSEE'S LOSS COST
MULTIPLIER SINCE THE 2013 REFORM.

13.4%

INCREASE IN WORKERS WHO RETURNED TO WORK
POST INJURY TO THE SAME EMPLOYER.



A Look Back and a Look Ahead

LABOR LAW REFORMS IN TENNESSEE

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Background: Tennessee labor laws are designed to make clear what legal standards exist in the workplace for employers and employees. Tennessee is an employment-at-will state (EAW), which means: "Employers may legally terminate an employee at any time for any reason, or for no reason without incurring legal liability. However, an employer may not discriminate against any employee on the basis of the employee's race, sex, age, religion, color, national origin, or disability. Likewise, an employee is free to leave a job at any time for any or no reason with no adverse legal consequences." The courts have upheld the EAW doctrine generally since the late 1800's. Of note, "employment at will" and "right to work" mean different things, as noted below.

Tennessee has made several changes to its labor laws over the last 15 years, in addition to workers' compensation and unemployment reforms.

Timeline of Some Key Reforms

2013: Legislation (SB 35/HB 501) was passed to make clear that local governments cannot mandate their own minimum or living wage, health insurance benefits, and family leave requirements on private businesses, but they can mandate such benefits on their own governments. It also preempted any "wage theft" ordinance (like Memphis was pursuing), since federal protections already exist under the Fair Labor Standards Act. The legislation was needed to protect employers from having to manage a costly, cumbersome patchwork of labor regulations, which exist in other states.

2014: Employment litigation reform (SB 2126) placed caps on compensatory damages, such as emotional pain, suffering and inconvenience, that can be recovered in employment litigation. The caps range from \$25,000 to \$300,000, depending on the number of employees employed by the employer, bringing Tennessee in line with federal statutes. The legislation also eliminated common law "whistleblower" claims under the retaliatory discharge standard while preserving the statutory claim standard, which requires the employee to prove that the alleged whistleblowing was the "sole cause" of the termination.

2015: Legislation (SB 475) passed to clarify that neither a franchisee nor a franchisee's employee shall be deemed to be an employee of the franchisor. Legislation (SB 1621) passed to ban often unworkable "local-for-hire" initiatives, like Nashville was pursuing, which would have required mandatory hiring thresholds for construction projects.

2017: Legislation (SB 262) passed to preempt any local government from establishing predictive or restrictive scheduling laws on businesses.

2020: The legislature passed the Pregnant Workers Fairness Act, which established a definition for “reasonable accommodation” and defined unlawful employment practices with regards to actions against pregnant employees (applying only to employers with 15 or more employees). It authorized civil action recourse and various judgment compensations.

2021: The General Assembly passed a right-to-work resolution (SJR 2) with the required two-thirds vote. The next year, voters approved the ballot measure by a 70%-30% margin, enshrining Tennessee’s right-to-work law into the state constitution. Right to work simply means you can’t be fired for joining a union or forced to join one, which is different than employment at will (see above). Also in 2021, legislation (HB 1112) passed to prohibit local governments from requiring contractors to adhere to safety and health standards beyond OSHA and TOSHA rules.

2023: Legislation (HB 774) passed to prohibit local governments from enacting ordinances regulating work hours, employee output and employer-provided benefits. Legislation (HB 1342) passed that preserves the right of a secret ballot in unionization efforts in instances where employers receive economic development incentives.

2024: Legislation passed (HB 2113) to adopt the federal statute of limitations of three years on unpaid wage claims, instead of six years as some plaintiff’s attorneys were asserting. Legislation (HB 2110) passed to make clear the term “work” has the same meaning as interpreted under existing federal standards, helping protect employers from frivolous litigation. Activities such as time spent waiting for and undergoing security checks, or walking to security checks and work areas, should not be compensable (the federal standard).

2025: Legislation (HB 1096/SB 1074) passed to provide employer protections when seeking to receive a state economic development incentive (EDI). An employer does not have to enter into a local community benefits agreement that imposes obligations or conditions on the employer regarding employment practices, benefits, or operations that are not directly related to the performance of the employer’s duties under the EDI.

What's the Latest/What's Ahead

The landscape for labor law is ever evolving, with various active court cases and bill introductions on the horizon. As an example, Tennessee lawmakers are considering an update to the law relating to non-compete agreements in the near future, among several expected debates.

A Look Back and a Look Ahead

PRO-GROWTH TAX REFORM IN TENNESSEE

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What is Pro-Growth Tax Reform? Pro-growth tax reform focuses on reducing or eliminating taxes that discourage investment, capital formation, and job creation, while maintaining fiscal stability. In Tennessee, this has meant prioritizing the removal of taxes on work, savings, investment, and physical assets, and simplifying the tax code to improve predictability for employers of all sizes.

Background: Since 2010, Tennessee policymakers have pursued a deliberate strategy of tax elimination rather than marginal rate adjustment. While Tennessee has long been known for having no broad-based personal income tax, which was enshrined constitutionally in 2014, the state historically relied on a series of targeted taxes—such as the Hall Income Tax, inheritance and gift taxes, and a property-based franchise tax—that penalized capital accumulation and in-state investment. Over the last 15 years, the General Assembly has systematically dismantled these taxes, positioning Tennessee as one of the lowest-tax and most competitive states in the nation while maintaining a Triple-A credit rating and strong budget reserves.

What Happened (Timeline of Key Reforms):

2012: The Gift Tax was repealed, eliminating a significant financial barrier to transferring wealth during a person's lifetime. This change allowed families to make intergenerational gifts—such as transferring ownership of a family business or passing down accumulated assets—without incurring state-level tax consequences. For business owners, this repeal provided greater flexibility in succession planning, reduced the administrative burden of tax compliance, and enabled smoother transitions that support the long-term continuity and stability of family-owned enterprises.

Tennessee also began to repeal the inheritance tax, which was phased out and fully eliminated in 2016, removing a major impediment to long-term wealth retention and capital formation within the state. The repeal ensured that family assets—farms, family-owned businesses, and accumulated savings—could be passed to heirs without being diminished by state taxes at death, reducing the pressure to liquidate businesses or property to satisfy tax obligations. For employers and entrepreneurs, this change improved certainty in estate and succession planning, reinforced Tennessee's competitiveness with peer states, and helped keep closely held businesses, jobs, and investment rooted in Tennessee communities.

2022: The Ag Sales Tax Modernization Act updated Tennessee's agricultural tax policy to better reflect modern farming operations and supply chains. By clarifying and expanding sales tax exemptions for agricultural inputs, equipment, and services, the law reduced costs for farmers and agribusinesses while improving consistency and predictability in tax administration. The reform strengthened Tennessee agriculture's competitiveness, supported reinvestment in rural communities, and recognized agriculture as a growth-oriented industry rather than a legacy carveout.

2023: The Tennessee Works Tax Act was enacted, representing the largest tax cut in state history. The law transitioned Tennessee's franchise and excise tax apportionment to a single sales factor, fully implemented by tax year 2025, meaning business tax liability is now based solely on in-state sales rather than property or payroll. This improves competitiveness and predictability by removing the tax penalty on companies that invest in Tennessee jobs, facilities, and capital. By aligning Tennessee with many peer states, the single sales factor encourages in-state expansion and manufacturing while making Tennessee a more attractive location for business growth and long-term investment.

The law also raised the threshold from \$10,000 to \$100,000 in gross receipts for filing the business tax, a complicated tax collected by the state and split between the state and local governments. This exempted approximately 100,000 small businesses from the tax and associated compliance costs. The Act also conformed Tennessee law to the Tax Cuts and Jobs Act's bonus depreciation schedule (which needs to be addressed with recent changes at the federal level) and decoupled from federal R&D amortization requirements, allowing businesses to continue immediately deducting R&D expenses.

2024: Legislation eliminated the alternative minimum "property measure" of the franchise tax. Previously, businesses were taxed on the greater of net worth or the value of real and tangible personal property in Tennessee, effectively penalizing capital-intensive investment. The reform included authorization for approximately \$1.2 billion in refunds for taxes paid under the repealed property measure during the prior three years and is projected to save businesses roughly \$400 million annually on a recurring basis.

2025: The legislature passed the second required resolution calling for a ballot initiative to enshrine a prohibition on a state property tax in the constitution, locking in a key protection for homeowners, farmers, and businesses. While the state has not collected a property tax since 1949, a constitutional ban removes the risk of a future statewide levy on real and personal property, providing long-term certainty for capital investment, land ownership, and facility expansion decisions. This constitutional safeguard reinforced Tennessee's reputation as a low-tax, pro-growth state and sent a clear signal to employers and families that major assets would not be subject to new layers of state taxation. The measure must be approved by a majority of voters in 2026.

What Resulted:

- **Fiscal Strength:** Tennessee has maintained a Triple-A credit rating throughout this period, reflecting strong revenue growth, disciplined budgeting, and long-term structural balance.
- **Capital Inflow:** The repeal of the Hall Income Tax and estate-related taxes has contributed to significant in-migration of wealth, increasing the availability of capital for startups, expansions, and local investment.
- **Corporate Recruitment and Expansion:** Tennessee has secured multi-billion-dollar manufacturing and industrial investments all across the state as a result of improvements to the state's business tax environment that—alongside broader economic reforms—has made Tennessee one of the fastest growing economies in the nation.
- **Small Business Relief:** By exempting the first \$50,000 of excise income and dramatically raising the business tax threshold from \$10,000 in revenue to \$100,000, Tennessee has reduced both tax liability and compliance burdens for small and emerging businesses.

What's the Latest / What's Ahead: As Tennessee continues to grow, policymakers have an opportunity to preserve the gains achieved over the past decade by resisting efforts to reintroduce taxes on investment or capital, while continuing to evaluate targeted reforms that enhance competitiveness without compromising fiscal discipline. These could include:

- **Extend Bonus Depreciation:** To maintain Tennessee's competitive edge and encourage investment, the state should align its bonus depreciation rate with the current federal level of 100 percent. Restoring full state bonus depreciation allows businesses to immediately deduct the cost of qualifying capital investments, supporting expansion, job creation, and economic growth. Conforming to the federal provision reduces complexity, strengthens the manufacturing base, and ensures Tennessee remains attractive for new and expanding businesses compared to neighboring states that already follow the federal rate.
- **Yes On 2 ballot initiative:** During the 2026 election, voters will cast ballots to enshrine into Tennessee's constitution a prohibition on the collection of a state property tax.
- **Simplify the Business Tax:** Building on the recent progress of raising the filing threshold to \$100,000—which relieved more than 100,000 small businesses from having to file annual gross receipts tax returns—the next step should be to further simplify and modernize Tennessee's business tax. The current business tax, a gross receipts tax applied at both the state and local levels on sales of goods and services, has complex classifications, licensing requirements, and separate municipal filings that can burden businesses, especially small and growing enterprises. Streamlining these rules, reducing administrative compliance costs, and aligning thresholds and classifications would make it easier to operate in Tennessee, reduce red tape, and enhance the state's attractiveness for business investment and expansion.
- **Full Repeal of the Professional Privilege Tax:** Lawmakers have made progress phasing out the professional privilege tax. Elimination of this onerous tax would send a clear message Tennessee believes going to work is a right, not a privilege.

A Look Back and a Look Ahead

CIVIL JUSTICE REFORMS IN TENNESSEE

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What is Civil Justice Reform? Civil justice laws, often referred to as "tort law," establish the standards for legal liability and the recovery of damages in civil lawsuits. These reforms are designed to ensure the legal system is fair, predictable, and prevent nuclear rulings that can destabilize businesses.

Background: Beginning with the landmark Tennessee Civil Justice Act of 2011, the General Assembly has fundamentally reshaped its litigation landscape. By moving from a high-risk, environment to a predictable, rules-based system, Tennessee has consistently earned top-tier rankings in national business climate surveys. These reforms have targeted non-economic damage caps, product liability, and specialized business adjudication to protect the state's economic engine from predatory litigation. A stable civil justice environment is a crucial factor that businesses weigh when considering where to locate, operate, and create jobs.

What Happened (Timeline of Key Reforms):

2011: The Tennessee Civil Justice Act was passed to provide a comprehensive overhaul of the tort system. It established:

- A \$750,000 cap on non-economic damages (pain and suffering) and a \$1 million cap for catastrophic injuries. It also capped punitive damages at the greater of two times compensatory damages or \$500,000. Of note, there is no limitation on the amount of noneconomic damages in personal injury and wrongful death actions under several egregious circumstances.
- Venue reform, requiring lawsuits to be filed in the county where the injury occurred or where the defendant is based, ending the practice of venue shopping.
- "Innocent Seller" protections, shielding retailers from product liability suits unless they were directly involved in the manufacturing or knew of the defect.

2011: The Trespasser Responsibility Act restored balance to premises liability law by clarifying that property owners are not broadly responsible for injuries suffered by individuals who are unlawfully on their property. By limiting liability to narrow, well-defined circumstances, the Act reduced uncertainty and exposure for landowners and businesses, discouraged opportunistic litigation, and reaffirmed personal responsibility as a core principle of Tennessee tort law.

2011: By allowing courts to award attorney's fees and costs when ruling on motions to dismiss, the "Loser Pays" reform (HB 3123/SB 2638) created a meaningful deterrent to frivolous lawsuits. It incentivized early evaluation of claims, reduced unnecessary litigation costs, and helped ensure that Tennessee courts focus resources on meritorious cases—improving efficiency and fairness in the civil justice system.

2013: Codifying limitations of joint and several liability (SB 56) ensured that defendants are held financially responsible only for their proportionate share of fault in cases governed by comparative negligence. By codifying existing case law, the legislature provided clarity and predictability, prevented deep-pocket defendants from bearing disproportionate liability, and aligned Tennessee's system with fundamental principles of fairness and accountability.

2020: Tennessee was among the first states to pass a comprehensive liability shield during the pandemic. It protected businesses, schools, and healthcare providers from COVID-related lawsuits unless "gross negligence" or "willful misconduct" was proven by clear and convincing evidence, allowing businesses to get their employees safely back to work without worrying about potential lawsuits.

2024: Tennessee was the first state in the nation to take aggressive action to curb frivolous lawsuits targeting businesses for the use of basic internet technologies—such as cookies, pixels, and analytics tools. Businesses across the country have faced lawsuits under criminal wiretapping statutes arguing that widely accepted business practices that were never contemplated when the original statutes were enacted constitute wiretapping and are subject to civil penalties. By closing the loophole, the legislation protected businesses, nonprofits, and other organizations from abusive class-action lawsuits while preserving the statute's core purpose of punishing true criminal wiretapping.

What Resulted:

- **Quantifiable Risk:** Businesses and insurers can now accurately project "worst-case scenarios," leading to more stable commercial insurance premiums.
- **Business Attraction and Retention:** Large-scale investments across the state have created hundreds of thousands of high-paying jobs, with a stable legal environment playing a significant role in attracting those investments.
- **Top Rankings:** Tennessee consistently ranks in the Top 10 nationally for its legal climate, reinforcing a pro-business environment that—alongside broader economic and workforce reforms—has made Tennessee one of the fastest growing economies in the nation.

What's the Latest / What's Ahead:

At a bare minimum, the legislature should protect the 2011 reforms to ensure that Tennessee retains its position as a destination for business investment and job creation. Should the legislature want to further strengthen the state's civil justice reform landscape, below are policy areas worth considering:

- **Public nuisance reform:** Clarify and modernize public nuisance law to prevent its expansion beyond traditional limits, ensuring legal certainty for businesses and preserving the legislature's role in setting statewide policy.
- **Third-party litigation funding:** Advance transparency and guardrails for third-party litigation funding to protect the integrity of the legal system and reduce incentives for speculative, high-cost litigation.



A Look Back and a Look Ahead

UNEMPLOYMENT INSURANCE IN TENNESSEE

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What Are the Basics of Unemployment Insurance? Employers in Tennessee pay unemployment insurance (UI) taxes, which are deposited into the Unemployment Trust Fund, to fund the benefits program for workers who lose their job through no fault of their own. The program provides benefits to workers who certify weekly they are “able, available and looking for work.”

Recent History of the UI System: Employers and employees in Tennessee have seen highs and lows with the state-run UI system the last 20 years.

Recent highs include the 100% completion in **2025** of a UI modernization project for both employers and employees. The streamlining has made it easier for employers and employees to navigate processes that have many requirements, thus reducing time and improving outcomes. Tennessee employers are responding to separation claims more often, and employees are receiving their benefits at a faster pace than before modernization.

In **2024**, the state's new indexing law went into effect. The maximum of 26 weeks of unemployment benefits was lowered to between 12-20 weeks, based on the state's unemployment rate (between 5.5% and 9.5%) with a semi-annual reset. Employers also were given a new option to report interview “no-shows” on the landing page.

During the Great Recession of **2009**, the Unemployment Trust Fund went in the red, causing Tennessee to borrow federal funds for a period of time. A retroactive UI tax increase was enacted during a very difficult economic period. UI taxes soared, putting a strain on businesses that were working hard to stay afloat or recover. Lawmakers did make changes to the tax system, adopting periodic “triggers” that lower or raise UI taxes based on the fund balance and make adjustments to the taxable wage base (lower when the fund balance is higher and vice versa). Several other states followed Tennessee's lead.

In **2011** and **2012**, the state adopted major reforms to UI. At that time, it was not uncommon to see state hearing officers approving benefits even when there were blatant misconduct violations like theft. In response, Tennessee adopted a misconduct definition for employers to use in their employee handbooks.

What's the Latest/What's Next:

The state-chartered Unemployment Advisory Council meets every six months to provide input and feedback to leaders in the Employment Security Division. The four-person council is comprised of two leaders from both the business and labor community.

The business community believes unemployment must remain focused on helping those who lose their jobs through no fault of their own, not when there is workplace misconduct or when a worker quits or goes on strike. Benefits should remain modest and not risk being akin to wage replacement, which would further exacerbate the worker shortage in Tennessee.

Tennessee leaders should be proud of the many efforts to improve outcomes for employers who navigate the system and employees who use benefits as a bridge to their next job.

As of November 2025, the trust fund balance is above \$1.5 billion. The unemployment rate remains below 4% in Tennessee in a very tight labor market.

HIGHLIGHTS

\$1.5 BILLION

TRUST FUND BALANCE FOR TENNESSEE AS OF
DECEMBER 2025

3.6%

UNEMPLOYMENT RATE FOR TENNESSEE AS OF
NOVEMBER 2025

