Tennessee to Ban Noncompetes for Many Workers Starting July 1, 2026

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Just when you thought it could never happen here, Gov. Bill Lee signed a Tennessee law prohibiting noncompete agreements for certain employees, effective July 1, 2026.

Starting July 1, 2026, the following use of non-competition agreements will be prohibited by law in Tennessee.

Use with any employee who makes less than $70,000 annually.

As used in the new law, "annualized compensation" means the total compensation an employee earns from the employer, including wages, salary, commissions, nondiscretionary bonuses, and other forms of remuneration, calculated on an annualized basis. For an hourly employee, annualized compensation is calculated by multiplying the employee's hourly rate by 40, and multiplying that product by 52.

Starting July 1, 2026, anything beyond the following uses of non-competition agreements will be deemed to be unreasonable if challenged in court.

- (a) A restraint sought to be enforced against a former employee or independent contractor that (i) is two years or less in duration, measured from the date the employment or business relationship ends; and (ii) is not associated with the sale or ownership of all or a material part of the assets of a business or commercial enterprise, the shares of a corporation, a partnership interest, a membership interest in a limited liability company, or any other equity interest or right to receive profits.
- (b) A restraint three years or less in duration, measured from the date of termination of the business relationship in the case of a restrictive covenant sought to be enforced against a current or former distributor, dealer, franchisee, or lessee of real or personal property, or licensee of a trademark, trade dress, or service mark. Such a restraint must not be associated with the sale of all or a material part of the assets of a business or commercial enterprise, the shares of a corporation, a partnership interest, a membership interest in a limited liability company, or any other equity interest or right to receive profits.
- (c) A restraint that is the longer of five years or less, or a period equal to the time during which payments are made to the owner or seller, in the case of a restrictive covenant sought to be enforced against the owner or seller of all or a material part of the assets of a business or commercial enterprise, the shares of a corporation, a partnership interest, a membership interest in a limited liability company, or any other equity interest or right to receive profits.

If the terms of a non-competition covenant are beyond the above restrictions, courts may choose to modify or "blue-pencil" the covenant in order to be within the above restrictions and therefore "presumed reasonable."

What will still be "fair game" regarding restrictive covenants in Tennessee after July 1, 2026?

1. Non-competition agreements which were entered into prior to July 1, 2026, even if they do not fall within the above new restrictive requirements.
2. Non-competition agreements which comply with Tennessee's pre-July 1, 2026 non-competition law, which only applies to healthcare providers. The healthcare providers to whom the pre-July 1, 2026 restrictions on noncompete agreements apply are podiatrists, chiropractors, dentists, medical physicians, osteopathic physicians, and psychologists.
3. All employers may still use (i) confidentiality or nondisclosure (of information) agreements, (ii) client or customer non-solicitation agreements, and/or (iii) employee non-solicitation agreements.

What should employers with employees in Tennessee do NOW?

1. If you have been "thinking about" asking employees to sign a non-competition agreement – particularly "customer-facing" employees or other key ones, NOW is the time – particularly if any of these make less than $70,000 per year.A consideration in doing so – and the reason many who have been "thinking about it" have not moved forward in this area is "what if an employee refuses to sign the non-competition agreement?" You may, but are not required, to let them go over this. The request may fall into the category of "you don't know until you ask."

2. If you use "standard non-competes" that you ask most or even all employees to sign, be aware that it most likely even under current Tennessee law is not reasonable to ask all employees to be bound to a non-competition agreement – if they have little to

no interaction with customers or specialized training you provide. These “standard non-competes” also should be reviewed to make sure they are compliant on their face with Tennessee’s new law. The use of them also should be reviewed regarding who they lawfully can be used with starting July 1, 2026, even if they are reasonable on their face, based on the “making under $70,000 per year” “who” restriction described above.

We Can Help

If you have questions or want to discuss your plans regarding the review and/or roll out of non-competition agreements (or other forms of restrictive covenants which will still be permissible after July 1, 2026 as described above), we are here to help! Please contact Stacie Caraway or any other member of our Employment Law Compliance Practice Group for assistance in this area.