



**County Clerk  
Sales and Use Tax  
Manual for Automobiles  
& Boats**

June 2023

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## Introduction

This manual is intended as an informal reference for county clerks regarding Tennessee sales and use tax requirements related to motor vehicles and boats. There are several provisions in Tennessee law that apply specifically to these items. This manual provides an overview of the most used provisions.

## Taxation of Automobiles and Boats

### Automobile Sales

Under Tennessee sales and use tax law, sales of motor vehicles, trailers, and off-highway vehicles are sales of tangible personal property and subject to sales and use tax. Generally, the sales transaction involves an individual customer purchasing one of these items from a motor vehicle dealer. However, there are other methods of transfer that are common to motor vehicles.

#### 1. Occasional and Isolated Sales

Occasional and isolated sales of motor vehicles are sales between persons who are not motor vehicle dealers. For example, when one individual sells her motor vehicle to another individual. Although occasional and isolated sales of tangible personal property are generally exempt from sales tax, occasional and isolated sales of motor vehicles are included in the definition of “business” for sales tax purposes.<sup>1</sup> Because they are included in the definition of business, these sales are subject to sales and use tax. There are some exceptions, but generally, each time there is a transfer of title to a motor vehicle, the transaction is subject to sales and use tax.

#### 2. Sales Between Relatives

Sales between persons who are married, lineal relatives, spouses of lineal relatives, or siblings are not included in the definition of “business” and are not subject to sales and use tax.

Lineal relative transfers include transfers between spouses, siblings, parents and children, grandparents and grandchildren, and great grandparents and great grandchildren.

The spousal qualifier only applies to lineal relatives (great grandparents, grandparents, parents, and children). It does not apply to siblings. Therefore, a stepfather could sell to the spouse of a stepchild and vice versa, but a brother-in-law cannot sell to his sister-in-law under this exemption.

For more information on the taxability of various types of motor vehicle transfers, see Sales Tax on Automobile Transfers beginning on page 16 of this manual.

## Boat Sales

Sales of boats are sales of tangible personal property subject to sales or use tax. The same exceptions that apply to motor vehicle transfers also apply to boat transfers. Generally, each time there is a change of boat ownership/transfer of title, the transaction is subject to sales and use tax.

## Sales Price

Automobile and boat dealers often separately itemize charges to the customer. Clerks must distinguish between the taxable sales price of a motor vehicle or boat and nontaxable fees stated separately and passed through to the customer.

The sales and use tax law defines “sales price” as the total amount of consideration received by the seller for the item being sold. The “sales price” is the tax base to which sales tax applies.

Sales and use tax should be paid on the full amount charged for an automobile, trailer, or other motor vehicle or boat without any deductions for labor or other charges for preparing a motor vehicle or boat for sale, freight, federal excise tax, etc. The tax should also be paid on the full amount charged for any accessories or parts sold with and installed on a motor vehicle or boat. Any installation labor in connection with a sale of accessories or repair labor involved in installing, replacing, or repairing parts on a motor vehicle or boat, is subject to the sales or use tax.<sup>2</sup>

### **1. Title Fees**

Charges made by a dealer to customers for title fees are considered “pass through” charges and are excluded from the sales price of the motor vehicle or boat. Title fees should be excluded from the sales or use tax base when they are listed separately on the customer’s invoice or other bill of sale and are actually remitted for titling and registration of the customer’s vehicle or boat.

### **2. Document Fees**

Charges made for any other service necessary to complete the sale of the vehicle, such as document fees or prep fees, are part of the sales price of the vehicle or boat. However, these charges should not result in additional local tax if the sales price of the vehicle or boat is in excess of the local maximum single article amount.

### **3. Tennessee Business Tax**

Motor vehicle and boat dealers will often pass the dealer’s business tax liability on to the purchaser by including a separate charge on the invoice to the customer. Tenn. Code Ann. § 67-1-112 allows any dealer the option to separately itemize and collect the business tax due on a taxable transaction from the dealer’s customers. When an itemized charge for business tax is made on the invoice or other sales document, the amount of business tax must be included in the tax base for both sales tax and business tax purposes.

### **4. Finance Charges**

Used vehicle and boat dealers may also offer financing to customers who otherwise cannot qualify for commercial financing of a motor vehicle or boat. Financing charges or interest from credit extended on sales of tangible personal property that are separately itemized on the customer’s invoice or other sales document are not part of the sales price of the property and are not subject to tax.<sup>3</sup>

### **5. Insurance**

Insurance policies such as accident, collision, and guaranteed auto protection (“GAP”) covering motor vehicles or boats are not included in the tax base when such charges are separately stated on the invoice.

GAP insurance provides that, if a total loss accident or theft occurs, the dealer or other issuer of financing will eliminate any debt the purchaser owes at the time of the loss that is in excess of the value of the vehicle.

## 6. Rebates and Discounts

When a manufacturer's rebate is offered on an item of tangible personal property, the sales tax is assessed on the full sales price before the application of a rebate.

When the consumer receives a price reduction because the seller received the manufacturer's rebate, the total amount received by the seller for the sale has not changed. The seller simply receives a portion of the consideration from the customer and a portion through the rebate amount from the manufacturer. For example:

- If a single item with a total sales price of \$20,000 has \$5,000 in manufacturer's rebates applied, making the total amount the consumer pays only \$15,000, the consumer still owes sales and use tax on the full \$20,000 sales price before application of the rebates. The sales price of \$20,000 has not changed, even though the consumer received a discount because a portion of the sales price is rebated to the dealer by the manufacturer.

Additionally, if the consumer pays full price at the time of purchase and then applies for the rebate after the purchase is completed, the dealer has also received the full sales price for the item being sold.

If the dealership discounts the price of the vehicle or boat and does not receive compensation for the discounted amount from any third party, sales tax is due on the actual amount received by the seller after the discount is applied.

## 7. Accommodation Fee Credit

There is a deduction from the sales price for reimbursement paid by a third-party (automobile manufacturer) to a car dealer for selling or leasing a motor vehicle at a discount to the manufacturer's or dealership's employee. It is a third-party reimbursement of an employee discount that would normally be included in the sales price except for the exemption found in Tenn. Code Ann. § 67-6-394.

## 8. Trade-Ins

When an item of tangible personal property is taken in trade as a credit or part payment on the sale of new or used articles of tangible personal property, the sales and use tax shall be computed and paid on the net difference between the sales price of the new or used article sold and any credit actually given for the used article accepted in trade.<sup>4</sup>

Before any credit may be allowed for trade-ins, the traded-in item must be determined to be of a *like kind and character* as the item purchased, and the item must be indicated as “trade-in” by model and serial number, where applicable, on an invoice given to the customer.<sup>5</sup>

There are no other general limitations to the trade-in process. Neither the statute nor the rule requires that proof be given that tax was paid previously, whether in Tennessee or in another state, on the traded-in item in order to receive any trade-in credit. Further, the statute applies to all trade-in situations, not just to trade-ins of motor vehicles or boats.

Any recovery which may be received or allowed as a result of insurance may not be considered as a trade-in, and no credit may be given or allowed for such recoveries.<sup>6</sup>

When a trade-in is involved in the purchase of a motor vehicle which has been imported for use in this state, the vehicle which was traded in for the new vehicle must have been previously registered in Tennessee in the name of the person importing the new vehicle into the state before any credit may be given for the trade-in.<sup>7</sup>

There is no statutory or regulatory requirement that the traded-in vehicle be in the name of the individual or business who will own the vehicle being purchased. However, both the owner of the vehicle being traded in and the new owner must be present at the time of the trade-in. The owner of the vehicle must sign the vehicle over to the dealership for the new owner to receive the trade-in credit against the purchase of the new vehicle. An individual cannot legally transfer a vehicle that he or she does not own. For example:

- An individual goes to buy a car from a dealer and trades a vehicle that was gifted to him by an unrelated friend. The vehicle was never titled in the individual's name. For the individual to receive trade-in credit, the unrelated friend must accompany the individual and transfer the title to the dealer.

Further, it is unlawful for someone claiming to own a vehicle to possess an executed certificate of title that does not include the name of the transferee.<sup>8</sup>



To receive a trade-in credit, the dealer must have actually given credit on the invoice or other sales document provided to the customer at the time of purchase. If the dealer pays the customer for the item being “traded in” and the customer then pays the full amount of the sales price, no trade-in credit is allowed. Sales tax is owed on the full purchase price. A trade-in deduction is limited to the total sales price of the purchased vehicle or boat.

## **9. Warranty or Service Contracts**

The sale of an extended warranty or service contract covering the repair and maintenance of tangible personal property is subject to sales tax. The purchase of a warranty or service contract is also subject to use tax. Warranty or service contracts are taxable in Tennessee when the contract is sold in conjunction with tangible personal property that is subject to sales tax, the contract covers tangible personal property located in Tennessee, or the location of the covered tangible personal property is unknown, but the purchaser’s address is in Tennessee.<sup>9</sup>

If a Tennessee resident purchases a warranty or service contract in conjunction with the purchase of a vehicle or boat in another state, and the resident moves that vehicle or boat back to Tennessee, then use tax is due on the price of the warranty contract, as well as the vehicle or boat moved to this state.

Warranty or service contracts sold in Tennessee to nonresidents in conjunction with the exempt sale of vehicles and boats removed from Tennessee pursuant to a Three-Day Affidavit or Certificate of Interstate Delivery by Seller are not subject to sales or use tax.

Separate charges for warranty or maintenance contracts are not part of the sales price of a motor vehicle or boat. Charges for warranty or maintenance contracts must be taxed separately from the motor vehicle or boat. The combined state and local sales tax rate must be applied to the entire sales price of a warranty or maintenance contract. Single article taxation does not apply to warranty or service contracts.

## **10. Repairs and Installation**

When a motor vehicle or boat seller makes repairs to a vehicle or boat and then includes a charge for those repairs on the invoice when the motor vehicle or boat is sold, the charge indicated on the invoice for the repair services becomes part of the sales price of the vehicle or boat that is subject to Tennessee tax.

If the dealer installs additional equipment on the motor vehicle or boat and includes a charge for the equipment and the installation cost on the customer's invoice, the charge becomes part of the sales price of the vehicle or boat that is subject to sales or use tax.

## Sales Tax Exemptions

### 1. Sales to Nonresident Purchasers

Tennessee law allows a buyer purchasing a motor vehicle in Tennessee up to three days to remove the motor vehicle to another state without having to pay sales and use tax on the purchase. Retail sales of boats, motorboats, and other vessels subject to registration in this state that are removed from Tennessee to another state within three days after purchase are also tax exempt.

A Seller/Purchaser Affidavit of Exemption for Motor Vehicles, Boats, and Vessels Sold for Removal from Tennessee within Three Days (see page 23), also known as a Three-Day Affidavit, must be completed indicating the city and state to which the item will be delivered.

Items not installed cannot be purchased using a Three-Day Affidavit. Such items often purchased for a boat include life jackets, ski accessories, ropes, and/or boat trailers not sold in conjunction with a boat.<sup>10</sup>

The Three-Day Affidavit exemption includes, but is not limited to:

- Automobiles
- Motorcycles including dirt bikes
- Snowmobiles
- Sand and dune buggies or other "all-terrain vehicles" (ATVs)
- All other off-highway vehicles, as defined in Tenn. Code Ann. § 55-3-101(c)(2)
- Boats (boat trailers when purchased with a boat)

- RVs
- Manufactured or mobile homes
- Effective July 1, 2023, trailers, as defined in Tenn. Code Ann. § 55-1-105(e)

The 3-day removal exemption for trailers applies to trailers that are removed for registration and use in another state within three calendar days of purchase. Use of a trailer within Tennessee after purchase, but prior to removal from the state, does not constitute a use subject to tax.

Tenn. Code Ann. § 55-1-105(e) defines “trailer” as “every vehicle with or without motive power, other than a pole trailer, designed for carrying persons or property and for being drawn by a motor vehicle and so constructed that no part of its weight rests upon the towing vehicle.”

The sale is also exempt if the dealer, or one of its employees, actually makes delivery of the vehicle or boat to a point outside the State of Tennessee. A “Certificate of Interstate Delivery by Seller for Automobiles, Other Motor Vehicles, Aircraft, and Boats” (see page 24) must be completed at the time of sale. The dealer must retain the certificate to document delivery out of state.

## **2. Sales to Members of the Armed Forces**

Tenn. Code Ann. § 67-6-303 exempts sales of motor vehicles to certain members of the armed forces from sales and use tax. Eligible purchasers are those who are engaged in active full-time military service stationed on orders in Tennessee. “Stationed on orders in Tennessee” includes being stationed at Fort Campbell, Kentucky. Eligible purchasers include:

- Army, Navy, Air Force, Marine Corps, Coast Guard members performing duties under Title 10, U.S.C.
- Tennessee National Guard members who participate in the Active Guard and Reserve Program (“AGR”).
- Reserve members of the Army, Navy, Air Force, Marine Corps, or Coast Guard who participate in the AGR.

Eligible purchasers also include members of the following who are called into active duty and stationed in a combat zone. However, their exemption period expires 90 days after the date of release from the combat zone.

- Tennessee National Guard
- Reserve members of Army, Navy, Air Force, Marine Corps, Coast Guard

Vehicles that may qualify for exemption include:

- Motor vehicles defined in Tenn. Code Ann. § 55-1-103(3)
  - Automobiles, trucks, and motorcycles
- Off-highway motor vehicles defined in Tenn. Code Ann. § 55-3-101(c)
  - ATVs, dirt bikes, dune buggies and similar vehicles
- Mobile homes and house trailers

The vehicle must be registered in Tennessee and must be both titled and registered in the name of the qualifying individual, either alone or jointly with a spouse or lineal relative. For purposes of this exemption, a “lineal relative” is the member’s great-grandparents, grandparents, parents, children, grandchildren, and great-grandchildren. For the military motor vehicle exemption, “lineal relative” does not include siblings.

**⚠ Note that “lineal relative” for purposes of the military member purchase exemption is defined differently than it is for a transfer of motor vehicles between lineal relatives.**

Vehicles that do not qualify for exemption include leased or rented motor vehicles, trailers and semi-trailers, and motor vehicles not registered in Tennessee such as farm tractors or manufactured homes.

A manufactured home is a special type of mobile home or house trailer built on a permanent chassis that is at least eight feet wide and 40 feet long when it is in transport mode or is at least 320 square feet when erected.

To be eligible for this exemption, the military purchaser must provide to the seller or the county clerk, where applicable, a copy of the official orders indicating where the individual is stationed.

If the member qualifies for the exemption because of participation in the AGR program, the purchaser must also provide documentation of his or her status as a member of the AGR program.

**⚠ Please note that the motor vehicle does not have to be purchased in Tennessee for the exemption to apply. The provision requiring the vehicle to be purchased in Tennessee was removed from the statute in 2007.**

Effective March 5, 2018, new or used vehicles sold, given, or donated to disabled veterans or active-duty service members who have a service-connected disability and who receive a Veterans Affairs automobile grant, are exempt from sales tax, registration fee, and local motor vehicle privilege tax. The sales and use tax exemption is limited to the portion of the sales price that exceeds the amount of the grant received.

### **3. Other Miscellaneous Exemptions**

Motor vehicle and boat dealers and lessors purchasing motor vehicles or boats for sale or lease may purchase such vehicles or boats on a Certificate of Resale without payment of Tennessee sales or use tax at the time of purchase.

#### *Agencies of the United States Government*

Agencies of the United States government, the government of the State of Tennessee, and county and city governments located in Tennessee may purchase motor vehicles or boats for the use of the government entity to give away without payment of Tennessee sales or use tax upon presentation of the Tennessee Government Certificate of Exemption.

#### *Qualified Nonprofit Entities*

Qualified nonprofit entities authorized for the Tennessee sales and use tax exemption on purchases of tangible personal property or taxable services for the use and consumption by the nonprofit entity, or to give away, may purchase motor vehicles or boats for such

purposes without payment of Tennessee sales or use tax upon presentation of their Tennessee nonprofit certificate of exemption.

### *Agricultural Use*

Holders of Tennessee Agricultural Certificates of Exemption are authorized to purchase livestock trailers, trailers used for transporting farm products, nursery stock, or equipment, supplies or products used in agriculture, or for other agriculture purposes relating to the operation and maintenance of a farm, exempt from Tennessee tax upon presentation of a copy of the exemption certificate. Such certificate holders cannot purchase automobiles, trucks, or trailers for use over-the-road exempt from sales tax.

### *Common/Contract Carriers*

Persons who have qualified with the federal government or other state regulatory agency as a common or contract carrier may purchase motor vehicles with a gross vehicle wheel rating of Class 3 (16,000 pounds) or above, and trailers, semi-trailers, and pole trailers that will be used to transport passengers and cargo principally in interstate or foreign commerce exempt from sales tax. "Principally" means more than 50 percent of the operational time of the motor vehicle. The purchaser must provide a copy of the common or contract carrier designation and must complete the Application for Sales Tax Exemption for Interstate Commerce Motor Vehicles and Trailers.

## **Gifts**

When a motor vehicle or boat is presented to a person as a gift from another entity, there is no sales or use tax due on the value of the gifted vehicle *from the recipient*. The entity making the gift should have paid any sales or use tax due on the vehicle or boat when obtained by the entity making the gift.

A "gift vehicle" or "gift boat" is a vehicle or boat transferred to a recipient for which the giver did not receive any type of consideration. "Consideration" does not have to be money. Consideration could be a swap of merchandise, a favor, or work performed for the giver in exchange for the vehicle, forgiveness of debt owed by the giver to the recipient, or any other situation in which the giver received any type of benefit from the recipient. In these types of situations, the transfer of the vehicle or boat is subject to Tennessee tax.

In a gift situation, the giver and the recipient must jointly complete the Affidavit of Non-dealer Transfer of Motor Vehicle or Boat form. Any gift transaction not supported by a properly completed Affidavit of Non-dealer Transfer of Motor Vehicle or Boat Form documenting the gift transfer will be subject to assessment of Tennessee use tax on the market value of the vehicle or boat. Alternately, the taxpayer may obtain an appraisal from a reputable motor vehicle or boat dealer to use as the basis for Tennessee tax assessment.

## Relocation – Motor Vehicles

A person relocating to Tennessee in a bona fide change of residence from another state can import his or her personal motor vehicle or personal manufactured home into Tennessee without paying Tennessee use tax. This use tax exemption for personal motor vehicles of persons relocating to Tennessee does not apply to property, including motor vehicles, of businesses relocating to Tennessee.

A military member:

- Whose home is in Tennessee;
- Who has been stationed outside Tennessee for a period of time; and
- Who is now returning to Tennessee after that period of duty is over.

is not deemed to be moving into Tennessee in a bona fide change of residence.

The same would apply to a student who has been outside Tennessee for studies at an educational institution.<sup>11</sup>

## Relocation – Boats

The use tax exemption for personal motor vehicles because of a bona fide change of residence to Tennessee extends to the relocation of certain boats as well.

The exemption applies if the boat has a fair market value of less than \$10,000 at the time of importation into Tennessee and is used solely for personal use, so long as the owner can provide proof that the vessel was properly registered in the previous state.<sup>12</sup>

Otherwise, use tax is due based on the fair market value of the boat when relocated to Tennessee. To determine the fair market value for boats, one may research the N.A.D.A. Marine Appraisal Guide. The new Tennessee resident may also obtain an appraisal of the boat from a reputable boat dealer.

Credit for sales or use tax paid in another state is given if the individual relocating to Tennessee supplies proof of the tax payment. For a tax credit to be available, the tax paid to the other state must have been a legally imposed sales or use tax.

Credit against the Tennessee sales or use tax will not be given for payments of property taxes or other fees/taxes imposed by other states or countries.

### *Example*

A boat was purchased out-of-state by an out-of-state resident in March 2020 for \$25,000. Tax was paid at a 6% rate equaling \$1,500. The person moves to Tennessee with the boat in March 2021. The boat has a fair market value of \$21,000. Tax should be calculated as follows:

- The 7% general state sales tax rate applies to the fair market value of \$21,000. ( $\$21,000 \times 7\% = \$1,470$ ).
- The local option tax rate applies to the first \$1,600 of the fair market value. The local option tax rate in Davidson County is 2.25%. ( $\$1,600 \times 2.25\% = \$36$ .)
- The state single article tax applies to the fair market value from \$1,600.01 up to \$3,200 (second \$1,600 of the fair market value). The state single article tax rate is 2.75%. ( $\$1,600 \times 2.75\% = \$44$ .)
- In this example, the total Tennessee tax due before credit is given for the Kentucky tax paid is \$1,550. ( $\$1,470 + \$36 + \$44 = \$1,550$ .)
- The new Tennessee resident owes \$50 in Tennessee tax on the relocated boat after credit is given for the Kentucky tax paid. ( $\$1,550 - \$1,500 = \$50$ .)



## Loaner Vehicles

The purchase, lease, or rental of a vehicle by a dealer that provides the vehicle to its customer free of charge as a loaner vehicle while the customer's vehicle is being repaired is not a taxable transaction. The vehicle is provided in conjunction with the sale of the dealer's repair services.

The dealer may purchase, lease, or rent the vehicle on the dealer's Certificate of Resale without payment of sales tax to the supplier. The dealer should mark the line on the Certificate of Resale for "resale of the tangible personal property."

Additionally, if the dealer provides the loaner vehicle to its customer at no charge pursuant to a warranty contract between the customer and the manufacturer or warranty company, and the dealer charges the manufacturer or warranty company for the customer's use of the vehicle, the charge paid by the manufacturer or warranty company is not subject to sales tax.

**⚠ Note that if the dealer charges the customer for the loaner vehicle, the dealer can still purchase the vehicle on a Certificate of Resale but must collect sales tax on the charge made to the customer.**

## Single Article Application

The term "single article" refers to any item that is considered to be a separate unit, apart from any accessories, extra parts, etc., and is capable of being sold as an independent item or as a common unit of measure.<sup>13</sup>

Independent units sold in sets, lots, suites, or other such groupings are not considered to be single articles. The local option tax rate cannot exceed 2.75% and may be assessed only on the first \$1,600 of the purchase price of any single article of tangible personal property.

The single article limitation does not apply to sales of taxable services, amusements, custom computer software, and warranty or maintenance contracts. Therefore, the local option tax applies to the entire sales price of these sales.

Because the single article limitation does not apply to warranty contracts, if a consumer purchases an extended warranty plan and a single item of tangible personal property

together, tax must be computed separately on the single article of tangible personal property and the warranty. If a taxpayer does not separately state the prices and compute the tax separately, the local option tax must be collected from the consumer on the entire combined sales price.

### **1. Motor Vehicles**

Parts and accessories for motor vehicles installed at the factory and delivered as original equipment will be treated as part of the unit. Parts and accessories installed by the dealer or distributor prior to, or at the time of the sale, are included in the sale price and are considered part of the unit. This also applies to parts or equipment that are required to be installed prior to the sale because of state or federal law.<sup>14</sup>

### **2. Boats Sold by a Dealer to an Individual**

Boat motors and any dealer installed accessories that are installed prior to the sale by a dealer to an individual, including freight and labor charges, but excluding trailers, will be treated as part of the boat unit in the same manner as parts and accessories for motor vehicles for purposes of the single article local tax limitation. Items such as skis, ski ropes, personal flotation devices, and similar items are separate single articles. Boat trailers are taxed as a separate single item. When a boat and a trailer are sold together for one price, the Department allows the dealer to apportion the single price using an allocation of 90% of the price for the boat and 10% of the price for the trailer for purposes of calculating the single article local tax limitation.

### **3. State Tax on Purchases of Single Articles**

An additional state sales or use tax at the rate of 2.75% is levied on the second \$1,600 of the sales price (the portion of the sales price between \$1,600.01 and \$3,200) of any single article sold. This is a state tax only. This portion of the single article sales price is not subject to local tax.

### **4. Computing Sales Tax Due on Single Articles**

#### *Example 1*

The total sales price, including all associated charges, of a motor vehicle (a single article) sold in Davidson County is \$20,000.

- The 7% general state sales tax rate applies to the total \$20,000 sales price.  $\$20,000 \times 7\% = \$1,400$ .
- The local option sales tax applies to the first \$1,600 of the sales price. The local option sales tax rate in Davidson County is 2.25%.  $\$1,600 \times 2.25\% = \$36$ .
- The state single article sales tax applies to the sales price from \$1,600.01 up to and including \$3,200. The state single article rate is 2.75%.  $\$1,600 \times 2.75\% = \$44$ .
- In this example, the total sales tax is \$1,480.

### *Example 2*

A boat dealer sells the customer a boat for \$6,141, a boat motor for \$4,000, and a boat trailer for \$1,000. The dealer also sells \$875 in dealer installed accessories and adds a \$275 charge for freight and a \$225 charge for labor.

The total invoice sale price is \$12,516.

For sales tax purposes, the boat, motor, freight, accessories, and labor are one single article. The boat trailer is a separate single article.

- Because the total sales price of each item is subject to the state sales tax, the total invoice sales price is taxed at the state 7% general sales tax.  $\$12,516 \times 7\% = \$876$ .
- The first \$1,600 of the combined sales price of the boat, motor, accessories, labor, and freight, and the \$1,000 sales price of the trailer is taxed at the local sales tax rate of 2.25%.  $\$2,600 \times 2.25\% = \$59$ .
- The second \$1,600 of the combined sales price of the boat, motor, accessories, labor, and freight is taxed at the state single article tax rate of 2.75%. The sales price of the trailer does not exceed \$1,600, so no state single article tax is due on the trailer.  $\$1,600 \times 2.75\% = \$44$ .
- The total tax liability on this transaction is \$979.

### Example 3

The dealer sells a boat, motor, and trailer with a trade-in. The dealer invoices the boat, motor, and trailer at a combined sales price of \$11,141. The dealer also invoices dealer installed accessories for \$875, freight for \$275, and labor for \$225. The total invoiced amount is \$12,516.

The value of the trade-in is \$5,650.

To determine the sales price of the boat, motor, accessories, freight, and labor (one single article), subtract the value of the trade-in from the invoice price of the combined boat, motor, and trailer ( $\$11,141 - \$5,650 = \$5,491$ ).

Then, because the trailer is not separately priced, multiply the above result by 90% to determine the sales price of the boat ( $\$5,491 \times 90\% = \$4,942$ ) and by 10% to determine the sales price of the trailer ( $\$5,491 \times 10\% = \$549$ ).

- Determine the state 7% sales tax by multiplying the invoice total (after deduction of the trade-in) ( $\$12,516 - \$5,650$ ) by 7%.  $\$6,866 \times 7\% = \$481$ .
- Multiply the first \$1,600 of the sales price of the boat, motor, accessories, freight, and labor, and the \$549 sales price of the boat trailer by the local tax rate of 2.25%.  $\$2,149 \times 2.25\% = \$48$ .
- Multiply the second \$1,600 portion of the sales price of the boat, motor, accessories, freight, and labor by the state single article tax of 2.75%. Because the sales price of the boat trailer did not exceed \$1,600, no single article tax is due on the boat trailer.  $\$1,600 \times 2.75\% = \$44$ .
- The total tax due on this transaction is \$573.

## Special Sales Tax Rules on Automobile Transfers

Sales or use tax is due whenever a vehicle is transferred from one entity or person to another. However, there are a few exceptions. Please see the following information to determine if the transfer is taxable or nontaxable.

## 1. Individuals

- Transfer of a vehicle to a spouse, sibling, child, grandchild, great-grandchild, parent, grandparent, great-grandparent, or spouse of a lineal relative is not subject to sales or use tax. Use the Affidavit of Non- Dealer Transfer of Motor Vehicles and Boats form to report this transfer to the Department of Revenue.
- Transfer of a vehicle between spouses as a result of a divorce is not subject to sales or use tax.<sup>15</sup>
- Transfer of a vehicle from a sole proprietor's business to the sole proprietor personally is not subject to sales or use tax. Similarly, an individual who converts his/her personal vehicle to his/her sole proprietor business is not subject to sales or use tax.
- Transfer of a vehicle jointly owned by individuals who get the vehicle's title issued in only one of their names is not subject to sales or use tax.
- Transfer of a vehicle from one individual to another individual without any kind of consideration is not subject to sales or use tax. Use the Affidavit of Non-Dealer Transfer of Motor Vehicles and Boats form to report a gifted vehicle between individuals.
- Sales or transfers to certain members of the armed forces are exempt from sales and use tax.<sup>16</sup> Vehicles leased to members of the armed forces are subject to tax.

## 2. Non-Profits

Vehicles sold, leased, or transferred directly to a Tennessee qualified non- profit entity are exempt from sales and use tax.<sup>17</sup> A copy of the qualified organization's Tennessee sales and use tax exemption certificate must be provided to the retailer or to the county clerk upon requesting title and registration. A fully completed Streamlined Sales Tax Certificate of Exemption form, which must include the Tennessee exemption number, may be used in place of the Tennessee exemption certificate.

### 3. Governmental Entities

Vehicles sold, leased, or transferred directly to the federal government, State of Tennessee, a Tennessee county or municipality, or an agency of these governments are exempt from sales and use tax. A fully completed copy of the Tennessee government certificate of exemption form or the Streamlined Certificate of Exemption form must be provided to the retailer or the county clerk upon requesting title and registration.

### 4. Corporations and Partnerships

- Transfers of vehicles from one corporation to another are taxable. This includes corporate mergers and reorganizations, even if exempt under federal income tax laws.
- Transfers of vehicles between stockholders and a corporation are taxable.
- If a sole proprietor changes his/her business structure to a corporation, the transfer of automobiles is exempt from sales tax.<sup>18</sup>
- Transfers of vehicles between separate partnerships or between a partner and the partnership are taxable.
- Transfers of vehicles caused by the automatic dissolution of a partnership of three or more partners are not subject to tax.
- Vehicle transfers due to a corporate name change with no change in corporate structure are not taxable. The corporation must provide the county clerk an amendment to its charter indicating a name change only. First, the amendment is filed with the Tennessee Secretary of State's office. Then a copy can be given to the clerk for use when processing title and registration paperwork.

### 5. LLCs

- If a corporation changes its business structure to an LLC, the transfer of automobiles is not subject to sales and use tax. Tenn. Code Ann. § 48-21-114(h) provides that the provisions of Tenn. Code Ann. §§ 48-21-109 and -114 have no effect on the application of the sales and use taxes. For sales and use tax purposes, there is no

transfer of an automobile to another entity. In addition, there is no consideration received for the transfer of the vehicle to the LLC.

- If a partnership changes its business structure to an LLC, the transfer of automobiles is not subject to sales tax.<sup>19</sup>
- If an individual forms an LLC and transfers his/her personal automobile(s) into the LLC, the transfer is subject to sales and use tax, unless the individual is the sole member of the LLC (a “single-member LLC”). The consideration for a transfer would be an ownership interest in the LLC. The definition of a “business” includes transfers of vehicles between stockholders and a corporation. This would be treated in the same manner. This is not a change in business structure from sole proprietorship to corporation that is covered by a specific exemption under Tenn. Code Ann. § 67-6-223.
- Transfers of automobiles between members of an LLC and the LLC itself are subject to sales and use tax, unless the LLC is a single-member LLC and is disregarded as a separate entity for federal tax purposes.
  - Transfers of automobiles between two SMLLCs where both SMLLC is disregarded are not taxable.
  - Transfers of automobiles between two SMLLCs where either is regarded as a corporation are taxable transactions.

**⚠ Note to clerks: If a registrant claims an exemption because he or she is transferring a personal vehicle to an LLC as the sole member of the LLC (single-member LLC) pursuant to its formation, or because the transfer is between the sole member and the single-member LLC that is disregarded as a separate entity for federal tax purposes, the registrant should complete an affidavit detailing this exemption claim and submit the affidavit along with any other required documentation to the Department of Revenue.**

## 6. Trusts

Transfers of vehicles from a trustee to another entity or individual for any consideration are subject to sales and use tax. Use the Affidavit of Non- Dealer Transfer of Motor Vehicles and Boats form to report a transfer from a trustee to a beneficiary without any consideration.

The distribution to the beneficiary is not subject to sales or use tax. A copy of the trust agreement should be provided to substantiate the \$0 sales price.

## 7. Miscellaneous

- Court-ordered reissues of titles do not cause individuals to owe sales tax. Courts may order a reissuance of a title for divorce or other legal reasons.
- When a business changes its name but does not change the structure of the business, no sales tax is due.
- If a court (e.g., bankruptcy, chancery, etc.) sets a price (value) on a vehicle, the clerk should use the value set by the court.
- To title and register a vehicle purchased for a price less than 75% of its fair market value, as determined by an authoritative automobile pricing guide (e.g., NADA book), the seller and purchaser must complete the Affidavit of Non-Dealer Transfer of Motor Vehicles and Boats form to report this transfer to the Department of Revenue.

**⚠ Only the actual amount of consideration paid to the seller is subject to sales and use tax. A clerk must report the actual amount paid - not 75% of the fair market value as the amount paid. The 75% criteria are merely a guideline instructing the clerk when to complete the required affidavit form. If the affidavit form is not completed or an appraisal is not provided by the purchaser, use tax is due on 100% of the vehicle's fair market value.**





TENNESSEE DEPARTMENT OF REVENUE  
 ANDREW JACKSON STATE OFFICE BUILDING  
 NASHVILLE, TENNESSEE 37242



**TENNESSEE SALES OR USE TAX  
 CERTIFICATION OF INTERSTATE DELIVERY BY SELLER  
 FOR AUTOMOBILES, OTHER MOTOR VEHICLES, AIRCRAFT, TRAILERS AND BOATS**

Trade Name of Dealer \_\_\_\_\_  
 Address of Dealer \_\_\_\_\_  
 City, State, Zip \_\_\_\_\_  
 Sales Tax Registration Number \_\_\_\_\_  
 Transaction Invoice Number \_\_\_\_\_ Date of Sale \_\_\_\_\_  
 Name of Purchaser \_\_\_\_\_  
 Address of Purchaser \_\_\_\_\_  
 City, State, Zip \_\_\_\_\_ Phone ( ) \_\_\_\_\_

Description of Automobile, Other Motor Vehicle, Aircraft, Trailer, or Boat

Make \_\_\_\_\_ Model \_\_\_\_\_ Year \_\_\_\_\_  
 Serial Number \_\_\_\_\_ Motor Number \_\_\_\_\_ ( ) New ( ) Used  
 Total Selling Price \$ \_\_\_\_\_ Trade-in \$ \_\_\_\_\_ Net \$ \_\_\_\_\_  
 FAA Number \_\_\_\_\_

**AFFIDAVIT OF DEALER AND CUSTOMER**

State of Tennessee  
 County of \_\_\_\_\_

We, the undersigned dealer and customer or representative thereof, do hereby affirm that the named dealership will physically deliver the described article to (city) \_\_\_\_\_, (state) \_\_\_\_\_

to be titled or registered there if required by the laws of that state. We understand that falsification of this document for the purpose of tax evasion and the acceptance of possession of the article within Tennessee by the customer will subject the dealership to the appropriate sales tax, business tax, penalties, and interest as prescribed by law.

(Print) Dealer's Name \_\_\_\_\_ (Print) Purchaser's Name \_\_\_\_\_

Signature \_\_\_\_\_ Signature \_\_\_\_\_

Subscribed and sworn to me this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_

My commission expires the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_

(Signed) \_\_\_\_\_  
 (Notary Public)

This certification must be prepared and executed in duplicate by the dealer and purchaser at the time of the sale of the article. The original is retained in the dealership file for audit purposes with a copy provided to the customer for his records or for use in his home state. **DEALERS: DO NOT FORWARD COPIES WITH YOUR SALES OR BUSINESS TAX RETURNS.** Failure of the dealer to actually deliver the article to a point outside of Tennessee will subject such dealer to the full tax plus penalties and interest as applicable.



TENNESSEE DEPARTMENT OF REVENUE

**APPLICATION FOR SALES TAX EXEMPTION  
For Interstate Commerce Motor Vehicles and Trailers**

Dealer/Seller _____	Sales Tax Registration No. _____
Dealer Address _____	Invoice No. _____
_____	Date of Sale or Lease _____
Name of Purchaser _____	If Long Term Lease: Name of Lessee _____
Purchaser Address _____	Lessee Address _____
_____	_____

**If vehicle or trailer is leased, attach a copy of the lease contract.**

**Description of the Motor Vehicle or Trailer**

Truck       Semi-Tractor       Trailer

Make \_\_\_\_\_ Model \_\_\_\_\_ Year \_\_\_\_\_

Serial Number \_\_\_\_\_ Motor Number \_\_\_\_\_ New  Used

Sales Price \_\_\_\_\_ Trade-In Allowance \_\_\_\_\_ Amount Paid \_\_\_\_\_

Gross Vehicle Weight Rating Class \_\_\_\_\_ Lbs. \_\_\_\_\_ (not applicable to trailers)  
(Regardless of their use, vehicles smaller than Class 3 (16,000 lbs., or less) are not exempt from sales and use tax.)

**YES/NO** (circle one) The motor vehicle or trailer will be used to transport passengers or cargo principally (more than 50%) in interstate or foreign commerce pursuant to Tenn Code Ann. Section 67-6-331.

(If the answer to this question is no, the exemption does not apply).

**Check the Applicable Boxes**

- The motor vehicle or trailer described above will be registered in the International Registration Program (attach copy); or
- The carrier has an Operating Authority/Permit issued by the Interstate Commerce Commission, Federal Highway Administration or the Federal Motor Carrier Safety Administration (attach copy); or
- The motor vehicle or trailer will be used to transport exempt commodities as defined by federal law.

I understand that falsification of this document for the purpose of tax exemption may be considered fraud and is punishable by law.

PURCHASER'S SIGNATURE \_\_\_\_\_ DATE \_\_\_\_\_

This application for exemption must be prepared and executed in **triplicate** by the dealer/seller and purchaser at the time of the sale of the motor vehicle or trailer. The original must be retained by the dealer/seller to substantiate the exemption claimed on its Sales and Use Tax return. The purchaser should retain a copy with the application for title and the title after it is issued. A copy must accompany the application for title and must be submitted to the Vehicle Services Division, Tennessee Department of Revenue, 44 Vantage Way, Suite 160, Nashville, Tennessee 37243-8050.

**Do not mail this form to the Tennessee Department of Revenue.**



TENNESSEE DEPARTMENT OF REVENUE

**AFFIDAVIT OF NON-DEALER TRANSFERS OF MOTOR VEHICLES AND BOATS**

- Relative transfer:** If a person is transferring a boat or motor vehicle to certain relatives, those relatives do not have to pay tax on the transfer of ownership. Tax-exempt relatives include spouses, siblings, and lineal relatives (children, grandchildren, great-grandchildren, parents, grandparents, and great-grandparents). Spouses of children, grandchildren, and great-grandchildren also qualify for tax exemption.
- Gift transfer or low selling price to person other than tax-exempt relatives.** A low selling price is 75% or less of the fair market value. Fair market value is determined by referencing the most recent issue of an authoritative automobile pricing manual, such as the N.A.D.A. Official Used Car Guide, SE Edition.

Seller or Transferor (Please Print)	Purchaser or Transferee (Please Print)
Name: _____	Name: _____
Address: _____	Address: _____
City, State, Zip: _____	City, State, Zip: _____
Phone: _____	Phone: _____
FEIN or Drivers License No.: _____	FEIN or Drivers License No.: _____

**Vehicle or Boat Information (To be completed by seller or transferor):**

Year \_\_\_\_\_ Make \_\_\_\_\_ (VIN or Serial No.) \_\_\_\_\_

Date of Sale: \_\_\_\_\_ Fair Market value of the vehicle/boat: \$ \_\_\_\_\_

Is there a lien? Y/N \_\_\_\_\_ If yes, what is the amount of the outstanding lien? \_\_\_\_\_

If yes, who is the lienholder? \_\_\_\_\_

If applicable, please state the relationship between Seller or Transferor and Purchaser or Transferee: \_\_\_\_\_

**This box to be completed if gift or low selling price only**  
**Considerations involved in the transfer: (Please check all that apply)**

\_\_\_\_\_ Money involved: \$ \_\_\_\_\_

\_\_\_\_\_ Loan Assumption, loan pay-off, etc.: \$ \_\_\_\_\_

\_\_\_\_\_ Services or labor performed (Value): \$ \_\_\_\_\_

\_\_\_\_\_ Other: (Explain) \_\_\_\_\_

\_\_\_\_\_ Trade-in: (Trade-in must be of like kind, such as motor vehicle, motorcycle, boat, etc. in order to get sales tax credit for trade-in)

Trade-in value: \$ \_\_\_\_\_ Trade Description: \_\_\_\_\_  
Year Make (VIN or Serial No.)

**Total Sales Price:** \$ \_\_\_\_\_ *(The sales price is the total amount of consideration paid by the purchaser or transferee, including any money paid to a third party, such as lienholder. If no consideration was given for the transfer, then the amount of the sales price is \$0.)*

If the sales price is lower than the average value please indicate the reason for the low price: \_\_\_\_\_

Under the penalties of perjury, I swear that the foregoing information is true and correct to the best of my knowledge, information and belief, and this document correctly state the total amount of consideration for the transfer of this vehicle or boat. I understand that failure to report proper consideration for the sale or transfer of the aforementioned vehicle or boat may result in assessment of applicable sales tax, penalty and interest against the purchaser.

_____ Seller or Transferor's Signature(s)	_____ Date	_____ Purchaser or Transferee's Signature(s)	_____ Date
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<sup>1</sup> Tenn. Code Ann. § 67-6-102(8)(C).

<sup>2</sup> TENN. COMP. R. & REGS. 1320-05-01-.03.

<sup>3</sup> TENN. COMP. R. & REGS. 1320-05-01-.25.

<sup>4</sup> Tenn. Code Ann. § 67-6-510(a).

<sup>5</sup> TENN. COMP. R. & REGS. 1320-05-01-.02.

<sup>6</sup> TENN. COMP. R. & REGS. 1320-05-01-.02(4).

<sup>7</sup> TENN. COMP. R. & REGS. 1320-05-01-.03(6).

<sup>8</sup> Tenn. Code Ann. § 55-3-127(e).

<sup>9</sup> Tenn. Code Ann. § 67-6-208.

<sup>10</sup> Tenn. Code Ann. §§ 67-6-343 and 67-6-345.

<sup>11</sup> Tenn. Code Ann. § 67-6-210(b).

<sup>12</sup> Tenn. Code Ann. § 67-6-210(c).

<sup>13</sup> Tenn. Code Ann. § 67-6-702(d).

<sup>14</sup> Tenn. Code Ann. § 67-6-702(d).

<sup>15</sup> Tenn. Code Ann. § 67-6-306.

<sup>16</sup> See Important Notice 07-07.

<sup>17</sup> Tenn. Code Ann. § 67-6-322.

<sup>18</sup> Tenn. Code Ann. § 67-6-223.

<sup>19</sup> Tenn. Code Ann. § 48-204-102(a).