

Leased Vehicles – Sales Tax Application to Damage Settlements

Sales &
Use tax
notice
#04-20

[Public Chapter 823 \(2004\)](#)

Effective June 7, 2004, Public Chapter 823 adds Tenn. Code Ann. Section 67-6-388 relative to the application of sales tax to insurance proceeds paid pursuant to a damage settlement.

Public Chapter 823 provides an exemption for insurance proceeds paid to the owner of a leased vehicle pursuant to a damage settlement. The exemption applies when the motor vehicle has sustained damage that renders it a salvage vehicle, nonrepairable vehicle, or flood vehicle, and the owner transfers title of the leased vehicle to the insurance company.

In order to claim the exemption, all of the following are required:

- The vehicle must be a leased passenger motor vehicle;
- The damage must have rendered the vehicle a salvage vehicle, nonrepairable vehicle, or flood vehicle; and
- Title to the vehicle must be transferred to the insurance company.

Lessors who claim the exemption should retain as a part of their records documentation proving that the proceeds being exempted were from a damage settlement as described above. The exemption should be claimed as a miscellaneous deduction on Schedule A, Line J of the sales and use tax return.

If you have any questions about this notice, you may contact the department. Tennessee residents outside the Nashville calling area may call our statewide toll-free number at (800) 342-1003. Callers from Nashville or out-of-state may dial (615) 253-0600. You can access additional information on our Web site at www.Tennessee.gov/revenue.

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