Repossession Credit and Manufactured Structures

Sales & Use tax notice

Pursuant to Tenn. Code Ann. Section 67-6-507(d), dealers who sell manufactured homes on a security agreement or other title-retained instrument may take a repossession tax credit. Dealers who have sold or assigned the security agreement to a financial institution without recourse to the dealer may not claim a repossession tax credit. Financial institutions purchasing security agreements may not claim a repossession tax credit. The repossession credit is the amount of tax that would be due on the unpaid principal balance, less tax on $500.

See Example on next page.

Tenn. Code Ann. Section 67-6-336 provides that the sale of a used manufactured structure is exempt from Tennessee sales and use tax to the extent that tax on such structure was paid at the time of its initial sale or use in Tennessee. A repossession tax credit is not available for repossessions of used manufactured structures when the sale of such used manufactured structure was exempt from the tax pursuant to Tenn. Code Ann. Section 67-6-336.

Dealers taking a repossession credit may in some cases be required to collect sales tax on the subsequent sale of the now used manufactured structure since the Tennessee tax paid on its initial sale was credited to the dealer. Using the example on the next page, if the dealer sold the repossessed manufactured home for $35,000; the dealer must collect sales tax at one-half the state rate on $29,500. This amount is equal to the sales price of $35,000 minus $5,500. The $5,500 is equal to the $5,000 paid on the principal and the $500 exclusion from the credit. These are the amounts for which no repossession credit was allowed. No local tax is due since no local tax repossession credit was taken. If the sales price of the repossessed home had been $5,500 or less, no sales tax would be due. This should be reported on the return in the following manner: Line 1 Gross Sales $35,000; Schedule A Line K Other $5,500; and Schedule B Line 4 single-article adjustments $29,500.

Have questions or comments? Please let us know. Contact us.

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Example: A manufactured home sold for $50,000. The dealer reported $1,500, ($50,000 x 3%) in state sales tax and $36, ($1,600 x 2.25%) in local sales tax. The purchaser made payments of $10,000 before defaulting on its loan. Five thousand dollars of these payments went toward the $50,000 principal price. The unpaid principal balance was $45,000.

In this example, the manufactured home dealer may take a repossession tax credit for state sales tax in the amount of $1,335. If the single-article limitation for the local sales tax is $1,600 in your county or city, then in this example no repossession tax credit is available for local tax. Notice that in this example the adjustment made to Schedule B is adding back the amount claimed on Line H of Schedule A to avoid claiming local tax credit.

Calculation of Tax Credit

Original Purchase Price	50,000
Principal Payments	(5,000)
Unpaid Principal	45,000
Excluded From Credit	(500)
Subtotal	4,500
½ State Tax Rate	x .03
State Sales Tax Credit	1,335

Claiming the Repossession on the Tax Return

Unpaid Principal on Price of Manufactured Home:	$ 45,000
Excluded from Credit	(500)
Subtotal	44,500
½ Unpaid Principal	22,250
Line H Schedule A on Sales/Use Tax Return	22,250
Line 2 Schedule B (+ Adjustment)	22,250