



# Tax Issues for Automobile Dealers

Tax Webinar: June 18, 2024

Information is current as of the date presented and may not reflect legislative and other subsequent changes. For the most up-to-date information, please refer to our [published tax manuals](#) and [Revenue Help articles](#). Additionally, you can find legislative summaries by year/tax type [here](#).

# Thanks for joining us!

## We will begin at 9:00 am (CST)

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- Contact WebEx Support <https://help.webex.com/contact/>
- Link to Technical Service Resource Guide <https://www.cisco.com/c/en/us/support/web/tac/technical-services-resource-guide.html>
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## View a recording of today's presentation!

**[tn.gov/revenue](https://www.tn.gov/revenue) > Taxpayer Education > Tax Webinars**

**<https://www.tn.gov/revenue/taxpayer-education/tax-webinars.html>**

The webinar recording will be posted in the "Webinar Video Library" the day after the event.

➤ **Please submit specific account-related questions or any questions that do not get addressed in this webinar to us directly!**

- [www.tn.gov/Revenue](http://www.tn.gov/Revenue)
- [Revenue.support@tn.gov](mailto:Revenue.support@tn.gov)
- 615.253.0600 (M-F 8-4:30 CST)



# Overview

Car dealerships located in and around TN face unique and complex tax issues.

- **SALES TAX ISSUES**

- WHAT IS TAXABLE & HOW IS IT TAXED
- REPOSSESSION CREDIT
- EXEMPTIONS

- **BUSINESS TAX ISSUES**

- ISSUES
- DEDUCTIONS

- **RESOURCES/Q&A**

# New Manual!



[https://www.tn.gov/content/dam/tn/revenue/documents/tax\\_manuals/auto-dealership-guide%201-2024.pdf](https://www.tn.gov/content/dam/tn/revenue/documents/tax_manuals/auto-dealership-guide%201-2024.pdf)



# Sales Price, **Includes**

- ✓ Cost of the property sold
- ✓ Cost of materials used
- ✓ Labor or service costs
- ✓ Interest
- ✓ Losses
- ✓ Transportation costs (incoming freight)
- ✓ Taxes imposed on the seller
- ✓ Any expenses of the seller
- ✓ Charges for any services necessary to complete the sale
- ✓ Delivery charges
- ✓ Installation charges
- ✓ Documentation fees

# Sales Price, **DOES NOT Include**

- Discounts or coupons not reimbursed by a third party
- Separately itemized interest, financing, or carrying charges
- Separately itemized taxes legally imposed on the consumer
- Separately itemized credit for used items taken in trade

# Taxability of Common Items

Item	Taxable	Not Taxable
Titling Fees*		X
Document Processing/Preparation Fees	X	
Services Necessary to Complete the Sale	X	
Business Tax**	X	
Financing Charges/Interest	If not itemized	If itemized
Extended Warranty or Service Contracts***	X	
Guaranteed Auto Protection		X

\*amount in excess of actual title/registration fees may be taxable if included in sales price

\*\*dealer may pass along its business tax liability by including a separate charge on the invoice to the customer

\*\*\*not subject to single article



# Rebates, Discounts, Incentives & Trade-ins

**REBATES** do not reduce the sales price subject to tax. Sales tax applies to the full sales price before the application of a rebate.

**DISCOUNTS** result in a reduction in the sales price. Sales tax applies to the price after the discount is taken.

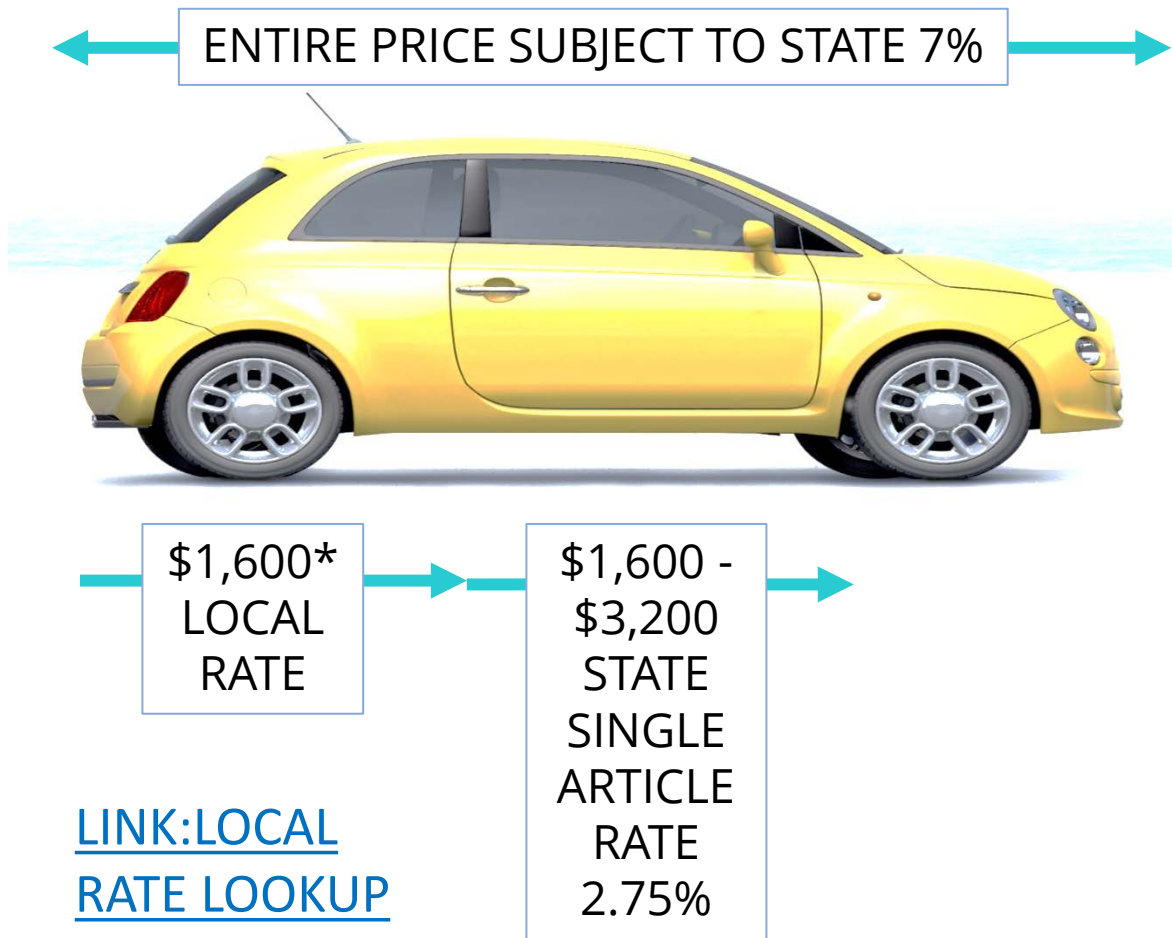
If an **INCENTIVE PAYMENT** reduces the sales price of the vehicle, sales tax should be based on the reduced sales price.

When a like item is taken in **TRADE** as a credit or partial payment, sales tax should be based on the net difference between the sales price of the item sold and any credit given for the trade.



# “Single Article”

## Webinar: Single Article Tax in TN



- The entire price is taxed at the state sales tax rate (7%)
- Local sales tax rate applied is **limited to the first \$1,600\***
- An additional state single article tax rate of 2.75% applies to the portion of the price that is more than \$1,600 and up to \$3,200

\* Exception: Hamblen County limitation is \$300 and Hancock County limitation is \$375

# Calculation Example

Customer located in Davidson County (2.25% local rate). The customer received a \$5,000 rebate.

## BILL OF SALE

ITEM		TAX	TOTAL
Vehicle Price	\$35,000.00		
doc fees	\$150.00		
Business Tax	\$50.00		
prep fees	\$100.00		
trade-in	(\$10,000.00)		
TOTAL SALES PRICE*	\$25,300.00	\$1,851.00	<b>\$27,151.00</b>

### OTHER TAXABLE ITEMS

Extended Warranty	\$3,000.00	\$277.50	<b>\$3,277.50</b>
Roadside Assistance	\$250.00	\$23.13	<b>\$273.13</b>
Paint Protection	\$1,400.00	\$129.50	<b>\$1,529.50</b>

### NON TAXABLE ITEMS

GAP	\$1,500.00	n/a	<b>\$1,500.00</b>
Finance Charges	\$850.00	n/a	<b>\$850.00</b>
Title & Registration	\$80.00	n/a	<b>\$80.00</b>
Rebate	(\$5,000.00)	n/a	<b>(\$5,000.00)</b>

**TOTAL \$29,661.13**

### \*\*SINGLE ARTICLE/LOCAL CALCULATION

\$25,300	total price x 7%	\$1,771
\$1,600	local limitation x 2.25%	\$36
\$1,600	state single article x 2.75%	\$44
	<b>TOTAL TAX ON SALES PRICE</b>	<b>\$1,851</b>

*Tax for items not subject to single article: 7% (state rate) + 2.25% (local rate) = 9.25%*



# Repossessions

**A dealer who repossesses property they sold on which there is an unpaid balance of \$500+ may deduct on the current sales tax return an amount equal to the unpaid balance minus \$500.**

- New worksheet for calculating the repossession credit!
  - <https://www.tn.gov/revenue/taxes/sales-and-use-tax/forms.html>
  - Under “other Forms” click [Repossession Credit Calculation](#)
  - Spreadsheet defaults to calculation tab, but there is an instructions tab

**[IMPORTANT NOTICE #23-15 - Repossession Credit Eligibility Expanded](#)**

# Using the Repo Calculation Spreadsheet

Data Entry Cells	Data Entry Cells	Data Entry Cells	Data Entry Cells	Formula	Formula		Formula		Formula		Formula		Formula	Formula		Formula	
Taxable Sales Price	Down Payment	Principal Paid	Required Reduction \$500	Total Reduction in Sales Price	Sch. A, Line 8 Unpaid Principal Balance / State Credit Base	State Tax Rate	State Tax Credit		Sch. B, Line 2 Applicable Local Credit Base	Select Local Tax Rate	Local Tax Credit		SSA Credit Base	SSA Tax Rate	SSA Tax Credit	Sch. A, line 9, and B, line 2 - SSA Credit Base	Total Tax Credit
\$ 5,115.30	\$ 500.00	\$ 2,000.00	\$ 500.00	\$ 3,000.00	\$ 2,115.30	7.00%	\$ 148		\$ -	2.75%	\$ -		\$ 200.00	2.75%	\$ 6	\$ 79	\$ 154

Enter this amount on Schedule A, Line 8

Enter this amount on Schedule B, Line 2

Enter this amount on Schedule A, Line 9 & Schedule B, Line 2

Enter information for:

- Taxable sales price
- Downpayment
- Principal paid
- Required reduction

***All other fields auto-populate!***

**File may be saved and uploaded as supporting documentation for return**

Amount of total tax credit



# Common Exemptions

- Government
  - Required: fully completed copy of the [Tennessee Government Certificate of Exemption form](#) or the Streamlined Certificate of Exemption form
- Non-profit
  - Required: valid exemption certificate fully completed Streamlined Sales Tax Certificate of Exemption form, which must include the Tennessee exemption number. Verify valid certificate on [https://tntap.tn.gov/eservices/\\_/#1](https://tntap.tn.gov/eservices/_/#1)
- Agricultural
  - Ag exemption holders cannot purchase automobiles or trucks using the exemption
  - Trailers and off-highway vehicles used 50% or more in farm use may be exempt
- Motor Carrier
  - Required: Completed [APPLICATION FOR SALES TAX EXEMPTION FOR INTERSTATE COMMERCE MOTOR VEHICLES AND TRAILERS](#)
- Military
  - Details on next slides
- 3-Day Removal
  - Details on next slides

Vehicles sold, leased, or transferred are not exempt if the transfer shows dual ownership of the vehicle

# Exemption: Military

## Purchaser must be...

- Active duty, Full Time, Stationed in TN on date of vehicle purchase: member of Army/Navy/Air Force/Marines/Coast Guard, or TN National Guard/Reserves ("AGR")

OR

- TN National Guard or Reservist stationed in current recognized combat zone (Applies from date of order and expires 90 days after release)

## Vehicle must be...

- In the name of the qualifying military member

OR

- Jointly owned by qualifying military member and one of the following:

- |                     |                                   |
|---------------------|-----------------------------------|
| ✓ Spouse            | ✓ Child (including adopted child) |
| ✓ Parent            | ✓ Grandchild                      |
| ✓ Grandparent       | ✓ Great-grandchild                |
| ✓ Great-grandparent |                                   |

### Non qualifying co-owners:

- Sibling
- Step-parent
- Step-child



# Exemption: Military, cont'd

## What qualifies?

- ✓ Automobiles/Trucks
- ✓ Motorcycles
- ✓ Off-highway vehicles
- ✓ Mobile Homes (except manufactured homes on permanent chassis that are 8' width x 40' length or 320 sq.ft.) erected)
- ✓ House trailers
- ✓ Camper trailers

## What does not qualify?

- ✗ Leased vehicles
- ✗ Semi-trucks
- ✗ Boats
- ✗ Trailers

# Proof of Military Exemption

<i>Document</i>	<i>Is It an Order?</i>	<i>Is It Alone Sufficient?</i>	<i>Additional Documentation Necessary</i>
<b>Permanent Change of Station (PCS)</b>	✓	✓	None, unless the order does not reflect the station, has expired, or the clerk has reason to doubt its authenticity.
<b>Request &amp; Authorization for PCS</b>	✓	✓	None, unless the order does not reflect the station, has expired, or the clerk has reason to doubt its authenticity.
<b>Permanent Change of Assignment (PCA)</b>	✓	✗	An LES or other documentation is necessary to show where the service member is stationed.
<b>Temporary Duty (TDY)</b>	✓	✗	An LES or other documentation is necessary to show where the service member is stationed.
<b>Active Duty Operational Support (ADOS)</b>	✓	✗	The ADOS is sufficient only if it sends the service member to a combat zone or Title 10 orders reflect a Tennessee station.
<b>Leave and Earnings Statement (LES)</b>	✗	✗	Only useful in conjunction with other orders; helps identify where the service member is stationed.
<b>Enlisted Record Brief (ERB) or equivalent service record book</b>	✗	✗	Only useful in conjunction with other orders; helps identify where the service member is stationed.
<b>Order of Award (Purple Heart, Bronze Star, etc.)</b>	✗	✗	An Order of Award does not provide relevant information for the exemption.



# Exemption – 3-Day Removal

**TN law allows a buyer to purchase or lease a vehicle in TN and have up to 3 days to remove into another state without having to pay TN sales or use tax on the purchase. This exemption does not apply to TN business tax or franchise/excise tax.**

- A [Seller/Purchaser Affidavit of Exemption for Motor Vehicles, Trailers, and Boats Sold for Removal from Tennessee Within Three Days](#) (3-Day Affidavit) must be completed indicating the city and state to which the item will be delivered.

**IMPORTANT! A vehicle registered in another state but permanently located in Tennessee is not eligible for this exemption.**

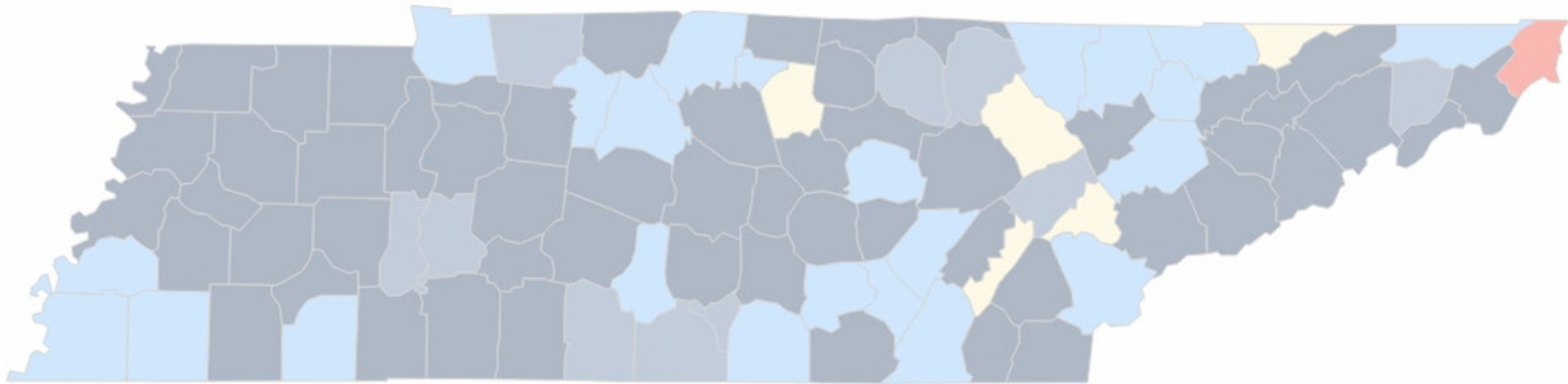
- Buyers signing a 3-Day Removal Affidavit, who intend to locate, store, and/or primarily use the car in Tennessee, will be held liable for tax, penalty, and interest.



# Out of State Dealerships

- For out-of-state dealerships with TN tax nexus, when selling a vehicle to a TN customer, the sales tax rate should be based on the address of the customer

- [LOCAL RATE LOOKUP](#)



- [Webinar: Nexus for Out-of-State Businesses](#)
- [Webinar: Reporting Out-of-State Sales by Delivery Destination](#)

# Business Tax Issues

- Sales of extended warranties by auto dealers are taxable at the retail rate to the auto dealer on the commission portion of the sale.
- Sales of parts and services by an auto dealer to a warranty company are wholesale sales for business tax purposes.
- Car services and repairs as well as service contract sales are taxed at the retail rate.
- Taxpayers making conditional, charge, or installment sales must report the total selling price of such sales and pay the appropriate business tax due in the reporting period in which the contracts of sale are entered.

# Business Tax Deductions

- Cash discounts
- Trade-in Allowances
  - When an item is taken in trade as a credit or partial payment on the sale of new or used articles, business tax is calculated on the difference between the sales price of the new or used article sold and any credit given for the used article accepted in the trade
- Repossessed Goods
  - There is a deduction for the difference between the remaining amount due on the selling price of the repossessed property less \$500.
- Sales of Tangible Personal Property in Interstate Commerce
  - Deliveries of tangible personal property or services to customers outside this state by the taxpayer or a common carrier, before a customer obtains possession, are exempt from the business tax.

[Webinar: Filing the Business Tax Return](#)



# Questions



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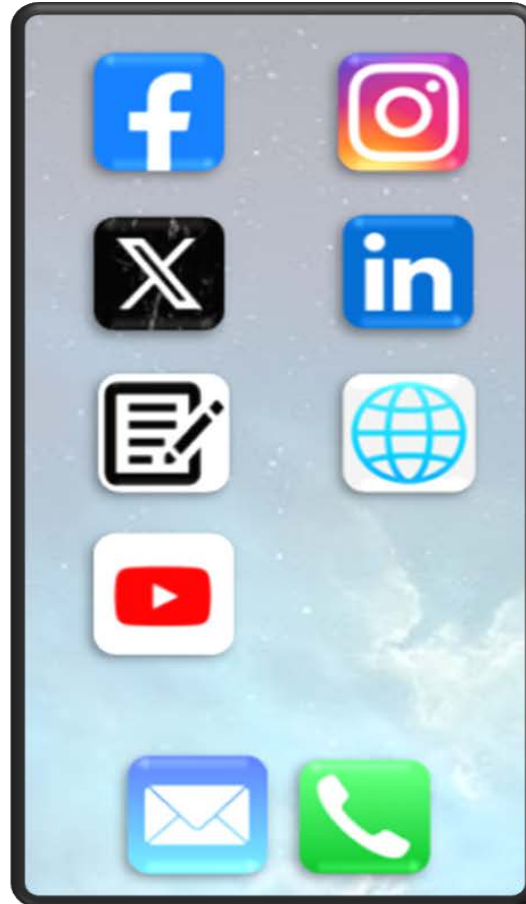
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On the Web:  
[www.tn.gov/revenue](http://www.tn.gov/revenue)

**Call for Help:**

**General Tax Call Center  
615.253.0600**

SUPPORT STAFF AVAILABLE TO ASSIST YOU M-F 8am - 4:30pm

[All Dept. of Revenue Contact Numbers and Office Locations](#)



# UPCOMING!

- **Upcoming Webinars**
  - 7/30 – Legislative Updates
  - 8/27 – Retail Accountability Program (RAP)
- **New Business Workshop: 7/10/24**



**Taxpayer Education & Outreach**





**PLEASE TAKE A MOMENT  
TO COMPLETE A BRIEF  
SURVEY UPON EXITING!**

**IMPORTANT:** In order to receive CPE credit for attending, you must answer yes to question 4 of the post-event survey.