



# Sales and Use Tax Notice

Notice #18-15

December 2018

## Veterans Affairs (VA) Automobile Grant

### **The Amount of the Purchase Price of an Automobile In Excess of the VA Automobile Grant Is Exempt from Sales and Use Tax**

Effective March 5, 2018, the portion of the automobile price that is in excess of a Veterans Affairs (VA) Automobile Grant is exempt from sales and use tax. The portion of the price of the automobile that is paid with the VA grant awarded to a qualified service member or veteran is subject to sales tax.

The VA provides a once in a lifetime grant towards the purchase of a new or used automobile or other conveyance for certain service members or veterans with a service-connected disability. The VA pays the grant directly to the vehicle's seller. Any new or used automobile, truck, station wagon, van, or certain other types of conveyance, if the VA approves them, qualify for the exemption.

### **The VA Grant Applies to the Automobile Price, Associated Fees, and State and Local Taxes**

The VA grant covers payment towards the price of the automobile, associated fees (e.g., dealer processing fees and applicable title and registration fees<sup>1</sup>), and state and local taxes (e.g., business tax and sales tax). The VA publishes a new maximum grant amount annually on October 1. For the period of October 1, 2017, through September 30, 2018, the maximum VA automobile grant is \$20,577.18. The new maximum VA automobile grant for the period of October 1, 2018, through September 30, 2019, is \$21,058.69.

### **Documentation Required for the Exemption**

The purchaser must provide to the dealer, or to the county clerk when applicable, a completed copy of the VA Form 21-4502, Application for Automobile or Other Conveyance and Adaptive Equipment, signed by the VA. This document must be maintained in the seller's records to document the exemption. No additional exemption certificate is required. For more information, please see the [information and instructions for VA Form 21-4502](#) on the Department of Veterans Affairs' website.

### **The Dealer Must Calculate the Exempt Price When the Total Cost of the Automobile Is More than the VA Grant**

To correctly collect and report the sales tax, the dealer must determine the taxable and tax exempt portion of the price. To determine the exempt portion of the vehicle price, you must back out any applicable title and registration fees<sup>1</sup> and sales taxes from the VA grant payment to determine the portion of the net purchase price of the automobile that the VA grant covered, and the remaining portion, which is exempt from sales and use tax. A detailed example is below.

<sup>1</sup>Effective March 5, 2018, the VA grant recipient is exempt from paying the local motor vehicle privilege tax (i.e., wheel tax) and the state registration fee. However, the VA grant recipient is not exempt from other fees such as the state titling fee, county titling fee, local issuance fee, etc. All title and registration fees are excluded from the taxable sales price of a vehicle.

**Disclaimer:** The information provided here is current as of the date of publication but may change as a result of new statutes, regulations, or court decisions. While this notice is intended to be comprehensive, events and situations unanticipated by this notice may occur. In such cases you should contact the department or your tax professional for further guidance.

**Example Invoice:**

Automobile	\$25,000.00
Dealer Processing Fee	\$300.00
Business Tax	\$75.90
Taxable Sales Price	\$25,375.90
7% State Tax	\$1,776.31
2.5% Local Tax	\$40.00
2.75% State Single Article	\$44.00
Applicable Title and Registration Fees	\$13.50
Total Cost of Automobile	\$27,249.71

**Example Calculation:** In this example, the VA paid the maximum automobile grant of \$20,577.18 to the car dealer.

Step 1: Subtract any title and registration fees, local sales tax, and state single article sales tax from the grant payment.	\$20,577.18 - \$13.50 - \$40.00 - <u>\$44.00</u> \$20,479.68
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Step 2: Back out the portion of the state tax that was paid with the VA grant.

Note: the amount of state sales tax paid with the grant is \$1,339.79 (\$20,479.68 - \$19,139.89)

Step 3: Subtract the amount of the price of the automobile paid with the VA grant from the total taxable sales price of the automobile to determine the portion of the price of the automobile that is exempt from sales tax. This amount should be reported on the sales and use tax return on Schedule A, Line 9 (Other Deductions).	\$25,375.90 - <u>\$19,139.89</u> \$6,236.01
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**Dealer reporting on Sales and Use Tax Return:**

Include in Gross Sales on Line 1	\$25,375.90 Taxable Sales Price
Schedule A, Line 9 (exemptions)	\$6,236.01 (25,375.90 - 19,139.89)
Schedule B, Line 2	\$6,236.01
Schedule B, Line 4, local single article; amount in excess of \$1,600	\$23,775.90 (25,375.90 - 1,600)
Schedule C, Line 1, state single article: amount of sale from \$1,600 to \$3,200	\$1,600

**Certain Automobile Adaptive Equipment May Qualify for Exemption from Sales and Use Tax**

Automobile adaptive equipment (AAE) necessary to ensure safe operation of an automobile, which is sold or given to an honorably discharged disabled veteran who has a service-connected disability under 38 U.S.C. § 3901, is exempt from sales and use tax.

In addition, mobility enhancing equipment sold pursuant to a prescription is exempt from sales and use tax. Mobility enhancing equipment can include, but is not limited to, AAE that is not normally provided by a motor vehicle dealer, such as lifts and power steps that assist with getting in and out of the automobile, hand controls, left foot pedals, and electronic driving controls the purchaser needs to operate the automobile. See [important notice #07-22](#) for more information.

**For More Information**

Visit [www.tn.gov/revenue](http://www.tn.gov/revenue). Click on Revenue Help to search for answers or to submit an information request to one of our agents.

**References**

Tenn. Code Ann. § 67-6-314; Tenn. Code Ann. § 67-6-353; Public Chapter 541 (2018)

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