

TENNESSEE DEPARTMENT OF REVENUE

LETTER RULING # 26-02

Letter rulings are binding on the Department only with respect to the individual taxpayer being addressed in the ruling. This ruling is based on the particular facts and circumstances presented and is an interpretation of the law at a specific point in time. The law may have changed since this ruling was issued, possibly rendering it obsolete. The presentation of this ruling in a redacted form is provided solely for informational purposes and is not intended as a statement of Departmental policy. Taxpayers should consult with a tax professional before relying on any aspect of this ruling.

SUBJECT

Application of the sales and use tax to periodic payments for the lease of motor vehicles used outside Tennessee.

SCOPE

This letter ruling is an interpretation and application of the tax law as it relates to a specific set of existing facts furnished to the Department by the taxpayer. The rulings herein are binding upon the Department and are applicable only to the individual taxpayer being addressed.

This letter ruling may be revoked or modified by the Commissioner at any time. Such revocation or modification shall be effective retroactively unless the following conditions are met, in which case the revocation shall be prospective only:

The taxpayer must not have misstated or omitted material facts involved in the transaction;

Facts that develop later must not be materially different from the facts upon which the ruling was based;

The applicable law must not have been changed or amended;

The ruling must have been issued originally with respect to a prospective or proposed transaction; and

The taxpayer directly involved must have acted in good faith in relying upon the ruling; and a retroactive revocation of the ruling must inure to the taxpayer's detriment.

FACTS

[REDACTED] (the "Taxpayer") is a [REDACTED] limited liability company with [REDACTED] business locations in Tennessee from which it enters into agreements to lease trucks and truck-tractors to its customers located in [REDACTED] in exchange for recurring periodic payments. The customers pick up the motor vehicles at the Taxpayer's [REDACTED] location, drive them out of Tennessee, and use them solely in [REDACTED]. The motor vehicles are titled and registered in Tennessee. The motor vehicles all have a gross weight rating of over ten thousand (10,000) pounds and are not registered through the International Registration Plan by the Taxpayer or operated under authority of a carrier authorized and certificated by the United States Department of Transportation or another federal authority to engage in the carriage of persons or property in interstate commerce.

RULING

Is the Taxpayer required to collect and remit Tennessee sales and use tax on its leases of motor vehicles when the rentals are used outside Tennessee?

Ruling: Because the Taxpayer leases motor vehicles that are delivered to the customer in Tennessee and are not transportation equipment, after the first lease payment it is not liable for collecting and remitting Tennessee sales and use tax on periodic payments that cover periods where the primary property location of the vehicle is no longer in Tennessee.

ANALYSIS

Under the Retailers' Sales Tax Act, retail sales in Tennessee of tangible personal property and specifically enumerated services are subject to the sales tax, unless an exemption applies.¹ TENN. CODE ANN. § 67-6-102(86)(A) (Supp. 2023) defines the term "sale" in pertinent part to mean "any transfer of title or possession, or both, exchange, barter, lease or rental, conditional or otherwise, in any manner or by any means whatsoever of tangible personal property for a consideration." "Lease or rental" means "any transfer of possession or control of tangible personal property for a fixed or indeterminate term for consideration."²

Pursuant to 2023 Tennessee Public Acts, Chapter 377, Section 30, effective July 1, 2024, Tennessee adopted sourcing provisions for sales and use tax that are consistent with the Streamlined Sales and Use Tax Agreement (SSUTA). When a sale is sourced to Tennessee, a seller must apply Tennessee sales and use tax law to determine the seller's obligation to collect and remit Tennessee sales and use tax for the seller's retail sales.³ Tenn. Code Ann.

¹ Tennessee Retailers' Sales Tax Act (codified at TENN. CODE ANN. §§ 67-6-101 to -907 (2022 & Supp. 2023)).

² TENN. CODE ANN. § 67-6-102(51) (Supp. 2023).

³ TENN. CODE ANN. § 67-6-901(a) (Supp. 2023).

§ 67-6-903 (Supp. 2023) addresses the sourcing of sales, including leases or rentals, that are made from a location within Tennessee and controls the sourcing of the Taxpayer's lease payments.

TENN. CODE ANN. § 67-6-903(a) provides that for the lease of a product from a place of business in Tennessee delivered to a lessee within Tennessee, the sale is sourced to the seller's place of business in Tennessee.⁴ TENN. CODE ANN. § 67-6-903(d), however, contains an exception for the lease or rental of property delivered to a lessee in Tennessee that requires recurring periodic lease payments for periods when the property is no longer in Tennessee. In these circumstances, the lessor is not liable for sales and use tax after the first payment on the periodic payments that cover periods where the primary property location is no longer in this state.⁵ Notably, TENN. CODE ANN. § 67-6-903(d) does not apply to the lease or rental of transportation equipment.⁶ For the lease or rental of transportation equipment made from a place of business inside Tennessee, TENN. CODE ANN. § 67-6-903(a) applies to all lease payments, regardless of whether the property remains in Tennessee.

Therefore, the sourcing of the periodic payments that the Taxpayer receives depends upon whether the vehicles it leases are transportation equipment. Transportation equipment includes "trucks and truck-tractors with a gross vehicle weight rating (GVWR) of ten thousand one pounds (10,001 lbs.) or greater, trailers, semi-trailers, or passenger buses that are: (i) registered through the International Registration Plan; and (ii) operated under authority of a carrier authorized and certificated by the United States department of transportation or another federal authority to engage in the carriage of persons or property in interstate commerce."⁷

Here, the Taxpayer leases trucks that have a GVWR of ten thousand one pounds (10,001 lbs.) or greater, but according to the Taxpayer, the trucks are not registered through the International Registration Plan or operated under authority of a carrier authorized and certificated by the United States Department of Transportation or another federal authority to engage in the carriage of persons or property in interstate commerce. Therefore, the exception for transportation equipment does not apply to the trucks.

Accordingly, the initial lease payment that the Taxpayer receives is subject to sales and use tax in Tennessee.⁸ Subsequent monthly lease payments for trucks no longer located in

⁴ TENN. CODE ANN. § 67-6-903(a) (Supp. 2024)

⁵ TENN. CODE ANN. § 67-6-903(d).

⁶ *Id.* For this purpose, under TENN. CODE ANN. § 67-6-902(b)(2)(B)(ii), primary property location is "as indicated by an address for the property provided by the lessee that is available to the lessor from its records maintained in the ordinary course of business, when use of that address does not constitute bad faith."

⁷ TENN. CODE ANN. § 67-6-902(b)(1)(B).

⁸ See TENN. CODE ANN. § 67-6-903(a).

Tennessee are not subject to Tennessee sales and use tax after the lessee notifies the Taxpayer of the date that the primary property location of the trucks is outside Tennessee.⁹ The Taxpayer must report those lease payments as exempt interstate sales on its Tennessee sales and use tax return.¹⁰

APPROVED: David Gerregano
Commissioner of Revenue

DATE: February 3, 2026

⁹ See TENN. CODE ANN. § 67-6-903(d).

¹⁰ [Sales and Use Tax Manual, Tenn. Dept. of Revenue \(June 2025\)](#), p. 96,