

# Proposal on Sales and Use Tax Exemption Related to Vehicles

Currently trade-ins are only exempt if the trade-in and the purchase of a new vehicle occurred as part of the same:

- Transaction; and
- between two parties.

Proposal – Allow for a sales and use tax exemption for a sale of a vehicle that occurs within a short time after the purchase of a new vehicle.

The sale of the vehicle and the purchase of the new vehicle may involve more than:

- two parties; and
- one transaction.

For example, a person may purchase a new vehicle from a vehicle dealer and then sell her old vehicle to another private party.

Because sales and use taxes must be paid as a condition to registering a vehicle, under this proposal the purchaser of the new vehicle would:

- pay the full amount of sales and use tax due on the transaction;
- if that person later sells her old vehicle within a specified time period, request a sales and use tax refund equal to the difference between:
  - the sales and use taxes paid on the new vehicle; and
  - the sales and use taxes that would be due on the sale of the old vehicle.

# Example of How Proposal Could Work

Transaction /Party	Under current law:	Under proposal:
Vehicle Dealer	<p>Buy new car, \$40,000 + Trade-in old car, \$10,000</p>  <p>Pay tax on \$30,000 @ 6.5% = \$1,950</p> 	<p>Buy new car, \$40,000</p>  <p>Pay tax on \$40,000 @ 6.5% = \$2,600</p> 
Private Buyer		<p>Sell old car within time period, \$10,000</p> 
DMV (County/State)		<p>Refund on \$10,000 @ 6.5% = \$650 Total tax paid = \$1,950</p> 

\*"Under current law" is an example that could occur under the sales and use tax exemption that is currently allowed for trade-ins and "under proposal" is an example that could occur under the proposal.