

Effective July 1, 2009, until November 1, 2009, the federal government has enacted the “Consumer Assistance to Recycle and Save (CARS) Program,” Title XIII of PL 111-32 (2009), 123 Stat. 1859. The program, which is administered by the National Highway Traffic Safety Administration (NHTSA), is popularly known as “Cash for Clunkers”. The program, which has attracted a great deal of national attention, is intended to promote purchases and leases of new vehicles while encouraging more environmentally conscious vehicle use.

The Cash for Clunkers program provides that owners of vehicles with a combined fuel economy rating of 18 miles/gallon or less may qualify for a government rebate of \$3,500 or \$4,500. The rebate must be applied to offset the purchase price or lease price of a qualified new vehicle that is sold by a dealer registered in the program. The NHTSA is responsible for setting eligibility guidelines with which vehicles must conform, and for establishing the procedures under which qualifying may apply for reimbursement after the purchase or lease transaction is completed.

One question that has arisen with respect to the federal rebate is how a rebate under the program is treated for state sales and use tax purposes. The answer varies from state to state. Some states, such as New Jersey and New York, have determined that the Cash for Clunkers rebates are considered third-party consideration and not a nontaxable augmentation of the trade-in value of the car. Other states have concluded that, under its state law, the rebate should qualify for exemption from the sales tax, either as a trade-in allowance, a third party discount or rebate, or a transaction with the federal government. The following chart represents the guidance issued by many of the states as to the state sales tax treatment of the rebates.

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State	“Cash for Clunkers” Payments	Source(s)
AL		
AK	<i>AK has no broad-based state sales tax</i>	
AZ	The amount of the federal rebate is not deductible from the sales price of the vehicle for purposes of the transaction privilege tax. Any scrap value allowance on the trade-in can reduce the price.	AZ Dept. of Revenue, 08/05/2009 http://www.revenue.state.az.us/Newsroom/CarsProgramNotice.pdf
AR		
CA	Amounts received under the Cash for Clunkers program are not taxable gross receipts for purposes of the sales tax.	STN L-230, issued on July 1, 2009 http://www.boe.ca.gov/news/pdf/l230.pdf



State	“Cash for Clunkers” Payments	Source(s)
	<p>Rebates are considered nontaxable sales to the U.S. or its instrumentalities. Thus, tax is not imposed on that part of the payment made by the U.S. government towards the purchase or lease of a new vehicle. When a vehicle is purchased, the new car dealer will credit the applicable amount against the purchase or lease cost and apply to NHTSA, which will reimburse the dealer for the amount of the rebate through an electronic funds transfer.</p>	
CO		
CT	<p>Discount provided by the federal government under the CARS program is treated as a trade-in allowance. As such, sales tax does not apply to the</p>	<p>Dept. of Revenue Services, July 28, 2009 http://www.ct.gov/drs/cwp/view.asp?Q=444110&A=1436</p>



State	“Cash for Clunkers” Payments	Source(s)
	rebate. Tax is imposed on the sales price of the new vehicle reduced by the trade in allowance.	
DE	<i>DE has no broad-based state sales tax</i>	
DC		
FL	Even though the vehicles being traded-in under this program may not be resold, the rebate amount is treated as a trade-in. Thus, the rebate amount is deducted from the sales price of the new vehicle before applying sales tax.	TIP #09A01-11 (July 16, 2009)
GA	Rebates from the federal government are treated as part of a trade-in allowance, which reduces the sales price	Informational Bulletin SUT 2009-07-22, 7/23/2009



State	“Cash for Clunkers” Payments	Source(s)
	of the new vehicle.	
HI		
ID	Unlike a trade-in allowance or an automobile manufacturer’s rebate, the CARS rebate will not reduce the price subject to Idaho sales tax. The buyer must pay tax on the amount of the full sales price, including the rebate amount. The price will, however, be reduced by the amount of any scrap value allowed by the dealer less the \$50 allowed the dealer for program costs.	Answers to Frequently Asked Questions, SUT-20
IL	Rebates paid from the federal government to dealers under the Cash for Clunkers program are direct government	Illinois Dept. of Revenue Announcement, 7/28/2009 http://www.revenue.state.il.us/announcements/cashforclunkers.htm



State	“Cash for Clunkers” Payments	Source(s)
	payments on which sales tax is not imposed. Salvage value of the traded-in vehicle is not taxable under sales tax provisions.	
IN	Federal rebate vouchers under the Cash for Clunkers program are not subject to IN sales tax. The rebate is treated as part of the trade in value, and as such is deductible from the selling price.	Departmental Notice 31, July 2009
IA	The federal rebate is not a trade-in under IA law; instead, it is a third party payment made towards the purchase of the vehicle. Thus, the 5% registration fee is based on the full purchase price of the vehicle, including the rebate amount. Salvage value on the car, however, may be used to	Iowa Dept. of Revenue, http://www.iowa.gov/tax/locgov/CARS.html



State	"Cash for Clunkers" Payments	Source(s)
	reduce the automobile's purchase price.	
KS		
KY	Credit for the rebate is used to reduce the purchase price of the vehicle, and is not part of the consideration for the vehicle. Thus, the amount of the rebate is not subject to sales tax.	Hot Topics, KY Dept. of Revenue, Aug. 3, 2009
LA	Federal rebate amounts paid under the "cash for clunkers" program are treated as dealer allowances for vehicle trade-ins and are not subject to sales tax.	Revenue Information Bulletin No. 09-018, Louisiana Department of Revenue, July 28, 2009
ME		



State	“Cash for Clunkers” Payments	Source(s)
MD		
MA	The amount of the CARS payment is excluded from the taxable sales price; it is treated as a trade-in amount, which reduces the sales price.	Directive 09-5, 7/28/2009
MI	MI will treat Cash for Clunkers rebate as a trade-in allowance, reducing the taxable portion of the sales price of the new vehicle. Price will be further reduced by estimated scrap value treated as part of the trade-in allowance. Car dealers will owe no sales tax on rebates or scrap value.	Notice to Automobile Dealers, 07/22/2009
MN	The federal rebate under the Cash for Clunkers program is deducted from the selling price of the new vehicle before the application of the sales tax,	Minnesota Dept. of Revenue http://www.taxes.state.mn.us/other_supporting_content/cash_for_clunkers.shtml



State	“Cash for Clunkers” Payments	Source(s)
	thus reducing the sales tax on the vehicle.	
MS	The amount of the rebate, estimated scrap value, and \$50 program cost allowance will be treated as trade-in amounts and will reduce the sales price of the vehicle.	Notice 72-09-005, 7/22/2009
MO		
MT	<i>MT has no broad-based state sales tax.</i>	
NE	The voucher that a participating dealer receives from the federal government is included in the sales price of the new vehicle in calculating the sales tax due. The voucher is not a rebate, since it is issued by the federal	Nebraska Dept. of Revenue website http://www.revenue.state.ne.us/Cash_for_Clunkers.pdf



State	“Cash for Clunkers” Payments	Source(s)
	government and not the automobile manufacturer. The trade-in allowance of the surrendered vehicle is deducted from the sales price.	
NV	The rebate cannot reduce the selling price of the new vehicle. A tax credit can be given on the value listed on the trade-in line of the sales document.	NV Dept. of Revenue http://tax.state.nv.us/documents/Website%20advise%20(2).pdf
NH	<i>NH has no broad-based state sales tax</i>	
NJ	Cash for Clunkers payments are treated as part of the sales price, i.e., as part of the total consideration, and not as a discount or part of the trade in value of the car. Thus, the payments are subject to sales	NJ Division of Taxation, 7/13/2009 http://www.state.nj.us/treasury/taxation/su_16.shtml Lexis NJ Tax P.I. 2,100 Lexis NJ Tax P.I. 253



State	“Cash for Clunkers” Payments	Source(s)
	tax.	
NM		
NY	Dealers must collect sales tax on the full amount of the sales or lease price. Since Cash for Clunker payments represent partial payment of the purchase price, they are considered to be receipts on which the sales tax is based. Credit given by a dealer to the customer for the scrap value of the vehicle being traded-in, however, will reduce the overall purchase or lease price of the new vehicle.	<p>TSB-M-09(11)S, 7/22/2009 Lexis NY Tax P.I. 2,306 Lexis NY Tax P.I. 543</p>
NC		



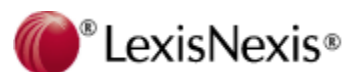
State	“Cash for Clunkers” Payments	Source(s)
ND		
OH	Rebate is includable in the sales price of the new vehicle. The rebate is consideration received from a third party, not as part of the trade in value. The dealer is required to show the amount of the rebate on the invoice.	ST 2009-02, issued 7/2009
OK		
OR	<i>OR has no broad-based state sales/use tax.</i>	
PA		
RI		



State	“Cash for Clunkers” Payments	Source(s)
SC		
SD		
TN		
TX	<p>The amount of the credit is not included in the sales price of the vehicle, and is not subject to sales tax. The rebate is treated as a trade in amount, which reduces the sales price, and is reflected as such on the vehicle registration form (Form 130-U).</p>	<p>Comptroller of Public Accounts http://www.window.state.tx.us/taxinfo/mtr_veh/incentive_programs.html</p>
UT		
VT		



State	“Cash for Clunkers” Payments	Source(s)
VA	Federal Cash for Clunkers rebate will be included in the sales price of the new vehicle, and sales tax will be imposed on the full price.	VA Dept. of Motor Vehicles http://www.dmv.state.va.us/webdoc/general/news/cash_for_clunkers_faqs.asp
WA	For purposes of the WA transportation tax, the vehicle purchaser receives a discount in the amount of the federal rebate. The vehicle being surrendered must have been registered to the purchaser for at least one continuous year to qualify.	Notice, WA Dept. of Revenue website http://dor.wa.gov/content/home/ .
WV		
WI	The amount of the federal rebate under the CARS program that is applied towards the purchase or lease of a new vehicle is not subject	WI Department of Revenue http://www.dor.state.wi.us/taxpro/news/090723.html



State	“Cash for Clunkers” Payments	Source(s)
	to WI sales or use tax. The amount of the rebate voucher is paid directly to the car dealer from NHTSA, a federal government agency, and therefore is considered an exempt sale to the federal government.	
WY		

Charts are editorially created by legal experts and are frequently updated to reflect changes to laws and rules.

